Friends or foes? - Regulation and collective action

The case of cooperative organisation of savings and credit in Uganda

ABSTRACT

Many development practitioners in Uganda are concerned about both over- and under-regulation of institutions of collective action in the realm of savings and credit. This paper identifies 4 underlying assumptions regarding the risk of regulation capture (over-regulation of small institutions of collective action), leadership capture and abandoning of the SACCO by its most economically potent members (under-regulation of medium-sized institutions of collective action) and capitalist capture (turning institutions of collective action into a shareholding company).

The paper interprets savings and credit cooperatives (SACCOs) and savings groups in the terms of the theory of collective action, constructs financial indicators to proxy the depth of collective action in these institutions, and constructs a framework to measure regulation. Regulation encompasses monitoring, sanctioning and providing subsidies.

The paper finds, across 7 data-sets, quantitative and qualitative evidence that regulation of Uganda's SACCOs does not provide conditions for dynamics that institutionalise economic performance. E. g. MFIs monitored and sanctioned by the central bank enjoy such provisions, however the advantages materialise in the longer run only, in the short run joining that framework is very expensive. SACCO performance hangs strongly on the performance of individual leaders. Government of Uganda (GoU) focuses too much on providing subsidised loan funds and too little on creating robust nested enterprises which would provide effective monitoring to the SACCOs.

In the light of this unsatisfactory performance of the existing regulations for a thousand-odd SACCOs, GoU's recent announcement to micro-regulate hundreds of thousands of savings groups is clearly a wrong priority; particularly as that segment appears to be performing rather well, mainly because its design principles are close to those identified in long-lasting common-pool resources.

In contradiction to what most practitioners think, the data-set for GoU-supported SACCOs, with 735 institutions the largest data-set in the study, performs well on indicators of collective action and reports low external credit relative to its savings and members' shares. This finding relates to a highly aggregated level, though.

KEY WORDS:

Savings and credit cooperatives (SACCOs), savings groups, regulation, design principles, depth of collective action, savings, shares, external credit, nested enterprises

1 INTRODUCTION

1.1 Motivation of the inquiry

In many countries receiving development aid, some of that aid has gone to the creation of regulatory frameworks for cooperatives, which are meant to be formal vehicles propelled by the principles and forces of institutions of collective action.

However, the merits of these regulatory frameworks are in doubt. There seems to be a lack of clarity what such frameworks should and should not entail. This paper discusses case study(s) from Uganda. Here, most concerned practitioners of development agencies have for a long time bemoaned shortcomings of the regulatory framework for savings and credit cooperatives (SACCOs). They are of the view that this regulatory framework is insufficient to protect members' savings, and to ensure steady growth of the SACCOs. Protagonists of the 'cooperative movement', on the other hand, hold that SACCOs belong under the unified cooperative legislation. They are of the view that this legislation could well work for the SACCOs if it was properly implemented. Both sides agree that the latter is not the case.

Meanwhile, development practitioners are upset by the latest pronouncements of the government of Uganda (GoU) to quite detailed regulate self-help-groups. These groups are known under a variety of names such as rotating or accumulating savings and credit associations (ROSCA or ASCA), depending on the method of handling group savings. ASCAs are widely known as village savings and loan associations (VSLAs) after a programme of the non-governmental organisation (NGO) Care International. These groups have usually around 20, sometimes up to 50 members. Incidentally, the proposed details of regulation are along the lines of what development practitioners think is lacking in the SACCO regulation.

Why are the same development practitioners bemoaning lack of regulation on the one hand and threat of overload of regulation on the other hand? One reason is obviously that GoU has failed to implement existing regulation and maybe to introduce additional regulation for the thousand-odd SACCOs. It is thus totally unclear where it would find the capacity to regulate en detail hundreds of thousands of groups.

This paper seeks to
(i) make explicit the assumptions of development practitioners (in Uganda) about the relationship between regulation and performance of institutions of collective action;
(ii) empirically substantiate those assumptions with data from Ugandan SACCOs and savings groups.

The remainder of the paper organises as follows: The following section 1.2 gives a brief of the history of institutions of collective action in Uganda. Section 2 discusses the application of terms and concepts from the theory of institutions of collective action, as developed by Ostrom (1990, 2005) and others, to the realm of savings and credit.[1] Section 3 presents the

[1] There are few papers which link the theory of institutions for collective action to the realm of credit and savings. Polski (2003) is one of them, discussing the evolution of banking reform in the USA.

methods of exploration and the data-sets deployed, section 4 presents the quantitative findings, which are analysed in blend with qualitative data in section 5.

1.2 A brief on the history of institutions of collective action in Uganda

Kyazze (2010:2) states that '[t]he beginning of the cooperative movement in Uganda can be traced as far back as 1913, when the first farmers' association was founded by African farmers.' He alleges that the motivation was 'a common voice, purpose and strong bargain power' against an economic system that disadvantaged, supposedly along racial lines, the African farmers at the time. In 1946, the British colonial administration enacted a cooperative ordinance which provided the legal framework for the operations of a number of farmers' associations that had been formed in the 1920s and 1930s. After independence, Uganda enacted the Cooperative Act of 1962, drawing on that ordinance (Kyazze 2010). The act of 1962 was revised in 1991 as Cooperative Societies Act (GoU 1991).

Personal conversations indicate that cooperatives in Uganda before the mid-1980s were 'all round providers'; members received farm inputs from them, both physical and educational, sold their outputs to them, and accessed credit to meet household needs such as school fees while waiting for the harvest to bring income, from which they would repay the credit. This is supported by Kwapong/Korugyendo (2010), who discuss how the cooperative system – primary cooperatives forming unions selling through marketing boards to export markets – worked as the exclusive channel for marketing agricultural production. The cooperative system at the time was a state-sanctioned monopoly (Kyazze 2010). Kyazze (2010) also notes that the cooperative system mobilised members' savings which were ploughed into the agricultural activities of the cooperatives. Muhumuza (2007:131) also highlights the 'elaborate infrastructure' of the cooperative system in the 1960s and early 1970s. He discusses an early government-credit programme that was channelled through the cooperatives from 1961 to 1973.

The exact performance of the cooperative system is not clear. While those who remember it tend to remember it positively, Kwapong/Korugyendo (2010) note that mismanagement was one of the reasons for its failure, Kyazze (2010) notes embezzlement by cooperative staff and lack of capacity of members to claim their rights and take control. However, both authors view the macro-economic and political upheaval of the 1970s and early 1980s and the liberalisation of the late 1980s as the prime factors of the system's unravelling. Some have said that the then-new government advanced the dismantling of the cooperative system because it had close ties with the previous political regime. In the 2000s, the – no longer new – government discovered political merits in creating a lot of new cooperatives (Schmidt 2012).

Politicisation has clearly been a factor of disruption for cooperatives at various times and places (see exemplarily Rutherford 2009). In the light of the regular mode of operation of Ugandan SACCOs today, which often gives little consideration to member-ownership, -participation and –empowerment (hereafter: member-based), there is reason to ask if their predecessors were much different.

Savings groups, in Uganda traditionally known as *ebigombe* (Muhumuza 2007:123), have at least as long a history as cooperatives. However, little is known about their scope and scale over time in Uganda. For example Muhumza (2007) appreciates their role but most of his references are to other countries. Their existence alongside the cooperatives could be an indicator that cooperatives are less member-based than they claim to be. Surely, informal groups can be and are befallen by misbehaviour of more or less legitimate leaders. But it is in their nature to disband quickly, and for 'ordinary' members thus limiting the damage that can be done by such 'out-of-order-leaders', and to radiate to forming a group where such are not allowed to spring up. Therefore, in an evolutionary perspective, the savings group realm can always be expected to be more member-based than SACCOs, and to offer therefore a benchmark for them.

Microfinance (MF) is a modern-time renaissance of the informal group-based finance of long. In the 1970s, social entrepreneurs (a term coined much later) in Bangladesh, India and South America[2] formed microfinance institutions (MFIs) around the innovation of formalising the group lending techniques they found in the villages. These MF methods came to Uganda in the late 1980s and early 1990s.[3]

In Uganda, MF loan sizes range from as low as €14.93 for some SACCOs up to €1,493 for Centenary Bank, Uganda's largest MFI. Regular saving amounts in savings groups can start from as low as €-cent 6 weekly. SACCOs and MFIs regulated by the Central Bank (Bank of Uganda, BoU) – the two classes of MFIs who are allowed to take savings – have minimum balance requirements between €1.49 and €2.99, and the running costs of their savings account effectively call for savings of at least €2.99 to €5.97 monthly (that's the amount and rhythm observed in studies of savings behaviour, see e. g. Muzigiti/Schmidt 2012).

2 INSTITUTIONS OF COLLECTIVE ACTION IN THE REALM OF SAVINGS AND CREDIT

2.1 Common-pool resource-like characteristics of credit and savings

MFI-business is usually not thought of as common-pool resources (CPR). Yet, it bears a number of CPR-characteristics. All (micro)financial institutions intermediate interests and demands of savers and borrowers. In a global perspective, the 'pool' of 'savings' is accessible for everybody; the difficulty of excluding potential beneficiaries is high. (M)FIs are vehicles to manage that difficulty. In a capitalist system, they are assumed to be best positioned as producers and distributors of mainly private inputs to privately contracted borrowers (appropriators and users of the credit).

However, it has been found that credit as a private good leads to fatal crisis – like the one that brought the world economy to the brink of disaster in 2008/9; some have likened the MFI-crisis in Southern India in 2010/11 to according dynamics (Rozas 2009). The reason is that private (M)FIs and private users of credit are wont to over-lend and over-borrow respectively.

[2] Mohammed Yunus started the experiment that became Grameen Bank in 1974. In the same year, Elaben R. Bhatt, leader of India's self-employed women association (SEWA), was the founding chair of SEWA-bank. In 1984, John Hatch managed a development programme from which 'village banking' evolved, the MF methodology promoted by FINCA.

[3] Uganda Women Finance Trust was founded in 1984. It was licensed as a MF deposit-taking institution (MDI) by BoU in 2005. FINCA Uganda was founded in 1992. It was licensed as an MDI in 2004. Note however that Uganda's largest MFI, Centenary Bank, founded in 1983 and licensed as a commercial bank in 1993, never used group-based lending but individual lending based on innovative physical collateral.

Borrowers take more credit than they can service; at a tipping point, the (M)FIs rapidly roll-back their credit exposure, causing credit crunch to both over-indebted and other borrowers. In the case of MFIs, this usually leads to a massive drop of repayment of both over-indebted and other borrowers, because they tend to repay their credit on the expectation to receive a follow-up loan (possibly larger) once the current one is repaid. In the words of CPR-theory, the effect can be described as 'individual users acting independently face temptations to overharvest from a CPR leading to the well-known 'tragedy of the commons'' (Ostrom/Walker 1997:41).

Many CPRs are initially provided by nature, such as fisheries or grazing grounds. Others are initially provided by a centralised effort, e. g. building a dike, or an irrigation system. A savings pool is not created like that. People are usually not ordered to contribute a certain amount to form an initial savings pool, the way they used to be ordered to come and build a dike.[4] There are forms of forced savings (taxation, the rule to give 10% to the poor [Moslems] or the church [Christians], government-induced inflation, and so forth). But these are just one-way-roads to finance an organisation's spending, not to create a 'loan fund' for on-lending; in the context of microfinance also known as revolving fund.

Instead, savers have to lured, incentivised, mobilised, convinced first to forgo present consumption and second to offer that non-consumed part of their present income to a savings pool. The first condition does not pose any problem. It is an unfounded prejudice – also very common in Uganda (exemplarily Muzigiti/Schmidt 2012, MMU 2011) – that poorer sections of society lack 'savings culture'. Microfinance research has shown that people of very low income by their own reckoning always forgo some present consumption (Rutherford 1999); i. e. everybody, regardless of income, saves.

The second condition is much more problematic. Savers generally look for three conditions:

1. Safety – this consists of the reliability of the MFI not to lose or steal (including charge away) the savings, and of the reliability of the savings vehicle itself, i. e. money should not be subject to excessive inflation.
2. Accessibility – this is a trade-off between the desires to easily and quickly access savings in times of need; and the desire to subdue the temptation of quick spending on non-durables rather than building lump sums to acquire longer-term assets.
3. Returns – foregone present consumption demands a financial reward, known as interest. In economic parlance, the expected interest depends on the individual discount rate by which people value future consumption.

In summary; a savings pool bears some characteristics of a CPR with regard to appropriation. There is a risk of overuse – lending and borrowing beyond the repayment capacity of the independent appropriators – if there is not 'some form of coordination or organization to enable individuals to agree upon, monitor, and sanction the patterns of appropriation by individuals' (Ostrom/Walker 1997:41).

A savings pool differs from most CPRs with regard to provision. It depends on creating conditions that incentivise savers to contribute voluntarily. The form of monitoring and sanctioning of borrowers is part of the conditions: If over-lending and over-borrowing is not controlled effectively, savers will stay away from that pool.

[4] Illustrated famously in Theodor Storm's 'The Rider on the White Horse'.

2.2 Conditions for provision and appropriation of Uganda's savings pool

In Uganda, 16.3% of the population save with regulated (M)FIs (Worldbank 2012). Thus, the scope and scale of savings of 83.7% of Ugandans are largely unknown.

It is known that Ugandan SACCOs have mobilised billions of Uganda Shillings (UGX) in members' savings and share capital; the largest part of these is concentrated in a few dozen large SACCOs (Muzigiti/Schmidt 2012). Ugandan SACCOs are not BoU-regulated. Yet, research has also shown that the customers of SACCOs save large amounts in other informal settings, including in their homes and in various savings groups (Muzigiti/Schmidt 2012). Moreover, the SACCO's net outreach – that is serving Ugandans that are not served by BoU-regulated MFIs – is only about 3% (Finscope 2010).

BoU-regulated FIs have been hesitant to mobilise savings from and to lend to larger sections of the population because of the high costs involved. It is more profitable to mobilise savings from the few better-off Ugandans and to keep that savings pool in government bonds and the like. The costs of lending stem from the lack of a central identity register, the limited scope of the credit-reference bureau, and the lack of investment in human capital as to create capacity to diversify lending techniques (from collateral based to risk based) and to reach out to more sectors, in particular agriculture (Ntungwa/Schmidt 2012).

A long sequence of GoU-credit programmes is thought by most practitioners to have had a negative impact on borrowers' performance. GoU-credit is regularly perceived as 'free money' (or 'voting reward'), and the repayment performance of most of those programmes is abominable (Schmidt 2012a, Muhumuza 2007).

Non-BoU-regulated MFIs have attempted to lend to 'unbanked' sections of the Ugandan people, but they have only partly succeeded. A large portion of their customers are customers of other FIs or MFIs. So, microfinance in Uganda has deepened financial services for a relatively small section of the population, but has only moderately widened them.

A newly created regulatory tier has allowed a few MFIs that got licensed to take deposits, and between 2004 and 2010, these BoU-regulated MFIs have attracted over 500,000 savers (Schmidt 2012b). SACCOs have always taken savings and share capital from their members; but a lot of Ugandans have lost those to the collapse of such SACCOs. Thus, SACCO-contributions to favourable conditions for creating a savings pool are mixed.

Savings groups reach out to at least as many Ugandans as all the BoU-regulated and non-BoU-regulated MFIs together (Finscope 2010). They seem to perform better in terms of getting the balance right of conditions for contributing to a savings pool. However, there is little information about the scope of loss of group savings to theft or poor repayment of borrowers.

2.3 Credit and savings by institutions of collective action in Uganda

Ugandan law stipulates that an organisation (consisting of at least 30 residents of the organisation's operational area above the age of 18, GoU 1991, #13) is eligible to be registered as a SACCO if 'it has for its objective the promotion of the economic and social interests of its members in accordance with cooperative principles' (GoU 1991, #3).

Cooperative principles bear a strong resemblance with the design principles found in lasting CPR institutions (Ostrom 1990:90), as illustrated in figure 1. There is a strong relationship around the nexus of members' control and responsibility. The according three cooperative principles (democratic member control, autonomy and independence, members' economic participation) blend in with the according design principles about monitoring, congruence between appropriation and provision rules and collective choice arrangements. Moreover, both emphasise that influence from outside – through external capital, through government – should be clearly limited to a subsidiary role. The design principles explicitly mention sanctions and conflict resolution. These are only implied by the cooperative principles, e. g. through training of elected representatives such that they can effectively contribute. Graduated sanctions are indeed widely used in Ugandan savings groups and SACCOs. The design principles do not consider explicitly the effort of creating capacity to 'run' the CPR, as the cooperative principles do (training and education). They are implied by the emphasis on embedding all rules in the local conditions. Reference to local specialities is missing in the cooperative principles. The cooperative principles emphasise that everybody can join if she is able and willing to take responsibilities. The if-clause implies a boundary. The design principles emphasise the importance of clear boundaries.

Figure 1: Relationship between cooperative and CPR-design principles

Cooperative Principles*	**Relationship**	**CPR-Design Principles****
Voluntary and Open Membership: Cooperatives are voluntary organizations, open to all people able to use its services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.		**Clearly defined boundaries:** Individuals or households who have rights to withdraw resource units from the CPR must be clearly, defined as must the boundaries of the CPR itself
Democratic Member Control: Cooperatives are democratic organizations controlled by their members—those who buy the goods or use the services of the cooperative—who actively participate in setting policies and making decisions.		**Monitoring:** Monitors, who actively audit CPR conditions and appropriator behaviour, are accountable to the appropriators or are the appropriators
Autonomy and Independence: Cooperatives are autonomous, self-help organizations controlled by their members. If the co-op enters into agreements with other organizations or raises capital from external sources, it is done so based on terms that ensure democratic control by the members and maintains the cooperative's autonomy.		**Congruence between appropriation and provision rules and local conditions:** Appropriation rules restricting time, place,, technology, and/or quantity of resource units are related to local conditions and to provision rules requiring labour, material, and/or money
Members' Economic Participation: Members contribute equally to, and democratically control, the capital of the cooperative. This benefits members in proportion to the business they conduct with the cooperative rather than on the capital invested.		**Collective Choice arrangements:** Most individuals affected by the operational rules can participate in modifying the operational rules
Education, Training and Information: Cooperatives provide education and training for members, elected representatives, managers and employees so they can contribute effectively to the development of their cooperative. Members also inform the general public about the nature and benefits of cooperatives.		**Graduated sanctions:** Appropriators who violate operational rules are likely to be assessed graduated sanctions (depending on the seriousness and context of the offense) by other appropriators, by officials accountable to these appropriators, or by both.
Cooperation among Cooperatives: Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures.		**Conflict-resolution mechanisms:** Appropriators and their officials have rapid access to low-cost local arenas to resolve conflicts among appropriators or between appropriators and officials.
Concern for Community: While focusing on member needs, cooperatives work for the sustainable development of communities through policies and programs accepted by the members.		**Minimal recognition of rights to organize:** The rights of appropriators to devise their own institutions are not challenged by external governmental authorities
		Nested enterprises: Appropriation provision, monitoring, enforcement, conflict resolution and governance activities are organised in multiple layers of nested enterprises.

* Cooperatives around the world generally operate according to the same core principles and values, adopted by the International Co-operative Alliance in 1995. Cooperatives trace the roots of these principles to the first modern cooperative founded in Rochdale, England in 1844. Source: http://usa2012.coop/about-co-ops/7-cooperative-principles. Note: The sequence of principles has been changed for lay-out reasons.
** First developed by Ostrom (1990:90) based on case-studies of long-enduring CPRs.
Strong relationship weak relationship

Therefore, Ugandan SACCOs could be expected to be as institutions of collective action. The principles applied by Care International and other promoters of savings groups are even closer to those principles, as they emphasis operational rules that ensure all-member-control and active participation (exemplarily Galemann 2012).

However, the observable reality of some SACCOs and some savings group is very different. Regularly, they are not formed by members coming together, but by government or party officials (who at times are the same) or by other local elites who more or less 'herd' together the required number of people to register the SACCO. Afterwards, the SACCO is run like a personal business of a small group (or even just one person) whose members entrench themselves in the board and management.

3 METHODS

3.1 Overview

Institutions of collective action meet regulation in Uganda at different levels. The first step of the inquiry, therefore, is to establish where and how institutions of collective action meet regulation. This leads to the question, at first sight trivial, what regulation entails. It is part of the inquiry to define regulation as encompassing prescription of formal rules as well as offering financial incentives, i. e. subsidies (section 3.2).

The second step of the inquiry is to establish the assumptions of development practitioners in Uganda about the relationship between collective action and its encounter with the different levels of regulation (section 3.3).

This paper attempts to validate these assumptions based on the data available. However, none of the available data-sets is comprehensive and rigorous. The approach is to comparatively analyse a number of different datasets. Section 3.4 gives an overview of their scope and scale.

Last but not least, section 3.5 explains the construction and informational basis of the financial indicators that are applied to measure the 'depth of collective action (DCA)' for the different sets of SACCOs and savings groups studied.

3.2 Defining regulation

Public policy scholars differentiate between regulatory, distributive and redistributive policies. Regulatory policies work through rules that prescribe behaviour (prohibition, instruction) or set incentives, while distributive and redistributive policies create entitlements and payment obligations (Cairney 2012:27). Regulation would be related to the transformation processes 'monitoring' and 'sanctioning' (Ostrom/Walker 1997:42).

However, in Uganda (as well as in various other countries) the government has at times been mingling collective choice rules and operational rules (Ostrom 1990:53). This has led to regulation encompassing the transformation processes monitoring and sanctioning and organising and providing and distributing (Ostrom/Walker 1997:38/39). On the one hand, it has created different sets of rules for monitoring and sanctioning for different MFIs. On the other hand, it has in the 1990s attempted to itself distribute credit. After these programmes failed fantastically, GoU turned to providing loan funds through a GoU-owned wholesale lender constituted as a company.

Subsidies in form of loan funds have a profound effect on the rules affecting the action situation (Ostrom 2005) within a SACCO or savings group. The more loans are financed from external sources, the more have borrowers an incentive to default relative to the incentive of non-borrowers to sanction them. Large inflows of external credit relative to internal credit from members' savings and shares shift the allegiance of the borrowers. That shift in allegiance gives incentives for small groups – e. g. board members and/or managers – to absorb and default this external credit, while the incentive to sanction them is small for other members. Moreover, if leadership does so, it also profits from an information asymmetry; members outside the leadership circle are unlikely to be accurately informed about the external credit inflow in the first place.

Since the middle of the 2000s, GoU has focused exclusively on SACCOs. Since this time, it has not only provided subsidised loan funds to cooperatives, but with the same taken up organising roles, and it also mixed the roles of providing wholesale loans and monitoring SACCOs (Schmidt 2012a). For instance, the GoU-owned wholesale lender requires involvement of local government officials. As mentioned in section 2.2, these officially are regularly identical with local party elites.

Therefore, regulation in this paper refers to inference from non-members into collective choice and operational rules of the institution of collective action. It encompasses monitoring in a broad sense which is assessed by the form of registration, the source of training, of mentoring, and of supervision. Registration and training are related to monitoring, but tend to be initial inputs. Mentoring or monitoring in the narrow sense means to measure 'inputs, outputs, and conformance to rules and agreements' (Ostrom/Walker 1997:42). Supervision is monitoring with sanctioning power, i. e. 'allocating inducements or punishments related to conformance or lack thereof to agreements' (Ostrom/Walker 1997:42). Furthermore, two kinds of subsidy are included: 'One-off' provision of operational inputs, and continuous provision of loan-able funds.

On that basis each set of institutions of collective action studied can be accorded a 6-digit code embedding the intensity of regulation; higher digits imply tighter regulation (box 1). E. g. a code of 000000 would be an institution of collective action that is not registered and receives no training, monitoring, supervision or subsidies from outside whatsoever. 444444 would be an institution of collective action that is registered as a shareholding company, trained, monitored and supervised by specialised agencies – supervision for MFIs is provided by BoU. It would be affiliated to specific agencies or networks through which it would receive subsidies.

Box 1: Regulation coding

<u>Group registration (group is registered as):</u>

0	no registration	
1	CBO (registered at local government level)	
2	Cooperative (registered at national level)	
3	Promoter’s organisation (NGO or company ltd. by guarantee, with the guarantors being the formal owners of the registered entity)	
4	Shareholders’ organisation (company ltd. by shares)	

<u>Training:</u>

0	no training from outside	
1	training	provided by local government
2	,,	provided by a ‘donor’ programme (e. g. through an NGO)
3	,,	provided by a lender (Financial Institution) / investor
4	,,	provided by a specialised agency

<u>Mentoring / Monitoring:</u>

0	no monitoring from outside	
1	monitoring	provided by local government
2	,,	provided by a ‘donor’ programme (e. g. through an NGO)
3	,,	provided by a lender (Financial Institution) / investor
4	,,	provided by a specialised agency

<u>Supervision / Sanctioning:</u>

0	no supervision from outside	
1	supervision	provided by local government
2	,,	provided by a ‘donor’ programme (e. g. through an NGO)
3	,,	provided by a lender (Financial Institution) / investor
4	,,	provided by a specialised agency (here: Central Bank)

<u>Subsidy I (operational costs or asset purchase):</u>

0	no subsidy from outside	
1	subsidy	provided by local government
2	,,	provided by a ‘donor’ programme (e. g. through an NGO)
3	,,	provided by a lender (Financial Institution)
4	,,	provided by a specialised agency

<u>Subsidy II (loan fund; including loans from GoU-owned wholesale lender)</u>

0	no subsidy from outside	
1	subsidy	provided by GoU-owned wholesale lender
2	,,	provided by a ‘donor’ programme (e. g. through an NGO)
3	,,	provided by a lender (Financial Institution)
4	,,	provided by specific affiliation

3.3 Relationship between regulation and SACCOs/ savings groups

Development practitioners in Uganda mostly hold rather strong assumptions about the effect of regulation on SACCOs and savings groups. They describe a balancing act: Too much regulation is as bad as too little regulation. The right 'dose' is assumed to be related to the size of the institution. To this backdrop, four testable assumptions can be distilled:

i. **Unclear and 'micro-'regulation**, i. e. regulation which is beyond straight grasp of uninformed, often semi-literate, members, leads to **regulation capture**, i. e. regulatory officers disenfranchise the collective of members for their personal gains, either financial or socio-political.

ii. Beyond a – rather low – threshold, **lack of regulation** leads to **leadership capture**, i. e. either members of the board of directors (BoD) or management turn the organisation into 'their personal business', and disenfranchise the collective of members.

iii. Beyond a threshold, the **cooperative ownership structure** discourages the most economically competent and financially potent members from engaging their capacity. This leads to **stagnating growth** – at the disadvantage of the collective of members. Moreover, it may trigger (ii), as economic and financial capacity is overruled by political capacity to influence decisions.

iv. The flipside of (iii) is that **'pro-growth regulation'** transforms the SACCO from an institution of collective action into a 'capitalist organisation'. Such **capitalist capture** means that the 'economic and social interests of its members' are abandoned in favour of maximising returns of its largest investors.

Fig. 2: Logical Framework, based on
prevalent assumptions among development practitioners in Uganda

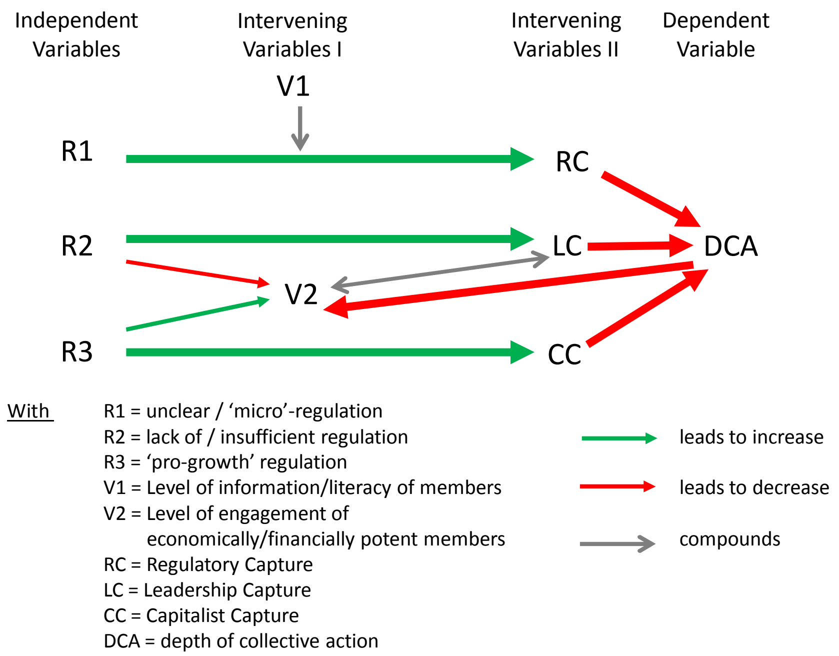


Figure 2 presents these assumptions in form of a logical framework. It takes regulation to be the independent and collective action to be the dependent variable. Formally, these can be written as

(1) $DCA = f(R_i)$
with DCA = depth of collective action; R = Regulation, i = character of regulation.

3.4 Data-sets (table 1)

Savings-group-promoting agencies have created an online-database (Savings groups 2012) which offers free access to a range of performance indicators of savings groups, including programmes run in Uganda. It offers numbers of members and numbers of groups over 3 years since 2010, and information about savings and share capital ('equity'), as well as cost of for training/monitoring the groups. It thus allows studying performance of savings groups outside the regulatory framework for SACCOs.

There is no comprehensive data-set on SACCOs in Uganda. SACCO-data has been collected by different agencies, in particular GoU through its 'MF census'. These data have different scopes regarding geography, economic and social performance indicators and the like. Schmidt (2012b) consolidates some of these for numbers of savers and borrowers and the corresponding savings and loan portfolios over the 2000s. Notably, the savings portfolio (as well as share capital) for SACCOs is missing for most of the decade.

The Association of Microfinance Institutions of Uganda (AMFIU) publishes bi-annually an MF directory (AMFIU 2009, 2011). It offers information about a range of MFIs, both SACCOs and others, of various sizes. It provides information about numbers of savers and borrowers and according savings and loan portfolios, but not about share capital.

Mountains of the Moon University (MMU) has been surveying a panel of SACCOs for the South-western region of Uganda. Part of the panel is randomly chosen, part of the panel is purposively chosen, i. e. SACCOs that have sent staff members to MMU's MF courses (Meier zu Selhausen/ Musinguzi 2011). Since the start of the survey in 2010, several of the randomly chosen SACCOs have been found collapsed. Therefore, 'true panel data', i. e. data for 3 consecutive years, is only available for 8 SACCOs. Apart from being a unique panel data-set despite its small size, it offers information about numbers of savers and borrowers and according savings and loan portfolios; as well as governance indicators. It thus allows studying SACCO performance within the existing regulatory framework.

In the mid-2000s, donor agencies subsidised and promoted rating of MFIs that are not regulated by BoU. These rating reports are freely available on the website of the rating agency, PlanetRating. They include 9 SACCOs. The reports offer a lot of detail on governance and founding history of these SACCOs, as well as information on their numbers of savers and borrowers and according savings and loan portfolios and share capital.

Donor agencies promoted group-based approaches in different regions of Uganda. Sub-county integrated development associations (SIDAs) were groups that received training for savings and loan operations as well as other inputs. SIDAs transformed into SACCOs in the 2000s. They are located in South-western Uganda. Performance data is scattered and only available for earlier periods (between 1995 and 2007). Financial Service Associations (FSAs) were non-registered groups that had been promoted as part of an apex (FSA International Uganda Ltd.) in central and western Uganda. Beijuka/Mukasa (2006) was commissioned by the British Department for International Development (DFID) to compare their performance before and after registering as SACCOs. These data-sets thus allow studying groups before and after a change of regulatory framework.

Table 1: Data-sets employed

Author/ source of data-set	**Number/ type of institutions of collective action**	**Number of savers***	**Scope of data**		**Relevance to this inquiry**
			Time period	indicators	
Savings groups (2012)	10,091 / savings groups	275,999	2010-2012**	Savings, loans, share capital, cost of training/ monitoring	Study performance of savings groups outside SACCO-regulation
GoU (2012)***	735 / SACCOs*	448,307	2008-2011	Savings, loans share capital cost of operational subsidy	Study performance of SACCOs highly subsidised and mentored by GoU
AMFIU (2009), (2011)	Approx 80 / SACCOs, other non-BoU-regulated MFIs, BoU-regulated MFIs	approx. 500,000	2008-2010****	Savings, loans	Compare performance of SACCOs of different sizes and of SACCOs and other MFIs
MMU (2012)	8 / SACCOs	5,151	2010-2012	Savings, loans, share capital, governance quality	Study performance over time of SACCOs under SACCO regulation
PlanetRating (2012)	9 / SACCOs	17,555	2002-2007****	Savings, loans, share capital, governance quality, founding context	Study performance over time of SACCOs under SACCO regulation
GoU (2005)	63 / SIDAs	31,061	1995-2007	Savings, loans, share capital	Study performance under change of regulation (from groups to SACCOs)
Beijuka/ Mukasa (2006)	32 / FSAs	18,847	2001-2006	Savings, loans,	Study performance under change of regulation (from groups to SACCOs)

* Regularly the number of savers is identical with the total number of members or customers.

** Number of members is not given for 2012 but can be estimated based on the available indicators (total savings/average savings per group*average number of members per group)

*** Data is cumulative for different numbers of SACCOs in each year (June 2008 – 317; June 2009 – 400; June 2010 – 685; June 2011 – 735). Indicators are calculated based on averages per SACCO per year.

**** Allows backward projections to founding years of respective institutions. Most AMFIU members were founded in the 1990s, most SACCOs rated by PlanetRating in the 2000s.

3.5 Indicators

The scale and trend of savings and share capital are indicators for members' relationship with the MFI. Members will save regularly and keep increasing savings only in an organisation that they trust to take good care of the savings, and have them ready for access when they wish to access them. Returns on savings are of lesser concern among micro-savers; their major interest is to accumulate 'usefully large sums' to take advantage of opportunities, to undertake planned investments, or to cushion emergencies (Collins et al 2009).

Savings and shares do not automatically translate into depth of collective action. Obviously, banks and regulated MFIs collect large amounts of savings but are definitively not member-based (in fact, Ugandan regulation orders them to be shareholding companies, i. e. capitalist organisations). However, savings per member and share per member are a financial proxy of the multi-faceted bond between the individual member and the organisation. Therefore, member's stake (MS) is constructed as the sum of savings and share capital per member as an indicator of DCA.

(2) MS = (total savings + total share capital) / total number of members

An advantage of MS is that it can be measured for capitalist MFIs as well. If such organisations have a high values for member's stake, it means that they offer members a better deal than 'real' member-based MFIs. It can then be asked what the driver of that could be; as these are tightly supervised institutions, regulation through BoU would be a probable hypothesis.

Member's stake may be high but the MFI may well not be member-based, as the previous paragraph highlights. An indicator for being member-based is the development of the member's stake over time: Is it stable relative to the total organisation, or is it being diluted as more and more members join. Therefore, members' stake-ratio is constructed as average annual growth of member's stake over average annual growth of total membership.

$$\text{(3)} \qquad MSR = \frac{\text{Average annual growth of MS}}{\text{Average annual growth of total membership}} * 100$$

valid for numerator: >0

Average annual growth rates are calculated as compound average annual growth rate by the formula (Value End of Period / Value Beginning of Period)^(1/Number of years)-1.

If MSR is below 100%, individual member's stake is diluted; i. e. the organisation is becoming less member-based. If it is above 100%, the individual' member's stake is growing stronger. A value of 100% indicates that it is stable. The weakness of MSR is that it becomes meaningless if the numerator is zero or negative.

4 RESULTS

4.1 Depth of Collective Action (DCA)

a) Overview, by different organisational/legal forms

Institutions of collective action	**Individual member's stake**		**Member's stake-Ratio**
	Savings per member	Share capital per member	
Savings groups	€23.83	€33,28	860%
SIDAs	€12.16	€7.21	31%
FSAs	€95.87	>0[1]	70%[2]
SACCOs[3]	a) €36.70 b) €84.27 c) €61.98 d) €25.81	a) >0[1] b) €9.54 c) €28.75 d) €14.45	a) n.a.[4] b) 87% c) 308% d) 1366%
Capitalist institutions			
Other non-BoU-regulated MFIs	€18.44	n.a.[5]	58%[2]
BoU-regulated MFIs	€83.68	n.a.[5]	11%[2]

1 Information about share capital is not available. However, from anecdotal evidence it is known that these organisations have some share capital. Therefore, share capital per member is >0.

2 Based only on savings per member.

3 a) 31 SACCOs that are AMFIU members (AMFIU [2011] lists 48 SACCOs=AMFIU-members, but only for 31 is data available for 2010 and for 2008);
b) 9 SACCOs for which data from rating reports is available;
c) 8 SACCOs for which data from MMU's SACCO-panel is available for 3 years.
d) Up to 735 SACCOs supported by GoU.

4 The indicator is not applicable because the member's stake is negative.

5 These indicators are not applicable. The legal form is a company, which by definition is a capitalist organisation, where shareholders shape decisions based on their capital, as opposed to a cooperative, where each member has the same vote.

b) SACCOs and other MFIs, by total period of operation

Founding year	Indicator	SACCOs	Other tier4-MFI	Regulated MFI
1984	Savings per member (average annual growth rate since founding)	4%	/	7%
	Members' stake-Ratio[1]	17%	/	18%
1994	Savings per member (average annual growth rate since founding)	15%	-5%	/
	Members' stake-Ratio[1]	56%	12%	/
1996	Savings per member (average annual growth rate since founding)	7%	9%	/
	Members' stake-Ratio[1]	16%	17%	/
1998	Savings per member (average annual growth rate since founding)	7%	/	22%
	Members' stake-Ratio[1]	15%	/	30%

1 Based only on savings per member.

c) SACCOs, by founding context

Founding characteristics	Number of SACCOs	Members' stake (average annual growth rate)	Members' stake-Ratio
church-based initiative	2	12%	101%
Community-based initiative	2	6%	7%
Individual profit-motivated	3	20%	117%
Donor-driven	1	25%	99%
Educated-elite-initiated	1	25%	118%

4.2 Regulation of institutions of collective action in Uganda

Institution of collective action	Period	Specific affiliation*	Group registration	Training	Mentoring/ Monitoring	Supervision	Subsidies I	II
Savings groups – Uganda	2010-2012	NGOs like Care	0	2	2	0/2	2	0
Sub-county Integrated Development Associations (SIDAs)	1995-2003	/	1	2	2	0	2	2
SIDAs	2004-2007	BUTO	2	4	4	0	0	4
Savings and Credit Cooperatives (SACCOs) – GoU-supported	2008-2011	UCSCU	2	4	4	0	4	1
SACCOs – AMFIU members	2008-2010	AMFIU, DPSDC, UCA, UCSCU	2	2/4	0	0	2/4	1
Other tier 4 MFIs – AMFIU members		AMFIU	3	2/3	2	0/3	2	1/2/3
BoU-regulated MFIs		AMFIU, UBA	4	2/3	4	4	2	1/2/3
SACCOs – Planet Rating	2002-2007**	UCSCU, UCA	2	2/4	0	0	2/4	1
SACCOs – South-western Uganda	2010-2012	UCSCU, UCA, BUTO	2	4	0/1	0	4	1
Financial Services Associations (FSAs) – Central/Western Uganda	2001-2004	FSAIU	0	4	4	4	4	4
FSAs – Central/Western Uganda	2004-2006	UCSCU, DPSDC	2	0/2	0/2	0	0	1

Regulation coding based on table X.

* AMFIU – Association of Microfinance Institutions of Uganda; BUTO – Bunyoro-Toro Credit Union; DPSDC – District Private Sector Development Centres (a UNDP-programme), FSAIU – FSA International Uganda Ltd.; UBA – Uganda Bankers' Association; UCA – Uganda Cooperative Alliance; UCSCU – Uganda Credit and Savings Cooperative Union;

** Data for differing 3-year-periods between 2002 and 2007.

4.3 DCA and Regulation

a) Performance and change of regulation

Institutions of collective action	Period	Regulation	Average annual growth rate of members' stake	members' stake ratio
SIDA	1995-2003	122022	+20%	7%
	2003-2007	244004	+32%	429%
FSA	2001-2004	044444	+231%*	77%
	2004-2006	2[0/2][0/2]001	+96%*	270%
FINCA and Finance Trust	Year-to-year towards license**	3[2/3] [2/3] [2/3] [2/3] [1/2/3]	+93%*	356%
	Year-to-year from license**	4[2/3]442[1/2/3]	+55%*	126%
	2008-2010	40442[1/3]	+142%*	3597%

* Based on savings only.

** FINCA was licensed MDI in 2004; Finance Trust in 2005.

b) Performance year-to-year under given regulation

Institutions of collective action	Period	Regulation	Average annual growth rate of members' stake	members' stake ratio
SACCOs – South western Uganda	2010-2011	24[0/1/4]041	+19%	149%
	2011-2012		+15%	956%
SACCOs – GoU supported	2009-2010	24[0/1/4]041	+35%	504%
	2010-2011		+27%	114%
Savings groups	2010-2011	022[0/2]20	+19%	+1293%
	2011-2012		+4%	+324%

c) DCA and external credit (subsidy II)

c1) External Credit for different data-sets (latest year available)

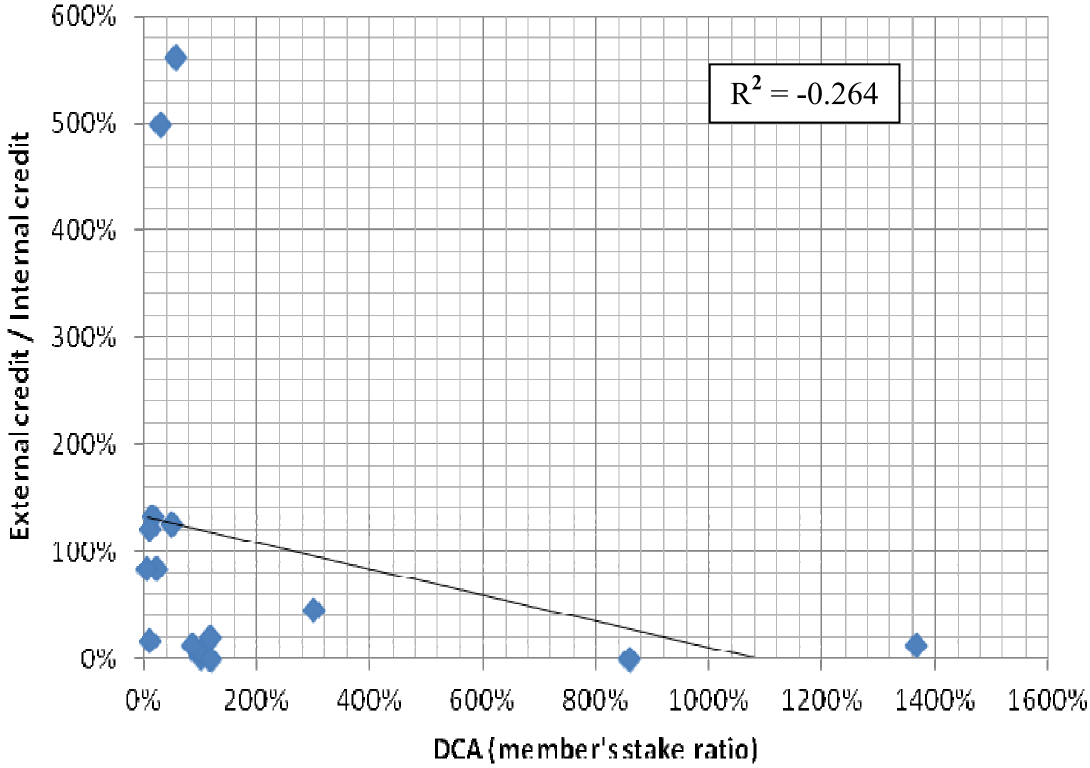
Institution of collective action	External credit / internal credit
Savings groups	0
SIDAs	499%
FSAs	>0[1]
SACCOs by data-source' a) 31 SACCOs that are AMFIU members b) 9 SACCOs for which data from rating reports is available c) 8 SACCOs for which data from MMU SACCO-panel is available for 3 years d) Up to 735 SACCOs supported by GoU	a) 48%[2] b) 13% c) 46% d) 13%[3]
SACCOS by funding characteristic a) church-based initiative b) Community-based initiative c) individual profit-motivated d) Donor-driven e) Educated-elite-initiated	a) 0.5% b) 84% c) 19% d) 6% e) 0
Capitalist institutions	
Other non-BoU-regulated MFIs	561%[2]
BoU-regulated MFIs	17%[2]

1 Information about external credit is not available. However, from anecdotal evidence it is known that these organisations have some external loans. Therefore, external credit over internal credit is >0.

2 Calculated as (1) External credit = outstanding loan portfolio - savings portfolio; (2) Internal credit = Outstanding loan portfolio – external credit.

3 Calculated as (1) External credit = outstanding loan portfolio - savings portfolio-share capital; (2) Internal credit = Outstanding loan portfolio – external credit.

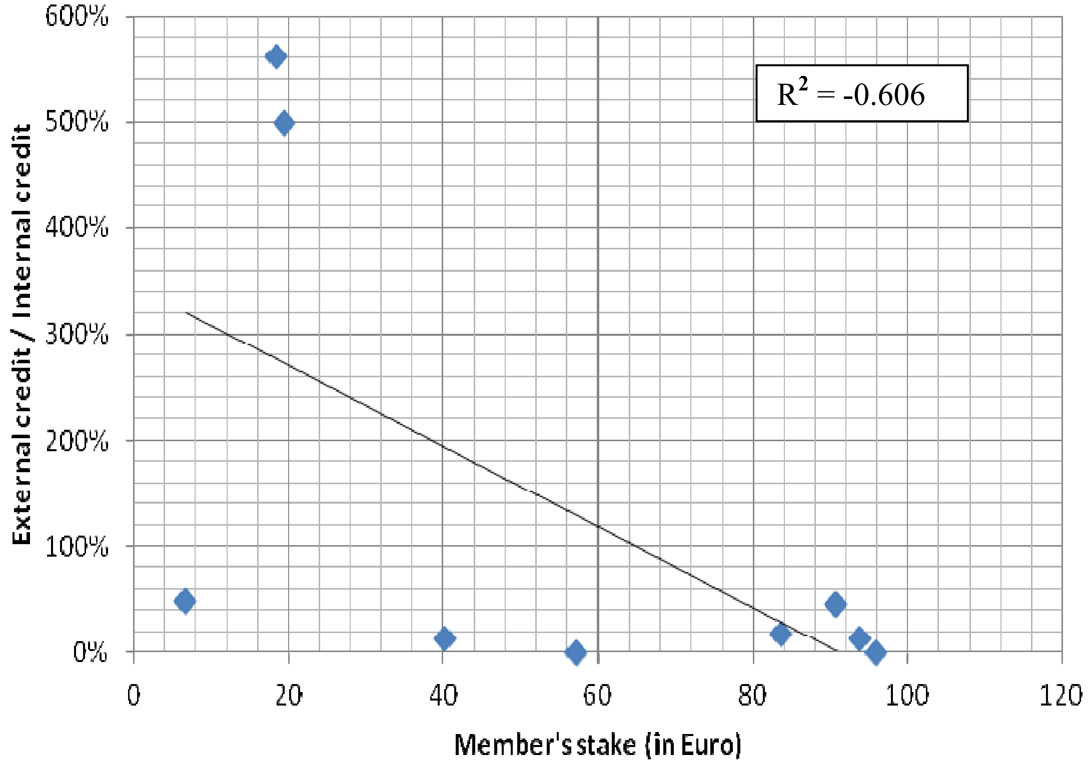
c2) Members' stake ratio and external credit/internal credit



Data Source: Tables 4.1a,c; 4.3c1 and calculation for individual SACCOs from the MMU-data set.

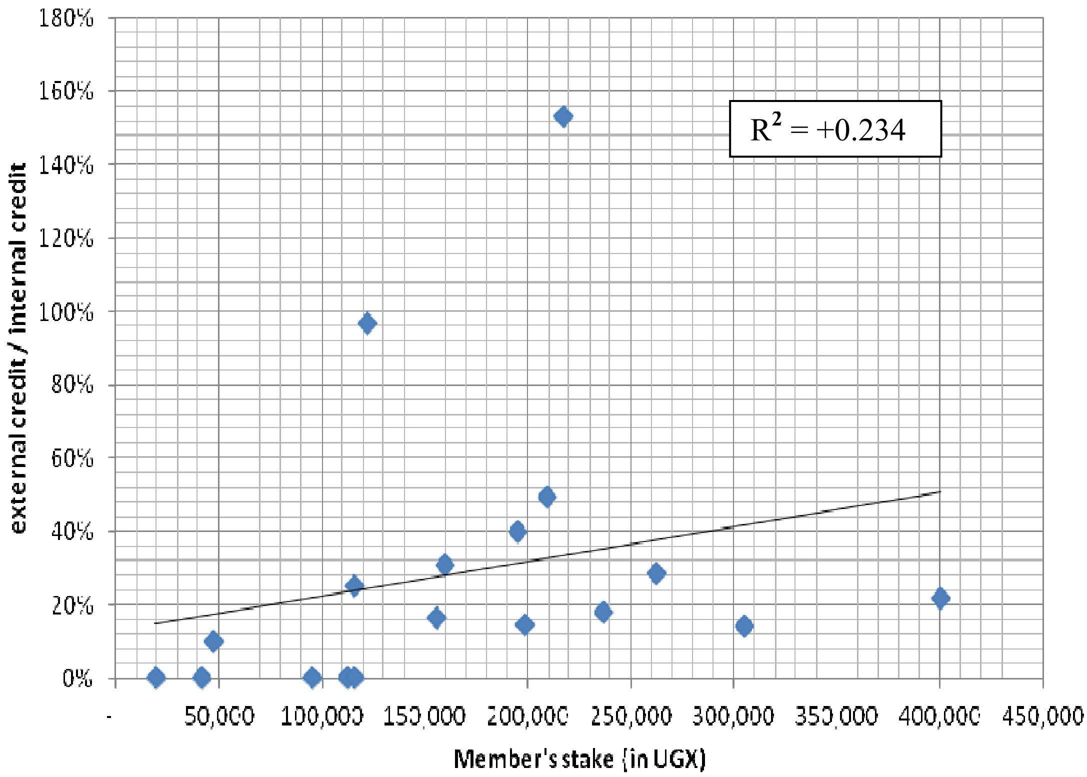
c3) Member’s stake and external credit/internal credit

c3.1 Correlation across 9 data-sets



Data source: 4.1a and 4.3c1.

c3.2 Correlation across 3 years, 2010-2012



Data Source: MMU-data set; values calculated each SACCO for each of 3 years (total of 24 data points [3 years x 8 SACCOs]; for 4 years the external-credit-data is not available. Hence 20 data points.

5 DISCUSSION

5.1 Findings on the four hypothesis

a) Hypothesis I: Unclear and 'micro-'regulation leads to regulation capture

Regulation capture would be expected at the level of savings groups or of the smaller SACCOs. Judging by the DCA-indicators, there is no sign of regulation capture of savings groups (4.1a, 4.3a). The smaller SACCOs are in the MMU-data set (South-western Uganda). There DCA-indicators do not indicate any problems (4.3b).

The community-based SACCOs from the PlanetRating-data set show abominable DCA-indicators (4.1c). Their rating-reports reveal that one of them had capacity issues, while the other one got involved in GoU's credit-scheme and this caused a very high inflow of external credit (second highest of all SACCO-groupings studied in this paper, 4.3c1) and led to leadership issues If risks from politicisation are subsumed under regulation capture, it may be concluded that this is such a case.

SIDAs and FSAs did encounter difficulties in their first period when they were non-registered and locally registered respectively (4.3a). These could be interpreted as either regulation or leadership capture. They are placed under leadership capture, i. e. discussed under hypothesis II below, because the issues they faced came from a nested institutional set-up rather than from GoU.

It is noteworthy that the SACCOs for which regulation capture would have been expected the most show the least sign of it: The GoU-supported SACCOs have on average recorded very strong DCA-indicators (4.1a, 4.3b).

b) Hypothesis II: Lack of regulation leads to leadership capture

There is a never ending stream of anecdotal evidence of SACCOs getting into trouble and failing because of fraud and embezzlement from board members, or from management, or both. AMFIU/DFID (2007) studied failed SACCOs and offers backing to the hypothesis that 'out-of-order-leaders' are the doom of many SACCOs. The line between mismanagement out of ignorance or incompetence and out of fraudulence is blurred, more often than not the two get intertwined. Kasoma/Kawanguzi (2010) discuss issues of mismanagement in Ugandan SACCOs. Schmidt (2012c) lists an array of governance risks documented in the recent literature. Altogether, systematic documentation of evidence of leadership capture is lacking.

This inquiry measures leadership capture indirectly. Falling DCA, indicated by reducing MS and MSR would point to distrust of members leading to their capping the bond with the SACCO. Savings groups, meanwhile, set a benchmark of rising DCA. By this measure, AMFIU-member-SACCOs are at high risk of leadership capture, because between 2008 and 2010 voluntary savings per member have actually been falling by 13% (annual average).

SIDAs, FSAs and rated SACCOs could also be at risk because their MSR is below 100% (see 4.1a), However, SIDAs, FSAs and rated SACCOs recorded average annual growth rates of MS of 24, 231 and 16% respectively.

For SIDAs and FSAs, a breakdown of performance before and after transforming from non-registered or local groups into SACCOs (4.3a) shows that;

- Both had a MSR <100% in their 'group-period', with a particularly weak showing for the SIDAs; but both moved towards a substantially deepened members' bond in their 'SACCO-period', with MSR far above 100%.
- SIDAs recorded accelerated MS growth – at double digits throughout –from the first to the second period. FSAs recorded slowed MS growth but at a much higher level than the SIDAs; from 231% in the first to 96% in the second period. Note that the 231% might partly be explained by the assumptions about the starting size (30 members with a stake of UGX 100,000), which for both data sets was not given.

For rated SACCOs, the break-down by founding context (see 4.1c) shows that the MSR <100% is mainly caused by the community-initiated SACCOs who score very poorly on both indicators. Their case is discussed under the previous hypothesis. The other sub-groupings of this data-set record growth of MS. Donor- and elite-driven SACCOs have the highest average annual growth rate of 25%. All other sub-groupings record MSR of above or close (99% for the donor-driven SACCO) to 100%.

In summary, the findings give mixed support to hypothesis II. There is rRisk of leadership capture is indicated in AMFIU-member-data. However, like for the other data-sets with an initial risk flag, it would be necessary to disaggregate to qualify that risk. The SIDA and FSA data indicate that the risk of leadership capture was higher in the ‘group-period’ and reduced in the ‘SACCO-period’.

For the FSAs, this is borne out by Beijuka/Mukasa (2006). They note that the general manager of FSAIU ran the project like a personal business, and abused the precarious legal status of the FSAs to extract rents, e. g. in form of forcing them to buy stationary from FSAIU at inflated rates, and allocating resources in-transparently.

For the SIDAs, the impression is not supported by the qualitative information available. The reports (GoU 2005, UWFT 2004, BUTO 2007) show that local governments claimed lack of accountability of the NGO that originally trained and monitored the SIDAs’ savings and credit operations. But they replaced it – against warnings from the donor – with an organisation with an unclear legal mandate, clearly outside any mentoring or supervision from the financial sector. The documents show that this organisation which was called Bunyoro-Toro Rural Development Company (recently turned into a credit union) was struggling to clarify and sustain its business model. That was at the time for which the SIDAs record the highest external credit-ratio of all data-sets studied here (4.1a). Anecdotal evidence from the SIDAs indicates that BUTO staff got involved in fraudulent activities, abusing their position to the disadvantage of the SIDAs-turned SACCOs. The documents turn ominously silent about performance of the SIDAs except for member numbers – without qualification if all of them are active – and with no evidence of any performance of BUTO at all

It is surprising that there is no indication of leadership capture for the donor-, elite- and individual-profit-motive-driven SACCOs. Instead, the community-initiated SACCOs are the ones that failed to offer value to their members.

c) Hypothesis III: Cooperative ownership structure leads to stagnating growth

4.1b) shows that SACCOs have indeed often grown slower than capitalist institutions. For example, a member who saved UGX 1,000 with the SACCO founded in 1984 would have arrived at UGX 2,772 – roughly 1.5times the initial amount. Somebody who joined the NGO-MFI founded in the same year would have arrived at UGX 5,807 – roughly 5.5times the initial amount. Savings in SACCOs founded in the 1990s have grown 3 %-points faster, but they are still outperformed by other MFIs who also grew faster. The outlier are the organisations founded in 1994; in the SACCO the member savings grew at more than double the rate of comparison groups, while the 994-founded other tier 4 MFI actually lost members’ savings. and at the same time the membership stake-ratio is stronger. This is a SACCO with strong inflow from external credit (e. g. 49% external to internal credit in 2011). Its relatively strong performance is in line with the result from 4.3c3); which indicates a positive relationship between savings per member and external credit. The capacity to give larger loans apparently attracts economically potent members, who then also save larger amounts with the SACCO (for most SACCOs, this would be partly compulsory inflows, because their lending conditions require a percentage of the loan to be held in savings and/or shares).

Thus, this lends support to the hypothesis; more economically potent members are likely to rather safe in capitalist institutions which mostly, though not exclusively, offer higher returns. That is unless other benefits, i. e. access to credit, tip the balance in favour of the SACCO. Moreover, they would not prefer to keep their – relatively larger – savings in a SACCO where their stake is being diluted among an increasing number of presumably less economically potent members.

However, the comparison of SACCOs by founding context (4.1c) shows that savings per member in SACCOs led by profit-oriented or elite members – presumably the economically more potent – grew between 2 and 4 times faster than in church- and community-initiated SACCOs. At the same time, these SACCOs have strengthened the individual member's stake, while it heavily diluted in the community-initiated ones. That means that economically potent members can thrive in SACCOs and have done so, without necessary breaching the member-based character of the institution.

With regard to the role of regulation, it can be concluded that it does create an univocal bias towards attracting economically potent members of the community to participate in governance and economic activities of SACCOs. Their involvement depends on the context of each SACCO; if it happens to be well governed and to offer economic benefits then they may join. Otherwise,, they are likely to be the first to leave. The role of regulation should be to make the former scenario most probable and to block out the latter. That is apparently not the case. Subsidy II can contribute to attracting potent members, but it is not enough.

d) Hypothesis IV: Pro-growth regulation' leads to capitalist capture

There is no strong case for or against this hypothesis, because there is no systematic pro-growth regulation in Uganda. It can be argued that the promoters of some NGOs created a regulatory framework of professional training and mentoring (4.2) that enabled them to transform into licensed capitalist organisations. This accounts for most of their superior growth performance compared to SACCOs and other tier4-MFIs (4.1b, 4.3a). The license, presumably among others because of the supervision that comes with it, has enabled these organisations to capitalise on the purpose of the license that is to mobilise large deposits from the public. However, at the same time have they gone through patchy growth periods around the licensing – it clearly comes at a price (see 4.3a, also Kasi/Wavemunno 2005, AMFIU 2008). SACCOs have relied on individual leaders to create such dynamics, but different from the NGOs-turned-MDIs, there is no wider regulatory framework that ensures they become institutionalised.

5.2 The effects of external credit

Most practitioners agree that external credit puts SACCOs at risk, as discussed in chapter 3.2. Fiorillo (2006) and AMFIU/DFID (2007) provide qualitative and quantitative evidence to that view for Ugandan SACCOs.

It is further supported by the findings of this inquiry on an aggregate level. 4.3c3.1 and 4.3c3.2 show a robust negative correlation between MS and MSR and external credit. Data-sets with high external credit relative to internal credit have weaker DCA-indicators. Interestingly, the GoU-supported SACCOs are among those with the lowest external credit inflow.

The correlation coefficients of -0.264 and -0.606 include the capitalist organisations. However, they do not drive the direction of the relationship, the R^2 remain almost the same if they are excluded.

However, on a disaggregated level, the finding has to be qualified. 4.3c3.3 shows the correlation between MS for individual SACCOs and years. Here, the R^2 is +0.234. This lends support to protagonists of 'credit-led-growth', who have for instance inspired the GoU-credit-schemes. The external credit has enabled these SACCOs to attract more members who in turn have contributed more savings.

However, a further disaggregation, which is not visible in the indicators used here, shows that the risks pointed out by critics of the 'credit-lead-growth'-paradigm are already showing up in some of the SACCOs of this data-set:

- Leaders are tempted to give out or to take themselves larger loans than prudent, while safeguards against such temptations are weakened;
- Some members reduce their repayment commitment in the face of 'free government money' (all this external credit comes from GoU's wholesale lender);
- The external credit inflow attracts new members who join for the sake of getting a credit (possibly with the previously described attitude), rather than saving regularly; moreover, politicians and/or local government officials start frequenting the SACCO with a wrong sense of entitlement towards the 'government money'.

External credit has to be given with utmost care; unfortunately there is no clear and robust benchmark how much is accurate.

5.3 Concluding remarks

This inquiry has attempted to establish validation or refutation of the assumptions that development practitioners hold about the relationship between regulation and DCA of SACCOs and savings groups.

On first sight, that attempt has not been successful. Rather, the most striking finding is that the available data has many shortcomings and hence, none of the hypothesis could be conclusively supported or rejected.

However, the inquiry has made it quite clear that the regulatory framework does not offer much stability. There is a wide array of performances, both of SACCOs and other MFIs. BoU-monitoring and supervision seems to be the single-most important regulatory fact to create dynamics towards institutionalised performance. The others get little return from their regulatory frameworks and over-depend on 'super-leaders'. Super-leaders are rare at the best of times, and they never last. GoU has clearly not done its part in providing effective regulation. To that backdrop, meddling with savings groups is clearly the least of its priorities.

Within the mixed responses to the hypothesis, there are some unexpected findings:

- The GoU-supported SACCOs show no signs of regulatory or any other capture. They are among the strongest performers for both MS and MSC; at the same time they have one of the lowest external credit-ratios. Widespread anecdotal evidence about abuse of GoU-resources at the level of the SACCOs is not borne out by the aggregated quantitative perspective. It indicates an on average healthy depth of collective action in these SACCOs.
- Accordingly, SACCOs promoted by education elite, donors, or profit-oriented individuals have a stronger DCA than those promoted by communities or the church.

- Those groups (FSA, SIDA) that have registered as SACCOs have not suffered reduced depth of collective action, rather the opposite. A caveat here is that the collapsed groups or SACCOs had been excluded from the data sets a priori.

Another interesting insight is that the performance of SACCOs and savings groups is highly dependent on, and cannot be understood without studying the nested enterprises they are embedded into. The 'surprises' listed above are partly explained by that. From the glimpse given here, the BUTOs, AMFIUs, UCSCUs and others have about as much homework to do as GoU.

A caveat to these findings, apart from geographical and other limitations to representativeness, are aggregation levels. Consistent and robust data needs to be collected at different levels by non-biased agents; and there is a painful gap of panel data. It would be great if GoU could proceed on its road to data-transparency about the SACCOs it supports (see exemplariy Agabalinda 2012), and make the data-base available at disaggregated level, like the savings group promoters do.

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