



Smallholder Innovation Series

A BRIEF ON HOW TO SUCCEED AS A SMALLHOLDER FARMER

SACCOs



What is a SACCO?

In recent years there has been increased attention on smallholder access to finance. Unfortunately, this attention has not yet translated into the additional services desperately needed in the majority of rural communities.¹ Most smallholders don't have collateral or credit history, which limits their ability to access traditional banking. If rural farmers want to start a savings account or request a loan they need to create the services for themselves. One way to do this is by forming a local Savings and Credit Co-operative society (SACCO).

A SACCO is a co-operative society that encourages its members to make regular savings deposits, part of which are then used to provide loans to members with reasonable interest rates. SACCOs are most commonly formed by members with a common bond (belonging to the same church, working for the same employer, living in the same community, etc.). Loans can be used for personal purposes (i.e. clothes, school fees, wedding gifts) and/or productive purposes (i.e. agricultural inputs, starting a small business). Access to credit is the

driving incentive for members to save.² SACCOs are a useful tool for alleviating poverty by empowering the world's poor with greater resources.

Benefits of SACCOs

- *Access to economic services* not previously available. SACCOs are responsible for deciding exactly how funds are used – how much is available for loans and how much remains in savings. Members are given access to savings loans with reasonable rates of interest, both of which are commonly unavailable in rural smallholder communities.
- *Easy to form* as all you need are reliable members committed to saving. For the majority of rural smallholders forming a SACCO is much simpler, and more reliable, than traveling to a large town or city where they need to formally apply for a loan.
- *Limited liability of members* because of the absence of collateral. Members are only responsible for the amount of capital contributed. This means that if the SACCO fails, smallholders do not lose their personal belongings.
- *Democratic management* of all funds. SACCOs are managed by democratically elected members among themselves. Every member is given a single vote and can take active part in the decision-making process.³



How to Start a SACCO

Start small

The first step is to identify members to join your SACCO. It is easier if the initial group shares a common bond like belonging to the same church or living in the same community. A SACCO should start with 10-20 members.

Establish rules

After you have your members, you must establish the rules for you SAACO. Things to consider include:

- How much (and how often) are contributions?
- What are the requirements for getting a loan?
- How often will the SACCO meet?
- What is the management structure?



Register

Depending on where you live you might have to register your SACCO with the local government.

Get started

After you have finished registration you can start collecting contributions and distributing loans. As more savings come in you can also consider expanding your SACCO to take on new members and expand your portfolio.

SACCO Success in Uganda

The Kyamuhunga People's Co-operative Savings and Credit Society Ltd started in Kyamuhunga, Uganda in 1998 with just two staff, Shs 3 million (USD \$816), and a few members. It has since greatly expanded its portfolio and in 2017 gave out more than Shs 87 billion (\$23 million) in loans. Patrick Mujuruzi, a coffee farmer in Kyamuhunga, is one of the thousands of smallholders who have benefited from the local SACCO. Shortly after he started contributing savings in 2004, Patrick was eligible to receive a loan. Patrick started with a small loan of Shs 250,000 (\$68) and, after successfully completing the two-year repayment period, became eligible for larger loans. Since joining the SAACO Patrick has purchased land and expanded his farming operation. He says, "I have planted more than 10,000 trees of coffee. I have a business where I buy cows and sell at a profit. I pay school fees for my children."⁴

Things to Consider

For those starting a SACCO:

-Stick to your rules: Once you have agreed upon your rules it is essential to commit to them. Changing the rules will cause dissatisfaction among members and make it harder to continue working together.

-Start small and grow: Stay within your means when first starting out. It is best to start with a small group, and small portfolio, and grow over time as the SACCO succeeds. Starting with too many members will lead to management issues and inefficient use of capital.

-Solve disputes democratically: Members should always have a say in how the SACCO operates. If there is an issue it should be brought to a vote, either before the democratically elected management team or the entire SACCO. If members feel they don't have a voice they are more likely to leave the SACCO.



For those interested in joining a SACCO:

-Certification: It is important that the SACCO you are interested in is certified and registered with the appropriate government offices. Registered SACCOs are generally more reliable and able to be held accountable better than unregistered ones.

-Physical Location: Ideally, the SACCO should be within reasonable distance of your home and community. This makes it easier to travel to the office for meetings.

-Management System: Make sure you completely understand the management system of the SACCO before joining. It is essential to know who is in charge of your contributions and how to apply for a loan.

-Member Requirements: You need to be certain that you can meet member requirements of the SACCO before joining to prevent having to contribute more than anticipated.⁵

References

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