

Saccos' Financial Services and Growth of Members' Enterprises in Luweero District in Uganda

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Abstract: *The purpose of the study was to establish the relationship between SACCOs' financial services (savings and credit facility) and growth of members' enterprises (sales). The survey method was employed in Luweero District using a structured questionnaire. The sample size comprised 200 SACCO members who operate Small Scale Enterprises and obtained credit from the SACCOs. Data were analysed by descriptive statistics, Pearson's correlation method and multi test regression technique.*

The regression results indicate a significant positive relationship between savings and growth of SACCO members' enterprises while the relationship between credit services and growth of SACCO members' enterprises was positive but insignificant.

Based on the results, SACCOs may improve interest rates on savings as a way of motivating members to work hard for more savings. By equipping credit management skills to SACCO managers, SACCOs can ensure members' satisfaction whenever they obtain credit from the SACCOs.

Key Words: *SACCOs, savings, credit, SACCO members' enterprises and growth.*

I. Introduction and problem statement

The savings and credit cooperative (SACCO) arrangements originated from Bangladesh in 1970s with the formation of the Grameen Bank (Bouman, 1977). The spirit was of uplifting rural poor especially the farming communities that could not easily access credit from formal financial institutions. The success of SACCOs in Bangladesh would call for benchmarking from other communities especially where majority of people are rural farmers, Uganda inclusive.

Although Ugandan farmers had started organizing themselves in small groups as early as 1913, they were not regulated and thus; could not carry out any binding transactions. The legalised Cooperative movement in Uganda commenced activities in 1940's with an aim of responding to the exploitative forces of middlemen such as the Asian traders and the colonial government (Thangata, 2016). Ugandan cooperatives considered negotiations for better market of produce than providing credit to members as those of Bangladesh. However, the political turmoil of 1980s and poor governance of cooperative, led to collapse and eventual privatization and disposal of all cooperative union assets. The closure of the cooperative bank in 1999 was the last episode in the history of cooperative unions in Uganda.

However, the changes in financial landscape across the world would not spare Uganda. Small entrepreneurs organised in groups of savings and credit, with an aim of providing financial services that could not be delivered by commercial banks.

Officially, SACCOs in Uganda were allowed to operate under the guidance of the Cooperative Societies' Act 1991. However, the 2016 amendments introduced tier 4 microfinance institutions where SACCOs operate. Small entrepreneurs in Uganda have taken full advantage of this legal provision to provide essential financial services by pooling resources in their groups through saving and credit provision (Feder, 2011). Furthermore, SACCO financial services in rural communities are justified by commercial banks' high rates of charges on financial transactions especially credit which is provided at above 20% interest rate per annum.

Micro, Small and Medium Enterprises (MSMEs) enormously contribute to economic growth of developing nations (Calice, Chando & Sekioua, 2012). Despite their importance in an economy, SSEs cannot access financial services from commercial banks hence a need to form SACCOs for own financial purposes. It has so far been indicated that SACCOs in Kenya and Tanzania have spearheaded the growth of its members' enterprises (Kiaritha, 2015).

However, the SSEs in Luweero District, despite the support from SACCOs, they cannot attain growth (Noah, 2016). In addition, the Luweero District council report (2016) indicates that SSEs whose proprietors are SACCO members, experience fluctuating growth. It is for this reason that the study investigates whether financial services provided by SACCOs contribute to growth of members' enterprises.

In addition, despite the importance of SSEs, most studies have not focused on their growth amidst the financial services provided by the SACCOs in which the proprietors subscribe. For instance, Uwonda and Okello (2015) studied the cash flow management aspects of SMEs in Northern Uganda focusing on budgeting and control, tax planning and interpretation of financial statements. Kintu and Venter (2018), studied core values as drivers of entrepreneurial performance of SMEs of Uganda's central region. Buyinza, Tibaingana and Mutenyo (2018), studied the factors affecting access to credit by micro and small enterprises in Uganda. Kintu, Naluwoza and Kiwala (2019), studied the impact of ISO certification and firm location on firm cash inflows in Uganda. In addition, Kintu, Buyinza and Kiwala (2019) studied the impact of tax administration on entrepreneurial performance of SMEs in Uganda. Omeke, Ngoboka, Nkote and Kayongo (2019) studied the relationship between complexity behaviour and enterprise growth in Ugandan SACCOs. None of these studies attempted to show whether SACCOs' financial services contribute to growth of members' enterprises.

This study, therefore; focuses on SSEs operated by members of Luweero District SACCOs. Knowledge and literature is expanded because the study was conducted in rural part of central Uganda, within local communities rather than a highly urbanised setting. Basing on the above background, the study was guided by the following questions:

- i. What is the relationship between saving services and growth of SACCO members' enterprise in Luweero District?
- ii. What is the relationship between credit services and growth of SACCO members' enterprise in Luweero District?

1.1. Theoretical framework

Firms have to gain competitive advantage for proper growth. However, if they do not have resources, they may not achieve it. Firms which achieve and maintain competitive advantage must possess valuable, rare, inimitable and non-substitutable resources (Barney, 1991; & Madhani, 2010). Resources may be physical capital, human capital or organisational capital (Wernerfelt, 1984: & Barney, 1991).

In addition, among resources which can enable organisations attain competitive advantage are financial resources (Barney, 1991: & Hall, 1992). Based on Barney, (1991) and Hall, (1992) works, this study envisaged that financial services in a manner of savings and credit taking are resources which can enable SSEs in Luweero District achieve growth. Although it appears that most of these SSEs have the same source of financial resources (savings and credit from SACCOs), ability to obtain more credit or have more savings can create competitive advantage of one SSE over others. It is upon this background that the study is guided by the Resource Based View theory (RBV).

II. Literature review

This paper provides insights into the relationship between SACCO financial services (savings and credit) and growth of enterprises of SACCO members in Luweero District of central Uganda. In this section, different variables under investigation are explored before hypotheses are formulated. The section commences with a consideration of SACCO financial services, after which growth of SACCO members' enterprises is explored. Thereafter, hypothesised relationships between SACCO financial services and growth of SACCO members' enterprises are discussed.

2.1. SACCO financial services

SACCOs ensure that members are empowered through mobilisation of savings and disbursement of credit. This is guided by the 2016 amendment to the cooperative union act of 1991. SACCO's resource mobilisation, however, is not limited to only members' contributions as savings, the Government of Uganda takes responsibility of funding SACCOs (Namatovu, 2016). In addition, Churk (2015) observes that SACCOs provide micro credits to improve members' financial position. They provide this credit at an affordable interest

rate considering the clients' status and the risk involved. SACCOs provide low amounts of credit (George, 2011) to accommodate the lowest income earners. Uniquely, the credit is as low as UGX 10,000 (\$ 2.7 USD) per month.

2.2. Growth of members' enterprises

Brockhau (2011) observes that increase in sales of SACCO members' enterprises signals growth. In addition, Covin (2010) avows that increase in sales of SACCO members' enterprises after accessing SACCO credit, implies an increase in profits which leads to growth of members' enterprises in both equity and liquidity if well utilized. Through sales maximisation, enterprises maintain a superior stand in the market.

Curran (2012) established that increase in clientele base assures an increment in revenue which results in the growth of members' enterprises, hence, large market establishment. It can also be envisaged that, a large market established calls for diversification because customers differ in preferences.

Michael (2011) argues that increase in the average transaction size by customers in which they are induced to purchase more through upselling, leads to increase in revenues for members' enterprises. Kettler (2012) argues that regular customers have to be maintained through affordable rewards.

Firm growth can further be measured by product diversification and market diversification (Yu, 2013). In addition, Mayer and Whittington (2013) argue that diversification of an enterprise's operations, widens its size. For the purpose of this study, the focus was on sales rather than any other form of enterprise growth.

2.3. Saving services and growth of SACCO members' enterprises

Varghese (2012) argues that higher marginal rates of savings lead to higher investments which predict business, economic growth and development. Cook and McKay (2015) further argue that interest on savings induces SACCO members to save as it has a positive relationship on the growth of members' enterprises. The basic operational effect is that, the higher the savings amount a member hold, the higher the member's portfolio and chances of obtaining more credit from the SACCO. In addition, Babatz (2013) argues that saving in SACCOs attracts interest which enables members to accumulate funds to make major purchases. It is clear that once SACCO members are able to accumulate funds, these can serve as future capital compositions in their businesses to enable them generate more revenue. In light of the above discussion, the following hypothesis can thus be formulated;

H₁ There is a relationship between saving services and growth of SACCO members' enterprises in Luweero District in Uganda.

2.4. Credit services and growth of SACCO members' enterprises

Duruwoju and Elegunde (2012) found out that adequate sums of credit from SACCOs significantly impact the growth of members' enterprises compared to inadequate funding. Nwosa and Oseni (2013) argue that large sums of credit positively impact on the growth of SACCO members' enterprises. On the other hand, SACCO credit is associated with interest cost. If the cost is not deterrent, it may motivate SACCO members with credit facilities to work hard or even those without credit may pursue the credit option. However, if it's deterrent, it may discourage hard work. Waithanji (2014) discloses that interest charges on SACCO funds has a positive effect on the growth of members' enterprises. Alabi (2019) established that, providing low interest credit facilities to SSEs especially start-ups, has a positive impact on such SSEs growth. Whereas credit facilities provide more financial resources to the firm, Puspaningrum (2019) established that the credit provided to businesses have a significant negative relationship with business growth in Indonesian firms. This was basically attached to slow services provided by financial institution. Therefore, being that SACCOs are providing services to their members, they should not unnecessarily delay services. Basing on the above discussion, the following hypothesis is formulated;

H₂ There is a relationship between SACCO credit services and growth of SACCO members' enterprises in Luweero District in Uganda

III. Methods

A quantitative approach was necessary for this study because of its nature and purpose. A cross sectional design was suitable because of the time factor (Churchill & Israel, 2010). The study was conducted among SACCO members' enterprises in Luweero District in Uganda because, this is a rural setting that has small business holders who can join to make saving schemes to avoid banking institutions which may not serve their particular unique needs. In addition, Luweero District is located in central Uganda where many small business are established (Uganda Investment Authority and Ernst & Young, 2011).

Simple random technique was used to select members with enterprises. The study's sample size was 200. All respondents were SACCO members from; Wekembe SACCO, Agali Awamu Co-operative Society and Kyevunze Co-operative Society who had operating enterprises and have credit facilities with SACCOs. The participating SACCOs were conveniently selected because they had the most organised records such as; SACCO membership cards and savings and credit cards.

Data was collected by way of a questionnaire with five point scale. It is also important to know that SACCO financial services were measured by savings and credit services provided while growth of SACCO members' enterprises was measured by sales. To ensure validity and reliability, respondents were drawn from SACCO members who operate business enterprises and obtained credit facilities from the SACCOs. In addition, reliability was measured by Cronbach's alpha. The research assistants were trained on data collections procedures and confidentiality.

Data was analysed by way of descriptive, Pearson correlations method and multiple regression tests were conducted. This form of analysis helps to infer and make relationships between variables. Inferential statistics were tested and recommended in Saunders (2011).

IV. Research findings

The response rate obtained was 95% and females respondents were 130 compared to the 70 males. This is an indication that women participate more in SACCO activities and at the same time form business ventures to generate income. This is consistent with the findings of Kintu and Venter (2018) who established that 51% females participate more in informal businesses either as employees or proprietors in Uganda's central region. The age groups of the respondents were between 26 and above 40 years of age. The questionnaire was reliable and consistent basing on the Cronbach's alpha of 0.717.

Table 1. Descriptive statistics for Level of growth of SACCO Members enterprises

Growth of members enterprises	N	Min	Max	Mean	Std. Dev
My enterprise has been increasing its sales over a period of time	200	1.00	5.00	4.430	.946
The number of my business customers has increased since obtaining the loan	200	2.00	5.00	4.360	.634
The business has accessed new dealers/outlets to sell its products	200	1.00	5.00	4.440	.974
The business has acquired a strong brand	200	1.00	5.00	4.520	.872
The business has managed to advertise its products	200	1.00	5.00	4.025	.953
The business has opened up new branches	200	1.00	5.00	3.635	.126
My business has widened its floor operation area	200	1.00	5.00	4.320	.800
I have registered high sales after accessing SACCO financial services	200	1.00	5.00	4.540	.686
Valid N (listwise)	200				

Source: primary data

From table 1 above, the means for the measures of growth of SACCO members' enterprises are towards the maximum limit with considerably a high standard deviation. Perhaps this is an indicator that SACCO members' enterprises were able to grow basing on the above performance indicators.

Table 2. Descriptive statistics for Level of accessibility of savings services with SACCOs

Saving Cooperative financial services	N	Min	Max	Mean	Std. Dev
The SACCO provides training about savings account	200	1.00	5.00	4.650	.599
It is easy to open up savings account in the SACCO	200	1.00	5.00	4.760	.440
I have a savings account for my business	200	1.00	5.00	4.980	.018
Savings passbooks are easily obtained	200	1.00	5.00	4.915	.001
My savings are insured	200	1.00	5.00	2.305	.891
I earn interest on savings	200	1.00	5.00	4.145	1.238
The SACCO charges low management fees on savings account	200	1.00	5.00	4.440	.799
It is easy to withdraw my savings	200	1.00	5.00	1.470	.011
The SACCO offers saving services daily (24/7 day)	200	1.00	5.00	2.255	.231
Valid N (listwise)	200				

Source: primary data

From table 2 above, the mean statics is tending towards the maximum with a moderate standard deviation. This may imply that saving services are adequately provided in Luweero District SACCOs.

Table 3. Descriptive statistics for Credit services in SACCOs of Luweero District

Credit Cooperative financial services	N	Min	Max	Mean	Std. Dev
SACCO provides regular training before accessing the loans	200	1.00	5.00	4.570	.267
I have received training on how to service a financial credit	200	1.00	5.00	4.380	.132
I have a SACCO financial credit in my business	200	1.00	5.00	4.520	.008
My financial credit is guaranteed	200	1.00	5.00	4.085	.064
The SACCO charges low interest rates on the financial credit	200	1.00	5.00	4.545	.843
SACCO financial credits have a short loan payback period	200	1.00	5.00	4.475	.789
The SACCO offers low financial credit amount to us	200	1.00	5.00	4.405	.650
The SACCO offers a stringent financial credit payback period	200	1.00	5.00	3.850	.616
SACCO financial credit cost increases the cost of capital for the business	200	1.00	5.00	3.080	0.354
Valid N (listwise)	200				

Source: primary data

The above statistics imply that SACCO members agree that they can easily obtain credit to boost the performance of their enterprises. The lesser standard deviation is a signal that members and SACCO management were critical not to take high risks while determining how to extend credit amongst members.

Table 4. Correlation matrix of SACCO financial services and growth of members' enterprises

Savings and credit cooperative (SACCOs) financial services		Saving financial services	Credit financial services	Growth of members' Enterprises
Saving financial services	Pearson Correlation	1	.376**	.645**
	Sig. (2-tailed)		.000	.000
	N	200	200	200
Credit financial services	Pearson Correlation	.376**	1	.302**
	Sig. (2-tailed)	.000		.000
	N	200	200	200

Source: primary data

Using the Pearson correlation method, the relationship between savings and growth of members' enterprises is significant with a coefficient of 0.645. Also, the relationship between credit financial services and growth of members' enterprises is significant with a coefficient of 0.302. This implies that the dependent and the independent variables are heterogeneous, therefore, they can be used for regression analysis or estimation.

Table 5 Multiple Test Results on savings and credit financial services on growth of members' enterprises

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95.0% Confidence Interval for B			
	B	Std. Error	Beta			Lower Bound	Upper Bound		
(Constant)	3.895	.449		8.668	.000	3.009	4.782		
Saving Co-op financial services	.447	.077	.491	4.785	.000	.313	.581		
Credit Co-op financial services	.137	.095	.159	1.161	.109	-.012	.155		
Dependent Variable: Growth of members enterprises									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.425 ^a	.181	.172	.36784	.181	21.714	2	197	.000

a. Predictors: (Constant), Credit SACCO financial services, Saving SACCO financial services

Source: primary data

From table 5 above, the relationship between SACCO saving services and growth of members' enterprises (sales) is positive and significant. It is explained by 49.1%, implying that, a unit increase in savings would increase enterprise sales by 49.1%. This further implies that H₁ is supported whereas H₂ which indicates a

positive insignificant relationship between credit services and sales is not supported. In addition, the R- square is 18.1% implying that the growth in sales of SACCO members' enterprises is attributed to savings and credit at 18.1% extent, the rest is contributed by other factors.

V. Discussion

The significant positive relationship between saving services and growth of SACCO members' enterprise concur with Cook and McKay (2015) who argue that savings induce motivation for hard work thus growth of SACCO members' enterprises. This implies that proprietors of the enterprises crave to maximize sales and eventually get a surplus for saving. It is upon the savings that members can qualify for more credit. On the other hand, hypothesis 2 was not supported. Implying that credit facilities provided by SACCOs to members' enterprises do not influence their growth (sales). This is perhaps explained by low amounts of the credit provided or short grace period. Whereas the study findings are consistent with Churk (2015), who established that SACCO members in Makungu ward in Tanzania failed to pay back the credit facilities, as a result of unimproved sales because majority depend on seasonal agriculture, the same findings differ from Alabi (2019) who established that credit at low interest rates propel growth of enterprises. The study's findings also deviate from Duruwoju and Elegunde (2012) and Waithanji (2014) who found out that credit facilities enhance enterprise growth. The results in this study are unique because, ideally obtaining credit increases firm liquidity, which may improve on stock and other asset level of a firm. The increase in inventory and other assets may ring good news to customers who can turn up for shopping. The results imply that in rural Uganda, SACCOs may not be providing necessary credit to spur enterprise growth especially in sales.

VI. Conclusion

The study sought to establish the influence of SACCO financial services (savings and credit facilities) on growth of SACCO members' enterprises. Hypotheses were formed, on one hand, the hypothesis which suggested that there is a relationship between savings and growth of SACCO members' enterprises was supported, on the other hand, the hypothesis which suggested that there is a relationship between credit services and growth of SACCO members' enterprises was not supported.

The SACCO members who operate enterprises are motivated by the saving guidelines to work hard, get a surplus for saving. This practice must be encouraged and even higher saving targets may be considered as the next SACCO policy.

If it is about providing short credit period to SACCO members, SACCOs should consider revising their policies. In addition, SACCOs may not stop at training members about borrowing and savings, they should provide more training on selling, right from replenishing quality materials to proper customer handling.

In addition, the results indicate that whereas members appreciate the short period it takes to receive a service from SACCOs, the fact that they cannot well utilize the credit facilities to business growth is a dilemma. Therefore, Uganda Microfinance support center has to offer more training and financial support to both SACCO management and the members.

VII. Scientific contribution

Obtaining knowledge from the SSEs' proprietors in the rural setting about savings and credit taking is very important. It is appreciated that these entrepreneurs obtain credit which can range between UGX 10,000 (\$2.7 USD) and UGX 500,000 (\$137 USD). These ranges do not even suit the scientific definition of a small business, but, such enterprise arrangements exist and the only way they can save or expand their capital is through SACCO services. Furthermore, the insignificant relationship between credit services and growth of SACCO members' enterprises is a lesson we can generate from this study. Basically, credit services have to improve liquidity composition which facilitates enterprise growth.

Whereas the RBV provides that financial resource can propel an enterprise to achieve enterprise growth, in the case of Luweero District SACCO members' enterprises, extra financing from credit may not provide a competitive advantage because of the insignificant relationship between the credit facilities and growth of SACCO members' enterprises.

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