Corporate Governance and Strategy in SACCOs in Uganda

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1. Introduction

Savings and credit cooperatives (SACCOs) are user-owned financial intermediaries with members who typically share a "common bond" based on geographic area, employer, community, or other affiliation and have equal voting rights (CGAP 2005). SACCOs are increasingly gaining worldwide fame as important actors in the microfinance industry (Armendariz and Morduch 2005). The World Council of Credit Unions (WOCCU 2007) notes that 22 Sub Saharan African countries have a total of over 11,849 credit unions with assets of over USD 3 trillion.

In Uganda the position of SACCOs has been heightened by the launch of the government "Bonna Bagaggawale" ("Prosperity for All") program intended among other interventions to address inadequate access to financial services. This program is designed to use a SACCO-per sub-county strategy to channel both agricultural and commercial loans at below market rates to borrowers. Micro Capital Monitor (2009) identifies that the government of Uganda has set aside the equivalent of USD 133.7 million for subsidized loans to individuals and small businesses through the government-owned Microfinance Support Center (MSC) to Savings and Credit Cooperative Societies (SACCOs).

Despite the recognition of SACCOs in the microfinance sector, their biggest challenge remains their governance mechanisms. Labie and Périlleux (2008) highlight the major challenges to corporate governance in SACCOs as

- Existence of volunteer board of directors,
- Limited individual influence despite the "one person, one vote" decision-making system and
- Volunteer staff.

Using due diligence tests, Kakungulu, Mugenyi and Muzigiti (2010) found these and other factors weakening the operations of SACCOs in the Lango sub-region of Northern Uganda. Chapter 2 presents an outline of literature concerning corporate governance and strategy particularly in microfinance. Chapters 3 and 4 present methodology and selected findings from Kakungulu/Mugenyi/Muzigiti (2010).

2. Literature review

The central function of corporate governance structure is the Board of Directors (BOD). The study of the institution of boards of directors is a difficult task and requires answering two intertwined questions of what determines their makeup, and what determines their actions (Adams et al., 2008). McNamara (2010) identifies that whether the organization is for profit or non-profit the BOD is charged with the duties of

- providing continuity for the organization,
- select and appointing a chief executive,
- governing the organization by broad policies and objectives,
- acquiring sufficient resources for the organization's operations,
- accounting to the public for the products and services of the organization**.**

Based on the laid down theories of corporate governance and literature four critical board roles can be identified: monitoring; service; strategy and resource provision (Daily et al 2003; Zahra and Pearce 1989).

The roots of the strategy role of the BOD can be traced from the corporate governance guidelines published by General Motors and adopted by CalPERS in 1992 in which the BOD was tasked with the responsibility for formulation of corporate strategy (Du Plessis, 2008). Ong and Lee (2007) identify four ways in which the BOD can undertake the strategic role; i) setting and actively reviewing the organization mission, ii) actively assessing and reviewing strategic proposals iii) encouraging managers with good track records in their strategic aims and iv) selection of organizational mission-oriented directors. Despite the clear articulation of the strategy role of the BOD as outlined in literature, it can be noted that many company boards are not directly involved in strategy formulation (Stiles and Taylor 2000). OECD (2009) supports this argument in reaction to the current global financial crisis that board actions of affected companies were more reactive than proactive in tackling the problems that gripped these companies.

Evidence in Africa indicates a trend of transformation of MFIs into regulated financial institutions (Slama 2008). The tendency has been that MFIs draw inspiration from the corporate world to develop governance and risk management strategies. In this scenario MFI boards take the centre stage in establishing governance policies and mechanism through their strategic decisions and policies possess the capacity to move the institutions in the direction of achieving superior performance. Leading microfinance policy literature is continuously placing more interest on the strength and level of professionalism of microfinance boards (Otero and Chu 2002; Helms 2006)**.**

Strength and professionalization of the MFI board requires well structured boards that have well defined board committees. The extent to which the committee structure is effective depends on the clarity of the committees' responsibilities. In the same vein is the committee member dedication plus the existence of well defined and clear procedures which empower the members to effectively discharge their roles (Sabana, 2006). These structures and processes cannot work independently without considering the calibre of the individual directors. Sabana (2006) bases the assessment of individual directors' performance on their

- Ability to think strategically,
- Understanding of corporate governance and level of preparedness as a directors,
- Personal attributes like particular skills and competences that are brought to the board and levels of ethical and moral judgment,
- Knowledge of the microfinance sector,
- Independence, as well as
- Awareness of stakeholders of the MFI.

For SACCOs the nature of the boards posses many challenges, specifically because of their institutional structure. A strand of literature identifies that governance remains the prime weakness SACCOs (Branch and Baker, 2000; Cornforth, 2004; Cuevas and Fischer, 2006). Labie and Périlleux (2008) highlight four critical governance issues in SACCOs;

- First is the conflict between "net borrowers (have more loans than savings) and net savers (have more savings than loans)". The SACCO board can comprise elected members who may favour either resulting into sub-optimality in governance rather than striking a balance between net savers and net borrowers which is good corporate governance practice for SACCOs.
- Secondly is the conflict between owners and managers. This is entrenched in the classical principal-agency theory and very visible in SACCOs. By their nature as SACCOs grow they need to recruit services of professional management and in most cases conflicts arise on whether they maximize their own utility or value for the owners.
- The third governance issue arises from the conflict between the members and their elected board of directors where there is a likelihood of democratically elected (one person, one vote) members remaining obliged to the individual voters hence failing in their oversight roles.
- The fourth is the conflict between (paid) employees and volunteers. At the start of the SACCO the work is mainly done by volunteers whose commitment is to see the growth of the project. Later as the SACCO grows professional staff has to be employed and problems of governance arise if volunteer board members attempt to engage in operational decision-making rather than in strategic management and decision making (Branch and Evans 1999).

3. Methodology

To enhance understanding of corporate governance in SACCOs, Kakungulu/Mugenyi/Muzigiti (2010) analyzed the experiences and perceptions of board members and management of SACCOS on key governance and strategic issues. This qualitative approach was aimed at exploring participant's words and actions in a narrative or descriptive way unlike the quantitative approach (Maykut and Morehouse, 1994). The study utilized focus group discussions to collect data from board members of SACCOs concerning governance and strategy. A total of seven focus group discussions were held in seven SACCOs visited. Each focus group involved between 4 to 8 board members with the board chair, secretary and loans committee member in attendance.

Figure 1: SACCOs visited

Name	**Location**
Nyeyo Rac	Oyam Town Council
Amolatar Elders	Amolatar Town Council
Otem Youth	Apac Town Council
Ipita Aweno	Lira Municipality
Railways Divison	Lira Municipality
Oyam South	Oyam
Agwata	Dokolo

Source: Kakungulu/Mugenyi/Muzigiti (2010).

The focus group discussion points were derived from Midnorth Private Sector Company (2010):

- To what extent is the BOD in control of its affairs resting no external superior authority?
- Does the BOD possess the right skills mix and dedication to move it forward?
- Does the SACCO possess a clear governance structure with clearly laid out and followed responsibility and accountability practices for all organs and persons?
- Is the SACCO ownership structure clear?
- Does the MFI possess the required by-laws, constitution, or such other internal governance guidance documents and how are they being followed in their management?
- Is the SACCO focused on the core business of savings and credit business?
- Is the SACCO in possession of a strategic/ business plan that supports the dual mission of the MFI?
- Does the SACCO have beneficial and strategic linkages with external partners?

Alongside the focus group discussions, record reviews, document analysis and observation was done to validate information from the focus group discussions.

4. Findings and conclusions

On the question of control of the affairs of the SACCO the focus group data gives mixed results with some SACCO boards showing full control of affairs. Evidence on decision making and implementation of key strategic issues as validated from SACCO records (board minutes) indicate board resolutions are implemented. However what is clear is that the board committees are either dysfunctional or keep no records.

Another observation made is the increasing political interference in the affairs of the SACCOs characterized by increasing patronage from the political elite hence distorting the ownership and governance principles.

The ability of the board in terms of the skills mix and commitment to move the SACCO forward attracts a lot of attention. Most of the boards are manned by individuals that lack the appropriate skills to govern a financial institution ranging from peasant farmers to primary school teachers. This denies the SACCO establishment the critical board roles of resource provision and monitoring (Zahra and Pearce 1989; Ong and Lee 2007).

On the question of possession of and compliance to by-laws, constitution and internal governance guidelines results indicate that most SACCOs are adhering to guidelines mostly set by apex bodies like Uganda Cooperative Alliance (UCA) and Uganda Credit and Savings Cooperative Union (UCSCU). However the ability of the board to interpret and operationalize these guidelines as well as debate and pass by-laws for more efficient operations is limited.

Focus group discussions revealed dominance of few individuals in the affairs of the board. Opinions of a particular character on the board not necessarily the chairperson dominate the grounds for decisions making indicating the power imbalance in decision making in the boards.

On the SACCO board’s strategic function both documentary evidence and focus group discussions indicate frailty. If business plans exist they are kept in cupboards and never followed and the board has no capacity to interpret plans into operational activities. The reason as discovered during discussions and evidence from existing documents may be because most of the plans are made by consultants for the SACCOs when they are applying for (wholesale) credit. One case in point is where a SACCO’s business plan indicated anticipated growth to 3,000 members by the year 2011 and currently the numbers are at 280 members. When probed about the discrepancy the chairperson of the board did not have an explanation. This agrees with Stiles and Taylor (2000) argument that many institutional boards are not directly involved in strategy formulation.

Few SACCOs are involved in beneficial partnerships and linkages apart from the links to the apex bodies. The SACCO boards therefore fail in their role of resource provision where the board is expected to provide experience and linkages to important stakeholders (Ong and Lee, 2007).

In conclusion it can be noted that SACCO boards in the Langi region still have a long way to go in guaranteeing effective governance. They pronounce according findings for the Rwenzori region, see e. g. Aheebwa and Brueggen (2010, in this volume) and Kakungulu, Muzigiti and Schmidt (2010).[1]

Faced with growth and the increasing government interest the need for more efficient corporate governance mechanisms cannot be overemphasized. The need for boards to perform their strategic role to transform the SACCOs into profit making financial service providers and reduce risk exposure will determine the next step in the growth of this segment of the microfinance sector.

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[1] Kakungulu/Muzigiti/Schmidt (2010) study a sample of 21 MFIs out of which 14 cooperatives in the districts of Kabarole, Kasese, Kyenjojo and Bundibudgyo; they used only quantitative observation but no focus group discussions.

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