Rukiga SACCO customer being served in South Western Uganda.
Photo credit: David Wakyiku/Mercy Corps

DIGITIZATION OF SACCOS IN UGANDA – DRIVERS AND IMPACT STUDY

ASIGMA

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ACKNOWLEDGEMENTS

About Mercy Corps
Mercy Corps is a leading global organization powered by the belief that a better world is possible. In disaster, in hardship, in more than 40 countries around the world, we partner to put bold solutions into action — helping people triumph over adversity and build stronger communities from within. Now, and for the future.

About Agrifin Mobile
AgriFin Mobile Mercy Corps' AgriFin Mobile program works with partners to build sustainable models, where farm and crop management tools and financial services are "bundled" in affordable, unified platforms and using mobile phone channels to promote mass uptake commercially.

About Asigma Advisory
Asigma Advisory is a management and financial advisory firm with a niche in using data analytics to offer business strategy insights. Data is a core pillar of work at Asigma. Asigma develops locally adaptable business strategies for organisations by leveraging their operational experience, and expertise in data analytics and business intelligence integration.

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ACRONYMS

AGMIS	Agricultural Market Information System
FARMIS	Farmer Record Management Information System
FOs	Farmer Organisations
MIS	Management Information Systems
MNO	Mobile Network Operator
MOBIS	Mobile Banking and Information System
ROSCA	Rotating Savings and Credit Association
SACCO	Savings and Credit Cooperative Society
UMRA	Uganda Micro Finance Regulatory Authority
VSLAs	Village Savings and Loan Associations
UCSCU	Uganda Cooperative Saving and Credit Union
UNCDF	United Nations Capital Development Fund
USAID	United States Agency for International Development

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EXECUTIVE SUMMARY

The sense of social cohesion is very strong in Uganda with up to 75%[1] of Ugandans leaning on groups as a financial coping mechanism. Such groups predominantly include SACCOs and VSLAs. Despite this, many of these groups do not have digital Management Information Systems (MIS) in place and consequently suffer from a lack of oversight, high operating costs, high risk of fraud, multi-borrowing, process inefficiencies, and missed collections.

With digitization comes several benefits:

- Increase in SACCOs' transparency, accountability and improved reporting, which places the SACCOs in a better position to receive financing from third parties.
- Increased productivity and operational efficiency through reduced costs, and satisfied customers.
- If done properly, SACCOs that digitize manage to drive down risk exposure while increasing their profit margin. As a result, they can stabilize their operations and gain competitive advantage by offering better and faster service to their members.

With digitization comes greater productivity and efficiency in managing operations. Following the digitization process, the typical workday can be reduced by as much two (2) to four (4) hours. The main driver for this is the fact that tasks such as verifying/making/doing reconciliations (or reconciling accounts), generating reports and processing transactions can be done with a single button click. With increased efficiency comes the ability to quickly comply with regulations. Moving forward, digitization will play a greater role in compliance. This is because under the Tier 4 Microfinance and Money Lenders Act 2016, Tier 4 institutions will be required to send monthly reports to Uganda Micro Finance Regulatory Authority (UMRA).

Digitization equally has a positive impact on profitability because SACCOs that digitize observe significant reduction in the cost-to-income ratio; increment in revenues and net profit margin. These increments are beyond the organic growth rate that would have happened due to natural growth of the SACCO.

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[1] http://fsduganda.or.ug/finscope-2018-survey-report/

For SACCOs to be sustainable, members ought to be obtaining value. From the assessments made as well as previous studies done on this subject, digitization increases their Return on Equity and Return on Assets. Most importantly, integration with mobile money is one of the biggest drivers of sustainability as members can easily access services anywhere and anytime. When a member relocates from the primary SACCO location, they do not have to worry about an interruption in the access to SACCO products.

Closely allied with the subject of members obtaining value, digitization makes it more convenient for members to receive services. Convenience has been brought about due to mobile applications that allow SACCO staff to serve members from their business premises.

The most important lesson learnt was the aspect of developing a viable business case that not only works but remains sustainable.

- At business inception, when the software provider is focusing on onboarding SACCOs and VSLAs, they incur a lot of costs and receive no returns on this earlier investment. Some of the providers who have been able to successfully go through this stage in a few years have had to rely on development agency support or raise external capital. While others rely on self-funding, the onboarding process is considerably long and can take as long as ten (10) years.
- Beyond the initial development phase, it is hard for these providers to have returns on investment due to high transaction costs when aggregators are used. Some providers, in attempt to provide cheaper solutions to bottom-of-the-pyramid customers, have had to partner directly with Mobile Network Operators (MNOs). Even then, fees charged by MNOs are still high. Entering partnership agreements with MNOs is a long and tedious process and can take nothing less than six (6) months for MTN Uganda while Airtel (U) has suspended all integrations because of its internal system updates.

Another key lesson learnt is that for digitization to be sustainable, there is need for providers to offer all rounded support. Left on their own, some SACCOs and VSLAs may not be able to keep the system running. This is because digitization comes with the need to stay connected and upgrade as the needs of the SACCO evolves. It is valid as it would not make sense for institutions to continue using solutions that are behind their dynamic needs.

Another key lesson learnt is that financial returns to providers are more long term as opposed to short term. For smaller SACCOs and VSLAs that are unable to pay for solutions, providers find themselves customizing the solution to grow with the institution while charging a minimal fee. However, for providers to be in it for the long haul, there is need for subsidization of the software development process and training programmes. Left on their own, it is hard and costly for providers to keep giving support where earning prospects are limited.

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Software providers that have managed to succeed in this environment are those that have managed to raise capital so as to onboard SACCOs using a cash-burning market penetrative strategy elaborated herein.

Another insightful learning is that micro lending is an emerging trend since most bottom-of-the-pyramid customers are unable to pay for digital solutions. There is a belief that lending empowers members of SACCOs and VSLAs causing them to participate in income generating activities that in turn benefit SACCOs and VSLAs in terms of increased savings and loans being taken out, which consequently helps them pay for digitization services.

INTRODUCTION

BACKGROUND AND OBJECTIVES

Mercy Corps through its Agri-Fin Mobile Program partnered with Ensibuuko (U) Ltd to improve efficiency in the operation of Savings and Credit Cooperatives (SACCOs) and increase access to financial services and information by smallholder farmers in Uganda.

Since 2013, Mercy Corps and Ensibuuko have partnered to develop and market Ensibuuko Mobile Banking and Information System (MOBIS) to SACCOs. One of the first users of this system was Rukiga SACCO Ltd in South Western Uganda.

This impact and learnings report goes beyond the impact that digitization has had on Rukiga SACCO. In addition to Rukiga SACCO, two (2) other SACCOs are used as case studies. The three (3) case studies will herein be referred to as *assessed SACCOs*.

Some sections of the report include impact and learnings from the digitization of VSLAs. These specific insights were derived from

providers playing a big role in digitizing VSLAs.

Further, besides Ensibuuko, there are other software providers playing a big role in digitization of SACCOs and VSLAs. In developing this report, specific findings from the assessed SACCOs were thus validated with providers to find out if findings are cross cutting.

The overall objectives are as below:

1. To capture the impact of digitization for the adoption.
2. To document learnings from the digitization process.

This document can be used by different stakeholders with interest in the digitization of SACCOs and to some extent VSLAs. Also, since Farmer Organisations (FOs) and other form of cooperatives have SACCOS, this document can equally be used by stakeholders interested in digitization of such institutions.

APPROACH

01	02
Assessment of three select SACCOs	**Validation with software providers that have digitized 100s of SACCOs**
• Internal issues. • Impact of digitization. • Learnings from the digitization process.	• Validation of specific findings from assessed SACCOs to ascertain whether they can be generalized. • Identification of digitization challenges. • Identification of digitization opportunities. • Identification of existing business models.

The approach taken to understand digitization impact and leaning was twofold:

1. **Identification of SACCOs to be used as case studies**

SACCOs at different stages of growth were selected for the assessment. These were:

- Nakasero Market Traders SACCO – Young stage and partially digitized.
- Kigagate Kamwe Kamwe Community SACCO – Mid stage and fully digitized.
- Rukiga SACCO – Well established with a Loan portfolio of UGX 6 billion and fully digitized.

2. **Validation of findings from assessed SACCOs with software providers**

The main purpose of this phase was to find out if findings from the assessed SACCOs are consistent across SACCOs that software providers have digitized. In order to get representative information, providers who have done a lot of work around digitization of SACCOs and VSLAs were selected. As such, key informant interviews were held with the following providers:

- **Future Link Technologies** ("Future Link") – Digitized about 200 SACCOs and VSLAs.
- **Ensibuuko** – Digitized about 46 SACCOs and VSLAs.
- **awamo** – Digitized SACCOs and VSLAs with a combined 70,000 members.
- **True African** – Digitizing mostly VSLAs across the country.

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FACTORS CAUSING THE INCREASING POPULARITY OF SACCOS & VSLAs

Role Played by SACCOs and VSLAs in Communities

According to the 2018 FinScope Industry Survey[2], there is a very strong sense of closeness and trust among communities in Uganda. 73% of the surveyed population asserted that they tend to form groups as a means of leaning on the community for support.

Of the Ugandan adults who save, 43% save in a VSLA, 5% in a SACCO and 9% in a ROSCA. According to the same survey, 42% of the population depend on borrowing as a main financial coping mechanism.

For residents of rural areas, who are an equivalent of about 75% of the population, and the majority of the population operating in the informal sector, the different types of saving and lending groups present an avenue for borrowing since these communities are mostly cut off from the formal banking sector due to conditions like collateral as well as very high lending rates.

Of the 46% of Ugandans who borrow from one or a combination of lenders, 46% borrow a from VSLA and 3% from a SACCO.

Government Initiatives

Since SACCOs and VSLAs play an important role in socio-economic development through creation of jobs, improvement of member income, enhancement of agricultural production and productivity, the promotion of value addition and social stability, their promotion is an interest for Government and development agencies.

The Government of Uganda has also largely supported this movement through policy, regulation, and financing. The Government passed a comprehensive National Cooperative Policy in 2011, as well as a Cooperative Societies Act (Amendment Bill 2015), all of which created an enabling environment for cooperatives and SACCOs to thrive.

Equally, the Government has put in place a special fund at the Micro Finance Support Centre, out of which SACCOs and Cooperatives can access loans at affordable rates.

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[2] http://fsduganda.or.ug/wp-content/uploads/2018/06/FinScope-Survey-Uganda-2018-Topline-Findings-Report.pdf

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IMPACT OF DIGITIZATION

IMPACT OF DIGITIZATION ON EFFICIENCY

Better Oversight and Operational Efficiency

Digitization makes it easier for management to have oversight on what is happening in real time. This is because reports can be generated in real time and causes of any inconsistencies easily tracked.

For SACCOs operating through a network of branches, there is more visibility as the General Manager can view accounts of the entire branch network in real time.

For the case of Rukiga SACCO, continuing to expand and grow would have been very hard without a proper MIS. This is because SACCOs with operations in more than one branch experience delayed information exchange between branches if they do not use a cloud-based software solution.

Future Link validated this fact that inter branch system linkages plays a significant role in improving the efficient running of a SACCOs with a branch network.

> Before digitization, it was very hard to monitor what was going on at each branch in real time. Without the MIS, it would have been very hard to continue expanding. ~ *General Manager, Rukiga SACCO*

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Managing Portfolio at Risk

29% to 40% increase in loan repayment rates

All the assessed SACCOs found it hard to track loan repayments before digitization.

The Loan Officers had to go back to the manual loan book on a frequent basis to identify repayments that were due. This left room for recollections to pass the due date as the tracking was not done on a daily basis.

This finding was validated from the interaction with Future Link where a case was quoted that the loan repayment rate for one of their SACCO's short-term loan product had increased by up to 41% and that of the longer-term loans had increased by 29%. This upward trend was observed to be similar among other SACCOs that they have digitized.

Additionally, the ability of SACCOs to recover loans has equally improved liquidity positions and made it possible to give out more loans.

Significant Reduction in Cost of Stationery

70% to 80% reduction

There are some SACCOs who, before digitization, had existing computers and relied on spreadsheets. For other SACCOs, most especially the smaller ones, everything was manual, and paper based before digitization.

As such, the SACCOs that were relying on a purely paper-based system noticed significant reduction in the cost of stationery. This is because everything was done manually. For the case of Nakasero Market Traders SACCO, the decision to digitize caused the cost of stationery to fall by 77.8%.

> **"** Before we digitized, there were piles upon piles of papers and files stacked on top of each other. With the place not being cluttered with papers, there is more visibility and ease of tracking of what exactly is going on. The main stationery item we now spend on are receipt books since members still like that physical confirmation of a transaction *~ Manager, Nakasero Market Traders SACCO.* **"**

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IMPACT OF DIGITIZATION ON PRODUCTIVITY

Reduction in Time Spent Performing Tasks

1. Workday

2 to 4 hr reduction

Digitization has played a big role in reducing the overall workload to be done on a daily basis. A similar observation with all the assessed SACCOs is that daily tasks can be completed in about 10 hours as opposed to the previous 12 to 14 hours.

This observation was validated by Ensibuuko as well as Future Link in the 200+ SACCOs that they have digitized.

For the case of Nakasero Market Traders SACCO, prior to digitization, staff used to leave work at 10:00 pm as all reconciliations had to be manually done. Following the digitization process, staff are now able to leave at 6:00 pm.

> " For most of the SACCOs that we have digitized, it can be said that the work day has reduced by about 2 to 4 hours. *~ CEO, Ensibuuko* "

2. Processing Member Deposits

70% to 90% reduction

The average time it takes a member in the assessed SACCOs to make a deposit has reduced by about 70% to 90%.

In the case of Rukiga SACCO, this is about 90%. Prior to digitization, the process was initiated by the member filling in a voucher, the teller verifying cash and the deposit being registered in a till book register. Throughout the process, calculators were used to make additions and subtractions.

Following the entry made in the till book, the book was sent over to the back office for a posting to be made in a passbook and ledger. The entire process took a total of ten (10) minutes for just a single customer deposit. Since digitization, the process can be performed in one (1) minute, meaning more customers can be served and more transactions registered in a day.

The data provided by assessed SACCOs was validated by Ensibuuko and found to be consistent across the SACCOs they have digitized.

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3. Time to Process Loan Repayments

60% to 80% reduction

There are three (3) processes involved in processing loan repayments: (i) deducting interest, (ii) deducting principle and (iii) deducting penalties. In a manual system, it takes about nine (9) minutes per loan repayment.

For the case of Rukiga SACCO, the time it takes to process loan repayments has reduced by 60% to 80%.

The information provided by Rukiga SACCO was validated by Ensibuuko and found to be consistent with other SACCOs that they have digitized.

Future Link also shared the view that overall, the time taken to perform tasks related to processing loan repayments significantly reduces following the digitization process.

4. Time to Generate Reports and Complete the Auditing Process

40% to 50% reduction

According to the law governing SACCOs in Uganda, an AGM is supposed to be held within 90 days after the year end. One of the things presented to members at the AGM is the audited financials. For an AGM to be held, it is therefore important that audited books of accounts be ready.

For a SACCO with a financial year ending in December, the AGM is supposed to be held before the end of March. For the assessed SACCOs, the AGM was delayed by about one (1) to two (2) months because of delays in the report generation process.

In the case of Rukiga SACCO, the AGM was held in April before the SACCO was fully digitized. Following the digitization process, the SACCO was able to conduct an AGM in February, a time reduction of about two (2) months. This was possible because the MIS allows for the trial balance to simply be extracted and presented to auditors. Prior to digitization, it was very hard to prepare trial balances and present to auditors because all records were manually kept. It was specifically hard to track imbalances in the trial balance.

> Before we digitized, it took a total of 15 days for Loan Officers to prepare portfolio reports. This time reduced to 5 days with most of the work that is done during this time being verification as all reports are instantly generated with a single click. *~ General Manager, Rukiga SACCO.*

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IMPACT OF DIGITIZATION ON PROFITABILITY

Whereas specific statements are made from the assessment of the three SACCOs, these have been generalised to other SACCOs upon validation from SACCO software providers.

In measuring the impact of digitization on profitability, the following were considered: Changes in revenues, net profit margin and cost-to-income ratio in the first year after digitization.

Increase in Revenues

4% YoY increase beyond organic growth rate

With digitization comes an increase in the earning potential of SACCOs. Revenues increase because as membership grows, so does the loan portfolio. An increase in the loan portfolio equally translates into an increase in the interest income. In the case of Rukiga SACCO, the interest income was growing by about 20% annually before digitization. Following the digitization process, the growth rate increased to 24%, an increase of 4% within the first year of digitization. Also, the cost to income ratio reduced by 4% following digitization.

Findings from Rukiga SACCO were validated by both Ensibuuko and Future Link that shared the view that following the digitization process, the loan book has the potential to spike.

Increase in the Number of Members

One of the drivers of revenues is the number of members, the more accounts that are opened, loans taken out, etc., the more income earned by a SACCO.

In the case of Rukiga SACCO, prior to digitization, the number of members was increasing by about 500 a year. Following the digitization process and further expansion in the branch network, the number of customers increased by 2,000 in 2017 – an increase by a factor of four (4).

This trend is very much similar to that of a SACCO managed by Future Link where, following digitization, the number of members increased from 14,000 to 23,000 in a period of one year, whereas it had taken the SACCO nine (9) years to reach 14,000 members.

The number of members significantly grew after digitization because staff are able to go out to the field to do rigorous recruitment.

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IMPACT OF DIGITIZATION ON SUSTAINABILITY

Increase in Return on Assets (ROA) and Return on Equity (ROE)

↑49%

Increase in Return on Equity (ROE)

↑61%

Increase in Return on Assets (ROA)

These two metrics are used when measuring impact on sustainability. In the case of Rukiga SACCO, prior to digitization in 2016, the ROA for Rukiga was 2.8%. After the digitization process in 2017, it increased by 61% to 4.5%. Meanwhile, the ROE before digitization was 9.2%. After the digitization process in 2017, it increased by 49% to 13.7%.

The general consensus by providers is that there is a positive change in these ratios for most SACCOs that digitize, **conditional on strong management and governance structures**.

Continuity

With digitization comes innovations such as the ability to integrate with platforms like mobile money.

> With integration of SACCO products into mobile money through MSACCO, members can continue to be part of the SACCO even when they travel or move to a different location. ~ CEO, Future Link Technologies

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IMPACT OF DIGITIZATION ON CLIENT PERCEPTION

Trust

Digitization has played a big role in increasing the level of trust that members have in SACCOs.

In the case of Nakasero Market Traders SACCO, prior to digitization, the SACCO had heaps of books and files piled on top of each other. With a completely manual system, it was hard for members to trust that the money they were depositing with the SACCO was safe. Following digitization, this attitude completely changed with members of other small saving groups in the area, that have not digitized, deciding to join the SACCO.

> Our members take great pride in the fact that their pictures and other details are entered in a computer. There is an increased level of trust because machines are present. *~ General Manager, Rukiga SACCO.*

Convenience and Rounded Customer Experience

Integration with mobile money

For the 200 SACCOs that are under the umbrella of Future Link, there has been a significant enhancement in the quality of services offered. This has been made possible through the MSACCO product feature that was pioneered by Future Link and is now integrated into mobile money platforms of Telecom Companies: MTN and Airtel.

Through MSACCO, members can make deposits, withdraw money, get mini-statements, check balances, receive SMS alerts and repay loans directly from their mobile money accounts. Transaction charges are usually negotiated between the MNO and software provider.

Transacting from any branch

In the case of Rukiga SACCO, a branch network of seven (7) means that a member can transact in any branch. Without an MIS in place, it would have been hard for the SACCO to continue expanding and growing its branch network.

For the Nakasero market traders SACCO, digitization has made it possible for deposits to be collected from twice as many members as before.

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Insight on how digitization has made the deposit making process of Nakasero Market Traders SACCO more convenient for members

Members of this SACCO are predominantly traders who are very busy and unwilling to leave their points of sale to make deposits at the SACCO offices. As such, SACCO Field Officers walk from stall to stall to collect member savings. Management opinion is that this strategy is necessary because, left on their own, members would not be willing to bring deposits to the SACCO premises.

Prior to digitization, only two (2) Field Officers were being used because the process of manually recording and reconciling deposits collected from the field required three (3) employees to be office-based. Similarly, several potential SACCO members were excluded from conducting business with the SACCO as it was inconvenient for them to spend time out of their business stalls traveling to the SACCO premises

Following the digitization process, more Field Officers can go out to the field because it is easier to enter data into the system. This has been made possible because the software provider's Mobile Office application enables SACCO staff to register traders at their market stalls and offer them all SACCO services on-site.

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SUMMARY OF KEY QUANTITATIVE IMPACTS OF DIGITIZATION

PRODUCTIVITY

2 to 4 hours
Reduction in the workday

60% to 80%
Reduction in the time it takes to process loan repayments

70% to 90%
Reduction in the time it takes to complete the reporting and auditing process

40% to 50%
Reduction in the time it takes members to make a deposit

EFFICIENCY & PROFITABILITY

4%
Marginal increase in YoY revenues above pre-digitization growth rate

11%
Increase in net profit margin

4%
Reduction in cost-to-income ratio. Greater than internal target.

70% to 80%
Reduction in cost of stationery

SUSTAINABILITY

49%
Increase in Return on Equity (ROE)

61%
Increase in Return on Assets (ROA)

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LEARNINGS

KEY DIGITIZATION CONSTRAINTS

Infrastructure Challenges

Besides the software infrastructure developed by software providers, there are a lot of hardware requirements that are necessary to keep the software system running. Most SACCOs and VSLAs have management who may not understand exactly what is required to keep the system running before making the decision to digitize.

One of the challenges faced by digitized SACCOs is access to reliable internet. This challenge can be attributed to the fact that internet connectivity is not evenly distributed across the country, with the most affected places being rural areas. Power outages in some areas also affects system usage. This is a major challenge because a power outage means everything has to come to a standstill.

Mind-Set Change at the Onboarding Stage

Some SACCOs resist the digitization process because they are not computer literate. There is a general fear of not being able to use digital solutions. Computer illiterate decision makers often fear they might get overwhelmed with technology. They fear losing control or losing face.

It takes effort on the side of the software providers to familiarize SACCOs.

> In most cases, SACCO staff take a while to realize usage of the system will become easier and faster with practice. awamo has experienced cases where individual staff members returned to pen & paper processes after training completion stating they can operate faster that way. *~ COO, Managing Director, awamo*

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Inability to Follow Guidelines and Governance Issues

SACCOs are characterised by governance challenges because there is lack of a clear separation between Board and Management. Most often, the Board is Management. This presents a problem because the Management is supposed to be accountable to the Board in basic corporate governance.

Without the presence of a clear separation between the two, it is hard to ensure accountability in the decision-making process. Additionally, Board members usually have other job commitments beyond the SACCO or VSLA. This results in slow and complicated decision-making processes.

Where there is a management structure in place, managers are either not empowered to make even the smallest of decisions or do not feel comfortable executing their authority to make decisions.

Most managers feel more comfortable if decisions are forwarded to the Board or presented to members at the AGM. The resultant factor is a slug in the decision-making process. This means that the decision to digitize is most often not seen as an urgent need.

> In selected cases, governance issues among SACCOs have resulted in resistance to introduce a digital solution which provides for better transparency and control. *~ COO, Managing Director, awamo*

OPPORTUNITIES BEING EXPLORED TO OVERCOME CONSTRAINTS

Constraint	Opportunities Snapshot
Infrastructure Challenges	• Low bandwidth software • Network boosters • Real time support • Hosting and backup services • Maintenance services
Mind-set change coupled with inability to follow guidelines and governance issues	• Training and capacity building • Creating a sense of ownership through involving management in developing IT policies

Infrastructure Solutions

To deal with connectivity and other infrastructure issues, some providers such as Future Link and Ensibuuko take the responsibility of managing the entire hardware infrastructure.

Similarly, MNOs are continuing to expand their connectivity to rural areas. As stated by Airtel Head of Sales and Marketing, as of April 2018, all its network sites are 3G enabled.

> We take up the entire responsibility, in areas where there is no network, we install network boosters at our own cost. It's about going the extra mile and maintaining the entire Infrastructure mostly for rural SACCOs. ~ CEO, Future Link Technologies

Below are additional initiatives being taken by providers to solve infrastructure challenges.

- awamo has designed their software to operate on low bandwidth.
- Future Link also provides real time support to SACCOs. There are dashboards at the provider's offices that monitor what is happening at client locations in real time. For example, if it is noticed that a network router is off, contact will be made with the SACCO to find out why this is the case.
- To ensure sustainability, Future Link charges only UGX 70,000 per month to connect a branch, this is in contrast to the about UGX 600,000 charged by MNOs.
- Some providers do cloud hosting on behalf of SACCOs and VSLAs.
- Some providers, notably Ensibuuko and Future Link, provide backup and maintenance at no extra cost.

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Successful Onboarding

There is need to make SACCOs have ownership for the entire process. An approach used by Future Link, and widely successful, is to sit down with management to develop IT policies. Without a clear policy and framework guiding how things should run, SACCOs have no clear guidelines on how to run the system.

Due to the high costs involved at this stage, there is need for government and development agencies to provide support to providers who are working towards expanding operations. However, successful providers have been able to cope by raising capital.

> It doesn't make financial sense to roll out because operations are very costly. There is need for partnerships with development agencies and Government bodies who can absorb the cost of onboarding. ~ CEO, True African

DEVELOPING A VIABLE DIGITIZATION BUSINESS CASE

Following the constraints to digitization as well as the opportunities discussed in the previous sections, there is need for stakeholders such as SACCOs and providers to farther digitization in a manner that makes business sense. The following section is a high-level assessment of what has to be in place in terms of pricing and requirements for the business case to work.

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Institutional Level Requirements

For SACCOs to undergo successful digitization, they are required to provide the following resources to facilitate system usage. These include:

- The human capital to operate the system, these could include the Accountant and other SACCO employees.
- The hardware such as desktop or laptop computers.
- Data if the system is cloud based.
- Willingness to participate in the training to familiarise with how to operate the system.
- Use of the system on an ongoing basis

Software Provider Level Requirements

1. Continuous Technical Support

It is likely that, at any point in time, software systems will have bugs and need upgrades depending on the evolving needs of the SACCO.
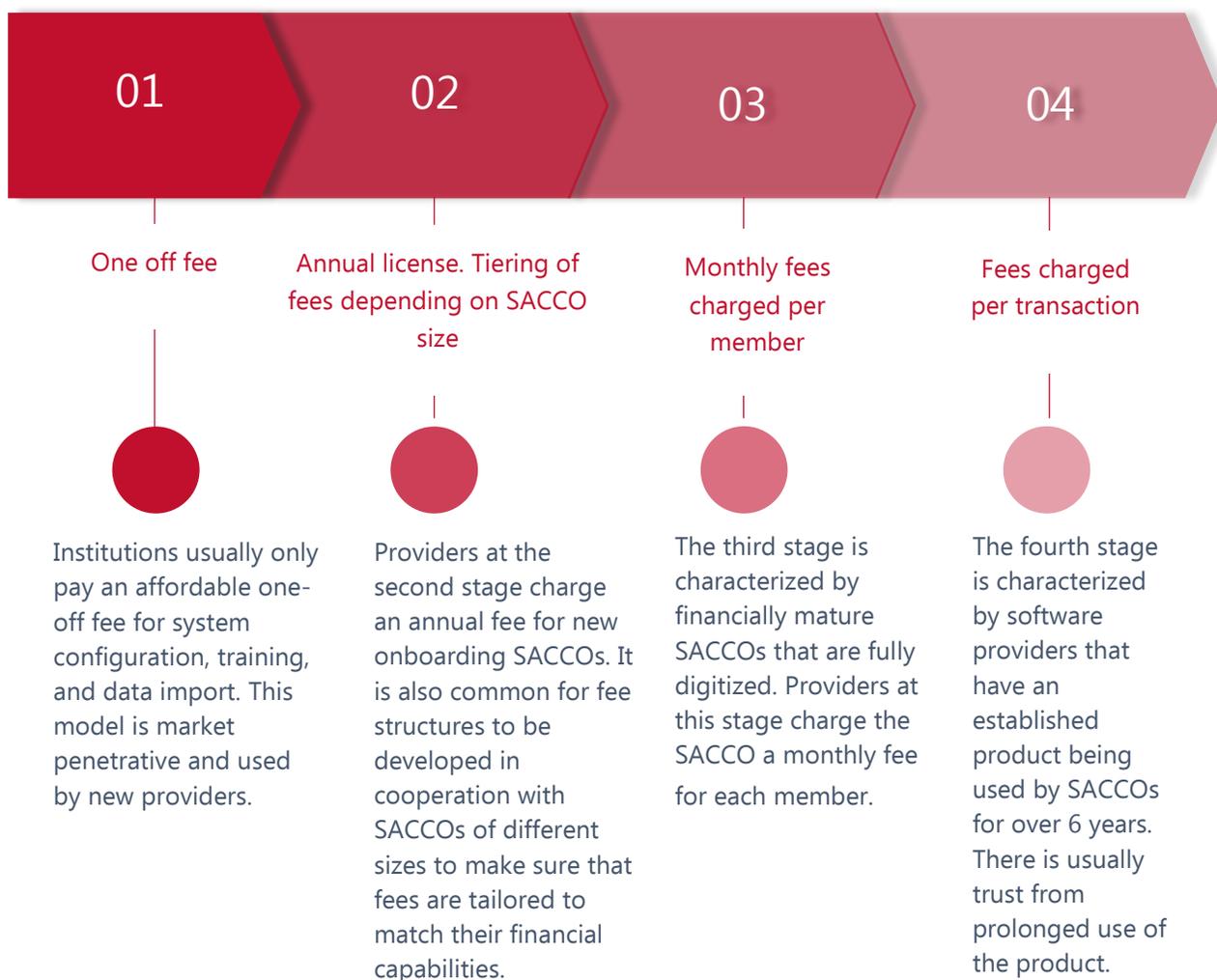
For the software system to remain relevant, it is important that software providers provide real time support as well as constantly upgrade their system offering. For example, due to changes in the regulatory environment, system providers may have to realign their report templates to the format prescribed by UMRA.

Furthermore, it is important that software providers provide end-to-end support instead of simply providing the software. This is important because majority of users do not have knowledge on where to get the most suitable hardware as well as maintenance requirements that come with using the hardware.

A case in point is the Nakasero Market Traders SACCO that bought substandard desktop machines because they did not know what to look out for when procuring machines. Worse still, interview sessions with Management brought to light the fact that machines had slowed down because management was not aware that they had to undergo through routine maintenance.

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2. Pricing Strategy

Unlike commercial banks, SACCOs have limited financial resources. As such, they would not be able to afford solutions that are above their means. From the interactions with software providers, different pricing models are used at different software provider market-entry stages that are as summarised below. These stages are consistent with the SACCO digitization and financial maturity.

01	02	03	04
One off fee	Annual license. Tiering of fees depending on SACCO size	Monthly fees charged per member	Fees charged per transaction

Institutions usually only pay an affordable one-off fee for system configuration, training, and data import. This model is market penetrative and used by new providers.

Providers at the second stage charge an annual fee for new onboarding SACCOs. It is also common for fee structures to be developed in cooperation with SACCOs of different sizes to make sure that fees are tailored to match their financial capabilities.

The third stage is characterized by financially mature SACCOs that are fully digitized. Providers at this stage charge the SACCO a monthly fee for each member.

The fourth stage is characterized by software providers that have an established product being used by SACCOs for over 6 years. There is usually trust from prolonged use of the product.

3. Training and Capacity Building

Without the right training and mentorship programme, there cannot be a successful digitization story.

Some providers such as awamo have amended their training program to include guided data capturing to enable new system users to easily adapt to the system.

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Ensibuuko offers a full fellowship programme to support staff with the transition programme to digitization. During this programme, there is an in-house full-time support from the Ensibuuko team.

> To ensure continuity, Ensibuuko is currently training graduates who will work full time at the SACCOs and provide real-time system support. ~ CEO, Ensibuuko

Government and Development Agency Level Interventions

1. Cost Subsidizations

As earlier emphasized, most SACCOs and VSLAs are unwilling to digitize because they cannot afford to do so. The market traders SACCO that was assessed was open to digitization from a very early stage but could not do so because of the inability to find an affordable solution.

For digitization to work, users should be able to afford the solution. However, there is a dilemma as it does not make financial sense to providers to offer software solutions at a rate that can be afforded by bottom-of-the-pyramid users.

There is thus need for the Government or development agencies to support by incurring some of the early stage costs such as software development and training facilitations.

> Left on their own, VSLAs cannot afford the cost of digitization.   ~ CEO, True African

2. Trainings and Continued Capacity Building

In order to ensure adoption and sustainability, there is need to offer, or finance training programmes. Uganda Cooperative Saving and Credit Union (UCSCU) is already taking a step in the right direction by offering training to cooperatives.

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3. Ongoing Initiatives

The Minister of Finance, in his 2018/2019 Budget Speech, emphasised that the Government would be able to achieve the status of Uganda being a commercial agricultural country by, among others, organizing farmers into Producer Cooperatives or other groups that are linked to nucleus commercial farmers. A year before that, the Speaker of the Ugandan Parliament had emphasized the need for the Government to revive cooperatives.

Below is a summary of initiatives undertaken by the Government, aggregators, anchor SMEs and development agencies to support digitization of SACCOs and Cooperatives:

Ongoing Initiatives Supporting Digitization of SACCOs and Cooperatives
• Mercy Corps, through its Agrifin programme partnered with Ensibuuko to develop and market Ensibuuko Mobile Banking and Information System (MOBIS) to SACCOs. • United Nations Capital Development Fund (UNCDF) is currently working with Laboremus Ltd. to digitize FOs through the development of an app that that will provide dairy cooperatives with the right tool to digitize their transaction records. • USAID Feed the Future is currently funding a project to digitize the sunflower and cotton value chains in order to increase production, household income and financial inclusion. The software system, designed by Mobipay, will serve to benefit a network of 38 cooperatives with about 30,000 farmers in the Greater North Region. • FIT Uganda has designed platforms such as FARMIS, AMITSA and AGMIS that provide regional market information and farm records management for cooperatives • Pegasus supported the digitization of four (4) dairy cooperatives in Western Uganda: Sambabule Dairy and Livestock cooperative, Nabistanga Dairy Cooperative, Bukuga Dairy Cooperative and Kyakabunga Dairy Cooperative. • Akorion has designed platforms such as EzyAgric that geo maps gardens, orders for agro-services, keep records and provide reliable access to market information for cooperatives and their network of farmers. • Several AgriFin projects have been recently launched to leverage the efficiencies of the private sector. Instead of directly working with cooperatives, anchor SMEs are selected to host the Agrifin platforms that organize the contingent FOs. These anchors include Agroways (Eastern Uganda), Ngetta Tropical Holdings (Northern Uganda), Kyagulanyi Coffee Ltd (Central Uganda), McLeaod Russel (Western Uganda).

WHY ACCELERATING DIGITAL INTEGRATION IS A NECESSITY

Changing Regulatory Environment

The Tier IV Microfinance Institutions and Money lenders Act, 2016 provides for an authority to be set up to govern Tier IV microfinance institutions. The Uganda Microfinance Regulatory Authority was thus set up and commenced operations in late 2017.

The new regulatory framework will drive the need for digital information processing to live up to expected transparency and reporting standards, i.e. SACCOs and other tier 4 institutions will be required to submit periodic reports to the authority.

Digitization presents a solution for this because statements can be generated instantly and submitted in a timely manner.

According to interactions with Ensibuuko, software systems could be customised to generate and automatically send reports at pre-scheduled times.

Improvement in Operational Efficiency

There are several advantages that come with digitization. From experience of assessed SACCOs and interactions with software providers, below are insights on how digitization increases operational efficiency.

- Creation of an enabling framework for proper financial records to be kept.
- Enabling consistent tracking of financial performance.
- Enhancing timely collections and management of the portfolio at risk.
- Monitoring social impact.
- Ensuring regular and standardized reporting (internally and for external stakeholders such as regulators or refinancing partners).
- Pen & paper-based business processes (and even those with excel solutions) usually require repeated manual data input of the same data which is time intensive and error-prone.
- Several potential SACCO and VSLA members are excluded from conducting business if they have to spend time and money traveling to the SACCO of VSLA premises. Certain providers such as awamo have been able to solve this by developing a Mobile application which enables SACCO staff to register clients at their premises and to offer all SACCO services on-site. Future Link also offers remote access to products by members through the MSACCO and cost plus saving features.

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