Rethinking the role of Government in Financing Co-operative Initiatives

BY

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Uganda's Background

UGANDA IS A LAND LOCKED DEVELOPING COUNTRY IN EASTERN AFRICA.

IT IS TWICE THE SIZE OF PENNSYLVANIA.

THE COUNTRY WHICH LIES ACROSS THE EQUATOR

LAKE VICTORIA FORMS PART OF THE SOUTHERN BORDER.

IT HAS AN AREA OF 241,040 SQUARE KILOMETERS.

IT HAS A POPULATION OF 32,710,000 PEOPLE, WITH 26,136, 700 (85.24%) STAYING IN RURAL AREAS.

Financial inclusion in Uganda

IN SPITE OF THE STRONG ECONOMIC GROWTH RATES RECORDED IN THE RECENT PAST,

SUSTAINABLE ECONOMIC DEVELOPMENT REMAINS A CHALLENGE FOR UGANDA, ESPECIALLY AMONG THE POOREST AND MOST VULNERABLE MEMBERS OF SOCIETY.

THE GOVERNMENT RECOGNIZES IMPROVING ACCESS TO RURAL FINANCE AS ONE OF THE STRATEGIES TO ADDRESS AND ACHIEVE MILLENNIUM DEVELOPMENT GOAL NO. 1
- REDUCE POVERTY AND HUNGER.

POVERTY ERADICATION ACTION PLAN (2004/5-2007/8)

Financial Inclusion in Uganda-Fin scope III

NINETY FOUR PERCENT (94%) OF UGANDANS SAVE AND INVEST THEIR MONEY EARNED FROM ENGAGING IN VARIOUS ECONOMIC ACTIVITIES.

THE STUDY REVEALED THAT 50.14% OF RESPONDENTS SAVE MONEY IN A `SECRET PLACE` AT HOME.

WHILE IT IS TRUE THAT THERE IS NO INVESTMENT OPTION THAT SCORED ABOVE 10%, INVESTMENT IN LIVESTOCK CAME OUT PROMINENTLY WITH (8.56%), FOLLOWED BY INVESTMENT IN EXISTING PERSONAL BUSINESS (6.47%), KEEPING ITEMS LIKE PRODUCE (6.1%) AND INVESTMENT IN AN INFORMAL GROUP (5.98%).

AS INDICATED FROM THE FINDINGS, ONE OF THE REASONS WHY PEOPLE DO NOT INVEST IS THE LACK OF ADEQUATE INFORMATION ABOUT AVAILABLE INVESTMENT OPTIONS.

Financial Inclusion in Uganda-Fin scope III

CREDIT AND BORROWING:
FIFTY SEVEN PERCENT (57.33%) OF UGANDANS HAVE ACCESS TO CREDIT WHILE 42.67% DO NOT HAVE ACCESS.

IT IS INTERESTING TO NOTE THAT THERE IS NO SIGNIFICANT DIFFERENCE BETWEEN FORMAL AND INFORMAL CREDIT SERVICES (19.99% FOR INFORMAL AND 19.13% FOR FORMAL CREDIT SERVICES).

EIGHTY NINE (89%) OF RESPONDENTS OBTAIN CREDIT FROM VILLAGE SAVINGS AND LOAN ASSOCIATIONS (VSLAS).

PEOPLE, WHO OBTAINED CREDIT (15.81%), INVESTE IN AGRICULTURE.

Financial Inclusion in Uganda-Fin scope III

FORMAL BANKING SERVICES:
A BIG PROPORTION (74.8%) OF THE RESPONDENTS HAD OPERATED ACCOUNTS IN A FINANCIAL INSTITUTION INCLUDING AMONG OTHERS:

ATM CARD/DEBIT CARD; CREDIT CARD; PERSONAL LOAN; OVERDRAFT; MORTGAGE OR LEASE; HOME IMPROVEMENT LOAN; COMMERCIAL LOAN; MONEY TRANSFER SERVICES (WESTERN UNION, MONEY GRAM); MOBILE BANKING; CELL PHONE BANKING (WITH A BANK ACCOUNT) AND ONLINE BANKING.

CELL PHONE MONEY SERVICES:
THERE IS AN ANOMALOUS RELATIONSHIP BETWEEN KNOWLEDGE AND UTILISATION OF THE CELLPHONE MONEY SERVICES.
THIS IS ILLUSTRATED BY 78.25% OF THE RESPONDENTS WHO WERE KNOWLEDEGABLE ABOUT CELLPHONE MONEY SERVICES BUT WITH ONLY 33.94% REGISTERED TO USE THE SERVICE.

Financial Inclusion in Uganda-Fin scope III

MONEY TRANSFER SERVICES:
A BIG PROPORTION OF RESPONDENTS (63%) OF THE RESPONDENTS HAD EVER SENT MONEY BY MONEY TRANSFER SERVICES.

THE MOST COMMON METHOD OF SENDING MONEY IS BY CELL PHONE MONEY SERVICE AND 65.37% HAS USED THIS METHOD.

CASH SENT WITH; OR RECEIVED THROUGH A RELATIVE/FRIEND IS IN A CLOSE SECOND REPORTED BY 42.79% OF THE RESPONDENTS.

THE OTHER CHANNELS WERE: BY BANK (6.23%); THROUGH AIR TIME (3.78%); ELECTRONIC TRANSFERS (0.41%); WESTERN UNION (1.04%); AND MONEY GRAM (0.53%).

OVERALL RESULTS SHOW THAT UGANDANS ARE ACTIVELY INVOLVED IN MONEY TRANSFER TRANSACTIONS; ESPECIALLY SENDING MONEY WITHIN AND OUTSIDE THE COUNTRY.

37.12% OF ALL THE RESPONDENTS HAD EVER SENT MONEY TO PEOPLE LIVING WITHIN THE COUNTRY; OR TO PEOPLE LIVING OUTSIDE.

FINANCIAL LITERACY:
A SIGNIFICANT PROPORTION OF RESPONDENTS (57.5%) ACQUIRE FINANCIAL INFORMATION VIA FRIENDS AND RELATIVES.

Barriers to access to financial services:

THERE IS A PRONOUNCED GAP BETWEEN FINANCIAL INSTITUTIONS, THEIR PRODUCTS, TERMS AND CONDITIONS, PROCEDURES FOR USE AND THE PERCEPTIONS THAT PEOPLE HAVE OVER THE PRODUCTS AND SERVICES.

COMMERCIAL BANKS HAVE MAINTAINED A CORPORATE IDENTITY THAT HAS PERSISTENTLY KEPT AWAY PEOPLE WHO FEEL THEY DO NOT MEASURE TO THE STANDARD SET BY THE COMMERCIAL BANKS.

THE RURAL AND UNEDUCATED PEOPLE HAVE BEEN PUSHED AWAY BY THIS FACTOR IN ADDITION TO THE LANGUAGE USED.

HIGH COSTS OF USING FINANCIAL INSTITUTIONS INCLUDING "HIDDEN CHARGES" AND THE PREROGATIVE BY COMMERCIAL BANKS TO REVISE INTEREST RATES AT ANY TIME, ARE THE COSTS INVOLVED WITH BORROWING.

History of cooperatives.

THE COOPERATIVE MOVEMENT BEGAN IN EUROPE IN THE 19TH CENTURY, PRIMARILY IN BRITAIN AND FRANCE, ALTHOUGH

THE SHORE PORTERS SOCIETY CLAIMS TO BE ONE OF THE WORLD'S FIRST COOPERATIVES, BEING ESTABLISHED IN ABERDEEN IN 1498 (ALTHOUGH IT HAS SINCE DEMUTUALIZED TO BECOME A PRIVATE PARTNERSHIP).

THE INDUSTRIAL REVOLUTION AND THE INCREASING MECHANISM OF THE ECONOMY TRANSFORMED SOCIETY AND THREATENED THE LIVELIHOODS OF MANY WORKERS. THE CONCURRENT LABOUR AND SOCIAL MOVEMENTS AND THE ISSUES THEY ATTEMPTED TO ADDRESS DESCRIBE THE CLIMATE AT THE TIME.

THE FIRST DOCUMENTED CONSUMER COOPERATIVE WAS FOUNDED IN 1769,IN A BARELY FURNISHED COTTAGE IN FENWICK, EAST AYRSHIRE, WHEN LOCAL WEAVERS MANHANDLED A SACK OF OATMEAL INTO JOHN WALKER'S WHITEWASHED FRONT ROOM AND BEGAN SELLING THE CONTENTS AT A DISCOUNT, FORMING THE FENWICK WEAVERS' SOCIETY

By 1830, there were several hundred co-operatives Some were initially successful, but most cooperatives founded in the early 19th century had failed by 1840.

It was not until 1844 when the Rochdale Society of Equitable Pioneers established the 'Rochdale Principles' on which they ran their cooperative, that the basis for development and growth of the modern cooperative movement was established. Financially, credit unions were invented in Germany in the mid-19th century, first by Franz Hermann Schulze-Delitzsch (1852, urban), then by Friedrich Wilhelm Raiffeisen (1864, rural).

Rethinking the role of Government

- Cooperatives in many developing countries, face increasing financial difficulties which threaten their survival as businesses.
- One cause of these difficulties has been the withdrawal of government funding
- Because Government faces budget problems of its own
- and because it has become discouraged with cooperative performance.

Economic reforms have removed restrictions on markets and challenged the monopoly that some cooperatives have enjoyed as beneficiaries of government regulations.

These changes have left many cooperatives with insufficient funds for operations and investment.

Without capital, the business cannot provide services to its members. It cannot grow and develop to compete in today's market economies.

Due to the loss of traditional funding, cooperatives' need alternative sources of capital to maintain and strengthen their position in the market

RETHINKING THE ROLE OF GOVERNMENT IN FINANCING CO-OPERATIVE INITIATIVES

Cooperative principles

Privileges, responsibilities and dependence

The new situation

The need for a revised strategy

Re thinking the role of Government

Successful cooperative service organizations generate income for their members through business transactions.

Yet cooperatives are also democratically controlled member service organizations governed by a set of principles which give them a special identity

These principles shape the cooperative identity and describe their ultimate goal of collective self-help, which has inspired cooperative leaders and members throughout the world.

Proper Government financing strategies can strengthen a cooperative's economic and social roles

Rethinking the role of Governmen

External support for cooperatives is declining.

This is the result of new trends that have little to do directly with cooperatives:

Most donor agencies are now faced with budgetary problems and changing priorities of their own which have led to a decline in aid

.

The globalization of trade and deregulation of domestic markets. Countries are removing barriers, promoting freer trade domestically and internationally.

Under these conditions, it is more and more difficult to reserve special privileges or offer special price benefits to cooperatives.

RETHINKING THE ROLE OF GOVERNMENT

Cooperatives need to **adapt to these new trends**, finding ways to finance their operations and to continue to compete, while maintaining cooperative principles and identity.
Cooperatives which do not adapt, and continue to rely on the reducing privileges and financial support from external non-member sources will be increasingly unable to compete with other, more efficient types of business.

GOVERNMENT SHOULD ENABLE COOPERATIVES TO MAINTAIN THEIR MARKETS

Serving members Minimizing costs, maximizing service

Cooperatives can increase the financial returns to their members only through business transactions.

Typical transactions include members' delivery of produce to the cooperative for processing or marketing, or purchase of inputs and materials from their cooperative.

Member loyalty is essential for maintaining a strong and successful operation - the basis for a sound cooperative business.

Among the issues to consider in maintaining member loyalty is

prompt payment to members for produce delivered.

Cooperatives may also **consider offering credit**, both to keep existing members and to attract new ones.

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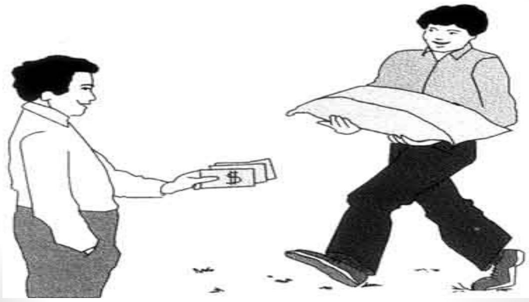


RETHINKING THE ROLE OF GOVERNMENT

Government should invest in building capacity for co operatives to better manage and use of existing facilities, equipment, finance, procedures and people.

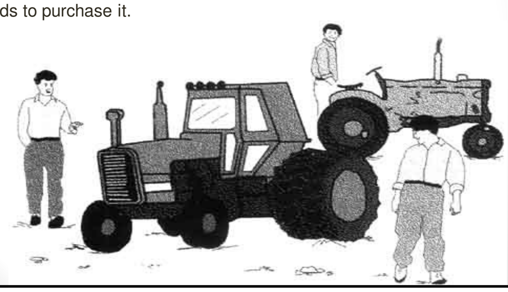
Many cooperatives have reduced their costs significantly through improved management.

Management training programmes can help to improve the efficient use of available resources.

Rethinking the role of Government

Government should finance purchase of new or more efficient equipment.

Businesses that cannot purchase more efficient technology because it is too expensive are likely to face increased competition from those with the funds to purchase it.



GOVERNMENT SHOULD FINANCE PURCHASE OF NEW TECHNOLOGIES

TECHNOLOGY SOLUTIONS LIKE AGENT BANKING AND MOBILE BANKING, TO NAME BUT JUST A FEW, ARE BECOMING THE NEW OPPORTUNITIES FOR COMMERCIAL PLAYERS TO THE EXTEND THEIR SCOPE OF BUSINESS IN THIS AREA.

INDEED WHERE MARKET FAILURE USED TO BE THE ARGUMENT FOR THE PUBLIC SECTOR PLAYING A KEY ROLE IN FINANCIAL INCLUSION,

POTENTIAL IMPROVEMENT IN THE MARKET MECHANISM IS NOW MAKING FINANCIAL INCLUSION SUCH AS THROUGH MICROFINANCE MODEL, A GROWING “MARKET POTENTIAL” RATHER THAN “MARKET FAILURE”

JUST HOW MUCH IS THE ROOM FOR GROWTH IS THE QUESTION OF THE DAY.

HOW CAN COOPERATIVE ACTIVITIES BE FINANCED?

A. Directly from members

B. From cooperative business surpluses

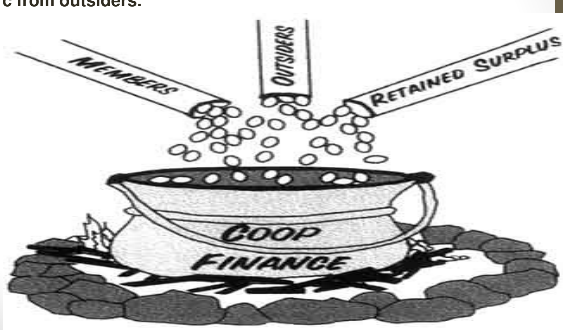
C. From outsiders

The gearing ratio

Which kind of funds are best

Legal framework and support

Capital for the operation and improvement of the cooperative business can come from three main sources:
a directly from members themselves
b from retained surpluses generated by the cooperative business
c from outsiders.



Rethinking the role of Government

External funding may be provided in different ways:
· as a grant
· as a short-term loan
· as a long-term loan
· as trade credit offered by a supplier.

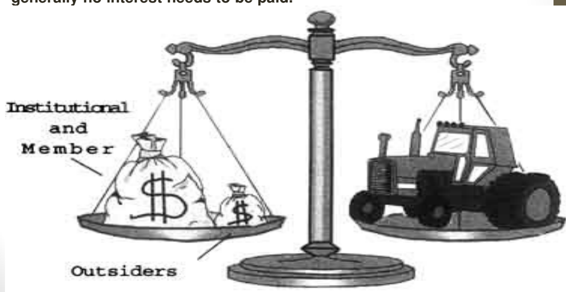
Commercial providers of funds, such as banks, generally provide credit or loans that are legally secured by collateral (pledged assets of the cooperative). They are motivated by profit and seek to minimize risk.

Non-commercial providers, such as governments or donors, generally provide credit on more generous terms at below market rates of interest or provide grants.

Their motivations may be social, political or economic - often a mixture of all three.

GOVERNMENT SHOULD NOTE THAT

Institutional and member capital are lower risk than outsider funding since they are provided by the members and hence the assets of the cooperative are less at risk. In most situations, therefore, they are often a preferred form of funding. Institutional capital, in addition, is the cheapest form of capital since generally no interest needs to be paid.



However these types of funding are sometimes not enough, or are not available at the time when they are needed. In this case, a hort term loan from an outside source may be taken and repaid after the harvest. In other cases, funds may be required for a longer period.

This may be the case when the cooperative decides that the purchase of a new piece of equipment is economically justified. The group may then decide to obtain a long term loan.

Rethinking the role of Government

The type and source of capital is important because they determine the terms and conditions attached.

For example, share capital which can generally be withdrawn by the member-owner only upon leaving the cooperative, is a relatively stable and long-term source of funds.

The cost of share capital is low because of the cooperative practice of making low (or in some cases no) payments to the members based on their share holdings.

It is also low risk since no collateral is required to secure the funds. Commercial loans from banks are higher cost as interest has to be paid on them.

Rethinking the role of Government by focusing on conducive policy a... regulations ...pport

Government should ensure conducive regulatory and policy framework for cooperatives

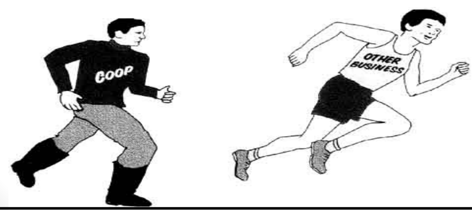
Many of the regulations governing the operation of cooperatives were established before the recent changes in the world economy mentioned in the introduction (declining donor support, globalization of markets and increasing privatization) began to take effect.

Some of the regulations are still appropriate, others less so. Many laws and regulations, for example, tend to restrict cooperatives in their business activities.

Rethinking the role of Government

A certain portion of the surplus may have to be placed in reserve with a government authority or an apex cooperative organization, or dedicated to community improvement such as maintenance of parks or roads, regardless of alternatives that would otherwise be available and possibly of greater use to members.

some cooperatives may be required to deliver their produce to government agencies at prices that are not attractive, or to sell government-rationed goods at mark-ups that are not remunerative.



Rethinking the role of Government

Most cooperatives will have to rely on member generated funds to finance their operations. Members' financial stakes in the cooperative enforce greater accountability of the cooperative to members, build member participation in decision making and strengthen cooperative financial self-reliance and operational autonomy.

Rethinking the role of Government

For the majority of cooperatives in developing countries, the possibility of accumulating too much institutional capital any time soon is small. However, members should be aware that it is actually possible for the original purpose of the cooperative to be lost if the amount of institutional capital becomes too large.

Rethinking the role of Government

This may result in the exclusion of new members, because present members do not want others to benefit from the services provided and surpluses produced by the capital accumulated.

It may lead to strategies for intentional losses so that the capital accumulated returns to the members in the form of unrealistic prices for services.

It may also lead to the conversion of the cooperative to another legal form, such as a limited company

While this may benefit existing members by providing them with higher incomes, the members should be aware that many of the ideals of a cooperative may be lost in the process.

conclusion

Cooperatives have always been referred to as "member-owned" organizations
In countries where cooperatives have depended too heavily on Government for financial support, that sense of ownership and personal financial stake has been lost.
It is not uncommon to hear farmers and shareholders refer to their cooperative as the "government's cooperative" instead of their own cooperative.

This is largely because the financial stake or contribution of the membership of the cooperative is small relative to the non-member stake

Cooperative member participation drops and the cooperative promise is weakened.
Re-focus attention on the importance of building the membership's financial stake in the cooperative. This increases the sense of collective ownership, makes the cooperative's management more accountable to serving members, strengthens member commitment and loyalty and thus provides a true and sustainable basis "or cooperation.

THANK YOU