

**THE CONTRIBUTION OF LUWEERO TEACHERS' SAVING AND CREDIT COOPERATIVE ORGANIZATION TO THE SOCIO-ECONOMIC WELFARE OF TEACHERS IN LUWEERO DISTRICT, UGANDA**

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**ABSTRACT**

**Purpose:** To establish the contribution of Luweero Teachers' Sacco to the socio –economic welfare of teachers in Luweero District, Uganda.

**Design/Methodology/Approach:** We do this by distribution of a questionnaire survey instrument to a sample of 162 conveniently selected teachers who are members of Luweero Sacco and a written interview with Sacco managers purposively selected.

**Findings:** Results show that: savings products fairly positively contribute to socio economic welfare (0.357;  $p < 0.05$ ); loan access and utilization moderately positively contribute to socio economic welfare (0.4903;  $p < 0.05$ ) and advisory services fairly positively contribute to socio economic welfare (0.247;  $p < 0.05$ ). Collectively, the predictor variables explain 32.6% of the contribution of the Sacco to members' socio economic welfare (R-square 0.326;  $p < 0.000$ ).

**Practical implications:** Although there were several studies relating to Saccos, most of them were conducted outside Uganda and no study had been carried out on Luweero Teachers' Sacco and its contribution to the socio –economic welfare of teachers in Luweero District, Uganda. This study brings to light the important role played by Teachers' Saccos in general and Luweero teachers' Sacco in particular. The study posits key policy implications on the need for government to support Saccos especially in building their technical capacities.

**Originality/value:** This study identifies the key role played by Luweero Teachers' Saccos in promoting the socio –economic welfare of teachers in Luweero District, Uganda

**Keywords:** Luweero teachers' Sacco, socio economic welfare, Saving and credit cooperative organization, stewardship

**JEL codes:** G2, G21, JEL 120, JEL 131

## **1. INTRODUCTION AND BACKGROUND**

### **1.1 Background**

The study set out to establish ‘The contribution of Luweero Teachers’ Sacco to the socio – economic welfare of teachers in Luweero District, Uganda.’ Several of the sustainable development goals (SDGs) focus on the uplifting of the socio economic welfare of people. The SDGs lay emphasis on: ending poverty through enabling equal rights and access to economic resources and financial services (SDG 1), promotion of economic growth through access to credit (SDG 8), easing access to microfinance to support own enterprise (SDG 9) and the reduction of income inequalities through microfinance (SDG 10) (UNESCO, 2017). In line of the SDGs, the Financial Sector Deepening Uganda (FSDU) strategic plan (2018-2021) has set out to improve access to financial services especially for the poor by strengthening the country’s financial sector.

Microfinance is seen by many as a key mechanism to lift the impoverished population out of poverty. Microfinance institutions (MFIs) provide credit and insurance facilities to enable the poor smoothen their consumption, enhance their income earning capacity and enjoy an improved quality of life (Mbagga, 2013). The development of MFIs is attributed to efforts made by Muhammad Yunus an economics professor, who began an experimental research project in Bangladesh during the 1970s aimed to provide credit to the poor through the Grameen Bank (Katshushi et al, 2010). Yunus (2001) the key guru on microfinance advocated for microfinance institutions to play a leading role in providing micro loans, savings facilities, insurance products, money transfer services and skills training to poor people especially women to achieve economic empowerment. Omonona et al., (2010) describe microfinance as a key tool in promoting agricultural development in developing countries as it assists the poor farmers to take initiatives to start new micro enterprises. Microfinance encourages capital formation, increase farm size operations, enhance production level and improve marketing efficiency (Adebayo et al, 2008). Microfinance is seen as a development tool achieved through provision of: small loans for working capital, securing saving products, informal appraisal of borrowers and investments, collateral substitutes etc. (Ledgerwood, 2000).

Manh Hao (2005) categorizes the micro finance system into: 1) formal comprising of institutions like cooperative banks, savings banks and postal savings 2) semi-formal comprising of institutions like Savings and credit cooperative organizations (Saccos), farmers associations, non government organizations (NGO) financial programs and village banks 3), informal financial systems comprising of friends, shop keepers, money lenders, Rotating savings and credit

associations (ROSCAs) and traders. The discriminatory nature of the formal financial system led to the emergency of MFIs to provide financial services to the poor and underprivileged population such as the women and low income households (Kuria, 2011). Saccos provide low income families with safe place to save and borrow reasonably priced loans for use in the purchase of livestock, fishing, crop growing, start SMEs, pay fees, health care, social activities like wedding and funerals (Obwanga, 2012). According to Aregawi (2014), Saccos are the most viable and sustainable institutions to provide accessible and affordable financial services to the vast majority of urban poor.

In Kenya, Saccos contribute over 45% of Kenya's GDP and directly or indirectly support the livelihood of at least every one out of two while in Tanzania, through small and medium scale enterprise (SMEs) financing, Saccos contribute 40% of GDP and employs 94.7% of school leavers every year (Mwakujonga & Bwana, 2013; Katula & Kiriinya, 2018; Ngugi, 2015; Kiprotich et al., 2017; Ralph, 2014). Champoo et al., (2008) and Mwelukilwa (2001) acknowledge the role played by Saccos in poverty reduction. Saccos have the objective of improving the members' welfare through returns on savings and loan facilities among other products by charging lower interest rates as compared to other financial institutions (Ralph, 2014).

Saccos have helped the poor and disadvantaged groups by providing them with financial services and helping them to form small and micro businesses (Makori et al, 2013) which has helped to minimize the problem of financial exclusion (Devlin, 2005). Kinyua et al., (2015) define Saccos as financial cooperatives that provide savings, credit and insurance services to the population. In Uganda, the cooperative movement had become the largest employer in the 1970s (Center for Basic research, 2013). The cooperatives benefited farmers in raising agriculture production through extension service, subsidized inputs, functional education for cooperators and bursary schemes which all enhanced member incomes and welfare (Center for Basic research, 2013).

Mwakujonga & Bwana (2013) broadly categorize Saccos into three: 1) Community based Saccos 2) employee based Saccos and 3) agriculture based Saccos. Saccos provide members with various micro financial services among which include financial products like: Savings, shares, compulsory savings, voluntary savings, personal loan, emergency loan, home renovation, business loan, health care, benevolence, education loan and housing loan (Kibui & Moronge, 2014; Gweyii & Karanja, 2014). According to Simmons and Birchall (2008), the wide range of financial products offered by Saccos encourages members to save and enhance their life styles.

The center for basic research (2013) report classifies Saccos in Uganda into four 1) Citizens informal community saving and credit cooperatives meant to help members save and borrow, execute benevolent activities like care for patients, burials and funerals 2) Uganda cooperative

alliance initiated Saccos in form of village banks meant to assist farmers with crop finance 3) Government initiated Saccos under the Kyankwanzi convention meant to help people save and get low cost loans to improve livelihoods and 4) the informal financial cooperatives referred to as village savings and loan associations (VLSAs). The report attributes the increasing poverty and inequality levels especially among the rural population to the collapse of cooperatives. The efforts to revive cooperatives as a vehicle for rural development has thus been fronted by the National resistance movement (NRM) as a key component of operation wealth creation (Citizen Manifesto, 2011; Center for Basic Research, 2012)

### **1.2 Origin of Saccos**

According to Assenga (2008), the origin of Saccos can be traced from two origins of modern cooperation: 1) the working environments in the European industrial cities in the 1840s especially in Great Britain and France where models of consumer and labor cooperatives emerged to defend and promote the working class interests in the face of social disasters arising out of the industrial revolution 2) the late nineteenth century European rural environments where families of farmers and livestock raisers formed agricultural cooperatives to organize their own supply of agricultural inputs and market their products other than depending on the merchants and businessmen in the cities. Others believe Saccos have their origin in Germany where the first credit union was formed in the middle of the 19<sup>th</sup> century in 1849 to curb the deplorable economic condition of peasants and artisans faced with indebtedness (Yibeltal, 2016). Italy is said to have formed the first credit society in Milan in 1866, the first Raiffeissen society was formed in Austria and France in 1886 and the first Sacco was formed in Ireland in 1958 (Yibeltal, 2016).

Saccos development in Africa can be traced as far back as 1931 with a major objective of improving the socio economic wellbeing of low income earners (Katula & Kiriinya, 2018). The first experience of Saccos in Africa is thought to be the work of missionaries in English speaking countries primarily in Ghana, 1955; Uganda 1946 and Kenya, 1964 (Assenga, 2008). The African confederation of cooperative, saving and credit associations was established in 1968 (Yibeltal, 2016). In support of the key objective of establishing Saccos in improving the socio economic wellbeing of people, Chen and Pan (2012) refer to Saccos as key drivers of social, economic and environmental sustainability.

### **1.3 The Cooperative movement in Uganda**

Sacco growth in Uganda have been favored by the abilities of Saccos to meet the unique demands of local conditions, ease of operation in almost any environment, ability to serve both literate and illiterate thereby promoting the saving culture among communities (Uganda debt

network, 2013). The Uganda government rural financial strategy 2007 has promoted the establishment of many Saccos in many sub counties in Uganda (Uganda debt network, 2013). In 1972, the Uganda cooperative savings and credit union Ltd (UCSCU) was registered to coordinate the activities of savings and credit primary cooperatives and promote the economic interests of its member as well as serve as an international link for Saccos (Kyazze, 2010). The support role of UCSCU to Saccos is rated as very negligible and at times not focused as cited in situations where UCSCU distributes assets that are out of reach of the Sacco management capacities and budget. For example, UCSCU is reported to have distributed high capacity and costly generators in place of the needed computers in the Sacco fraternity (Uganda debt network, 2013, p.13).

#### **1.4 The cooperative legislation in Uganda**

Several ordinances and legislation has been enacted to guide the cooperative activities from time to time. During the colonial era, the Cooperative Ordinance to guide the activities of cooperatives was passed in 1946 but it was rejected by the cooperators. This led to an amendment of this ordinance and the subsequent birth of the Cooperative Societies Act of 1952 which too, was replaced by the Cooperative Societies Act and Rules of 1963. The Cooperative Societies Act and Rules of 1963 was replaced by the Cooperative Societies Act of 1970 and when the NRM government came to power in 1986, the Cooperative Societies Statute of 1991 was passed and this was transformed into an ACT Cap 112 which guides cooperatives to date. The legal status of Saccos in Uganda is enshrined under the 1991 cooperative statute and 1992 cooperative regulations. Under the Uganda Cooperative Statute of 1991 and Cooperative Societies Regulations of 1992, Sacco membership is a minimum number of 30 people. Despite this legislation, there is lack of clarity among Bank of Uganda; Ministry of Finance, Planning and Economic Development; and the Ministry of Trade on who owns the mandate to supervise Saccos. The effect of this has been manifest in the vulnerability of members' savings to acts of corruption and fraud (Uganda debt network, 2013).

#### **1.5 Challenges of the cooperative movement in Uganda**

The Center for basic research (2013) single out political interference in the way Saccos are initiated and registered under the NRM government as a key factor explaining why many of the newly politically motivated Saccos have collapsed at the same time. Several authors in the literature surveyed identify other challenges of Saccos to include: lack of entrepreneurship education, small capital, inappropriate structures, corruption, embezzlement, lack of democracy, weakness of supporting institutions, member failure to repay back loans, lack of professional workers, poor business practice, high investment in non-earning assets, political interference, lack of transparency and communication among Sacco leaders, credit risk management, negative

cash liquidity, poor governance, very low access to credit, inadequate ICT facilities as outreach in rural areas increase, non-separation of shares from deposits (Churk, 2015; Mwakujonga & Bwana, 2013; Makori et al., 2013; Kinyua et al., 2015; Magali, 2013; Makori & Sile, 2017; Kiprotich et al., 2017; Kyazze, 2010; Matumo et al., 2013). Saccos also have to compete with other financial institutions like Banks and MFIs for the same savings from their members. This competition however has promoted innovativeness in the financial sector and created new opportunities to members which have enhanced members' wellbeing through accessing loans on household equipment and furniture (Ngugi, 2015).

Kinyua et al., (2015, p.143) provide a rating scale to judge the performance of Saccos which they named CAMEL referring to the parameters of: capital adequacy, asset quality, management and liquidity. Since the other parameters are influenced by the parameter in the middle "M" representing management, it suffices to say that if Saccos are to serve the interests of their stakeholders, they need to have sound well trained management. The role of management in Sacco success is supported by Wambua & Mwangi (2016) when they identified in their study, organizational leadership capacity among the factors that positively effect on Sacco performance. Sacco competitiveness can be improved by: providing education to Sacco employees, improving the way Saccos are managed and administered, adequately capitalizing the Saccos, making the Sacco interest rates competitive and encouraging members to repay loans on time (Churk, 2015).

Asharaf & Gons (2009) describe savings as choosing between current and future consumption which depends not only to current income but also to long term estimate of income. In Keynesian economics, savings refers to what is left of a person's income after meeting his consumption needs and tax obligations. Savings are used to increase income through investments. People save in order to invest and accumulate more wealth as enshrined in the Harod Domar model of growth. The life cycle hypothesis attributes people's desire to save on the need to smoothen future consumption which future is better explained as unpredictable. In this line, savings act as a safety net in case of an emergency. Marogocho (2012) citing Rutherford (1996) cites two key reasons that explain people's hesitancy to save 1) accessibility of the financial institution in terms of proximity, ease to access financial services in terms of processing time etc. 2) Psychological factors mainly represented by the level of customer care of staff to members.

Tumwine et al., (2015) define loans as renewable resources that can impact on communities as loans help communities develop by having their businesses expand through investment opportunities enabled by acquired loans. Loans supplement a person's income and enable the person to carry out activities which would otherwise not be executable with a person's own income. Advisory refers are used in this study to refer to the support services offered by Saccos



to members to enable them plan their savings and utilize the loans advanced to them in order to improve their socio-economic wellbeing. The Sacco advisory services include: training members in financial literacy skills, financial management skills, entrepreneurship skills and thrift skills.

A teacher is person entrusted with the responsibility of instructing the young ones in the socio and cultural values of a given society. The teacher enables the transfer of society knowledge, values and skills from one generation to another. Unfortunately in many societies, the teacher is often underpaid and demotivated (Farrell and Oliveira, 1993). Teachers' Saccos have thus emerged to support teachers uplift their socio economic welfare by providing a viable avenue where teachers can access low cost financial services. Social development is explained as the improvement in relationship between people while economic development is referred to as the improvement in the financial condition and physical progress such as material acquisition of an individual (Ralph, 2014).

Auka & Mwangi (2013, p.610) define Saccos as 'quasi financial institutions that mobilize savings, provide loans as well as other products to their members'. Teachers in most of the Sub Saharan Africa represent a large section of civil servants that is largely underpaid much as 65 to 95 percent of the educational budget in most of the developing countries is meant to cater for teachers' salaries (Farrell and Oliveira, 1993). The low pay forces teachers to engage in out of station activities to supplement their salaries which greatly affects the quality of education in a given country and as Singh (1986) rightly puts it 'no education system can rise too far beyond the levels of the teachers in it'. Teachers Saccos have emerged to provide easy and affordable access to financial services to supplement teachers' income with the hope that this will improve their welfare and raise their level of commitment to work.

Luweero teachers' Sacco was formed as far back as 1989 under registration number 5479. The main objectives of the Sacco were to provide its members with: savings deposits and related services at competitive interest rate; affordable loan services and other legally economically and feasible financial services demanded by the members. To achieve these objectives, the Sacco was tasked to execute activities that promote savings mobilization, offer credit that ensures minimization of the credit risk, cooperate with other financial institutions to provide joint financial programs and provide educational programs on the various financial and cooperative services (Luweero Teachers' Sacco by laws signed 13/2/2003).

In the Chairperson Board's report at the 29<sup>th</sup> annual general meeting (AGM), the Sacco was described as a useful vehicle in enabling its members to achieve socio-economic transformation. The Chairperson Board's report at the 29<sup>th</sup> annual general meeting (AGM) indicated several challenges facing the Sacco that included but not limited to: un motivated membership, a highly competitive environment, loan delinquency, liquidity challenges, multiple borrowing by Sacco

members, inadequate capital, risks associated with external borrowing, member withdraws, robberies, and the changing financial regulations that delay the Sacco operations, like the single code system that had been newly introduced. The Chairperson cited measures to overcome the identified challenges to include: capacity building and seeking for external support from organizations like UCSCU to help secure future self sustenance of the Sacco. The Sacco activities involved in and reported at the 29<sup>th</sup> AGM included: capacity building workshops mainly for the Board and staff; marketing and education programmes to promote the Sacco; loan recovery programs; efforts to quicken loan disbursement processes; improving Sacco security; inclusion of Uganda funeral services Ltd and the Sacco condolence scheme among the Sacco products; the Kiwogozi teachers' gardens; and acquisition of external financial support in form of loans from Micro Finance Support Centre and UNATU.

The challenge of external financial support was identified as the high cost of borrowing and worsened by members who divert the money borrowed to unprofitable ventures which increase the probability of loan delinquency. As at 31<sup>st</sup> December 2017, the Sacco membership stood at 3716 of whom 1933 were males and 1783 females with total savings amounting to 472 millions meaning that the savings per member stood at a meager UGX 127,018! The member loan portfolio outstanding as at 31<sup>st</sup> December 2017 stood at 692,366,638 pointing to inherent liquidity problems since the loans advanced are far in excess of the savings mobilized in the same period by (220, 366,638). The members' ledger cards showed that some members had very minimal savings and shares; static savings and shares; dormant ledger cards and ledger cards only kept to "eat" loan after loan.

### **1.6 Problem statement**

The quality of education in any given country hinges on the quality of the teacher (Singh, 1986). Teachers in most of the Sub Saharan Africa are underpaid which reduces their commitment to duty (Farrell and Oliveira, 1993). Teachers Saccos have emerged to supplement teachers' income with the hope that this will improve their welfare and raise their level of commitment to work. Luweero teachers' Sacco was formed to provide its members with: savings deposits and related services at competitive interest rate; affordable loan services and other legally economically and feasible financial services demanded by the members that would enable the achievement of socio economic transformation of its members (Luweero Teachers' Sacco 29<sup>th</sup> AGM report). To achieve this objective would require members of the Sacco to save, borrow and pay back the borrowed money. As at 31<sup>st</sup> December 2017, the Sacco total savings amounted to 472 millions within a membership of 3716 implying that the savings per member stood at a meager UGX 127,018 yet in the same the amount of loans extended to members exceeded the savings mobilized by 220, 366,638! The members' ledger cards showed that some members had very



minimal savings and shares; static savings and shares; dormant ledger cards and ledger cards only kept to “eat” loan after loan. It is on this background that the researcher set out to investigate the contribution of Luweero Teachers’ Sacco to the socio –economic welfare of teachers in Luweero District, Uganda.

### **1.7 Purpose and objectives of the study**

The purpose of the study was to establish the contribution of Luweero Teachers’ Sacco to the socio –economic welfare of teachers in Luweero District, Uganda. If teachers are not well motivated, their commitment to work will reduce and the country’s education system will negatively be affected given that the quality of any education system is a reflection of the quality of the teacher. The study specific objectives were to establish: 1) the contribution of saving services to the teachers’ socio-economic welfare 2) the contribution of loan access and utilization to the teachers’ socio-economic welfare 3) the contribution of advisory services to the teachers’ socio-economic welfare in Luweero district:

### **1.8 Theoretical review**

The Stewardship theory as explained in Abdullah & Valentine (2009) view Sacco management as stewards destined to maximize financial performance as well as shareholders’ profits. This theory is in support of the Agency theory where Sacco managers are seen as stewards meant to make financial decisions for maximization of shareholders value (Daily et al., 2003; Clarke, 2004). The Stewardship theory looks at Saccos in the role of stewards meant to safeguard the interests of their members/shareholder (Abdullah & Valentine, 2009). Saccos are made up by members who save their money with the Sacco with the hope that these savings will help uplift their wellbeing by generating a pool of mainly financial resources from which members in need can borrow from. As stewards, Saccos are meant to exercise practices that will safeguard members’ savings and generate acceptable returns to members/shareholders.

This study is also underpinned by the Harod – Domar growth model that lays emphasis on savings as a key process of accumulating more capital through investments made possible by the entity savings. The Harod – Domar growth model is useful in this study as it lays emphasis on savings. The more savings mobilized, the more capital will be accumulated by a given Sacco which will ultimately promote investment and growth of the Sacco fraternity. In our study, we made an assumption that the requirement of Savings made by Sacco as a prequisite for a member to access loans is in line with the need to accumulate more capital for growth and improved welfare.

### **1.9 Empirical Studies**

Kihwele and Gwahula (2015) conducted a study on the impact of savings and credit cooperatives in poverty reduction in Tanzania. The independent variables in the study were microfinance services and entrepreneurship skills while the dependent variable was poverty reduction. They used a sample of 40 microfinance beneficiaries. Their findings indicated that microfinance services contributed 50% reduction in poverty as long as loans are invested in income generating activities (IGAs). They also found that Sacco beneficiaries experienced increased income, improved social services and self-employment. The Saccos were also found to provide entrepreneurship skills though at a low rate as most of the training provided by Saccos is meant to create awareness of members on loan/saving terms and conditions as opposed to creating business skills

Tumwine et al., (2015) conducted a study on the savings and credit cooperatives services terms and members' economic development in Rwanda. The independent variables studied were: saving service terms and credit service terms. Saving service terms were defined in terms of opening and running accounts and interest on savings while credit service terms were defined in terms of loan size, credit period and interest on loans. The dependent variable was identified as members' economic development defined in terms of increased household income, starting of new business and expanding existing businesses. The mediating variables were identified to be: member participation, saving culture, member sensitization and macro econ factors. The study found that credit is essential to boost agriculture productivity mainly land and labor. Credit boosts income level at the household, enables poor people to overcome their liquidity constraints and enable the poor to undertake some investments especially in improved farm technology and inputs which contributes to increased agriculture production

Churk (2015) conducted a study on the contributions of savings and credit cooperative society on improving rural livelihood in Makungu ward Iringa, Tanzania. The study used a mixed method design, 100 Household survey, 20 key informant interviews and four group discussions. Churk (2015) study revealed that Saccos have played minimal role towards promoting rural livelihoods, many Sacco members failed to repay back the loan due to high dependency on agriculture which depends on weather and that Sacco members played a minimal role in the planning and decision making leading of the Saccos. Some of the informants said that their welfare had worsened after joining the Sacco as they had to borrow elsewhere at times to repay the loans borrowed from the Sacco to save their assets from being freezed which phenomenon Churk (2015) attributes to the possibility of inadequate education provided to members as they access the loans. The informants also saw no distinction in social economic life made among members and non-members of the Sacco. Churk (2015) concluded that Saccos need to put strategies to address rural poverty like inadequate physical capital, limited human resources, insufficient financial capital and support activities that meet the needs of rural people than concentrating on the

business sector only. Churk (2015) findings and conclusions therefrom draw more to the need for the Saccos to engage more in innovative products if they are to meet the aspirations and needs of their members.

Gebremedhin (2016) conducted a study on the practices and challenges of rural saving and credit cooperatives in Adwa Woreda. The study was guided by two objectives 1) To assess the practice of rural saving and credit cooperatives 2) To identify challenges that affect Saccos. The study utilized a descriptive research design and adopted descriptive analysis techniques to analyze the data. A sample of Seven Saccos was used, 115 respondents surveyed proportionally and key informants included: cooperative committees, officials and agents. Primary data was collected from interviews while secondary data was collected from reports, financial records, magazines and manuals of selected Saccos. The findings indicated tremendous growth in cooperatives, though still faced with many challenges like: late audits, limited training opportunities to members, lack of proper saving, lack of knowledge and information in line of IGAs, low participation of membership in Sacco activities, lack of guarantor/collateral; disregard of liquid assets as possible guarantee; lack of road access; scattered settlement/no villagization ; lack of professional manpower; distance to Russaco office; irregular general meetings ; limited loan amount available from Russacco and wastage of money on unnecessary ceremonies.

Ssengendo (2016) examined the effect of Saccos' services on members' saving culture in Wakiso district. The study objectives were: to establish the nature of Saccos' services; challenges faced by members in saving with Saccos; effect of Saccos' on members' saving culture and strategies used by Saccos' to enhance members' saving culture. The study findings showed that the effect of Saccos on members' saving culture was manifest in improved standard of living, fund mobilization, business management, advisory services and business skills. The strategies used by Saccos' to enhance members' saving culture were the use of loan committees, evaluation of credit history, provision of information and constant visits. The study recommended the need to put emphasis on sensitization and members' mobilization.

Kushoka (2011) studied the sustainability and ability of an employee based Sacco to meet its members needs using 45 Dar es salaam City Sacco members and found that employee based Saccos have insufficient funds to meet members requirements which discourage members. Loans are of small size and high interest rate is charged. He observed that employee based Saccos are key to members' economic development and recommended an increase in the contribution from members and employers to assist in raising funds.

Through member savings, Saccos extend loans to members which play a significant role in uplifting the members' socio- economic welfare. In Bagladesh, the Saccos have been instrumental in helping members to develop both material and human capital by ensuring better

access to social services like: health care, education and creation of awareness among people about their rights and duties (Khan & Rahaman, 2007). The growth of any Sacco wealth is dependent on the way the Sacco manages its loans, the Sacco institutional strengths and innovativeness of Sacco products. Sacco loans are normally used by members to provide for social needs like buying clothes, paying fees, and for productive purposes to stimulate economic development, say, when a member uses the acquired loan to purchase a tractor or plot of land.

Auka & Mwangi (2013) studied the factors influencing Sacco members to seek services of other financial providers in Kenya and found that much as Saccos were not as competitive as other financial providers in terms of processing and delivering of financial products, the type of products offered and customer relations, a large number of Sacco members were still loyal to the Saccos and sought services from them. Kuria (2008) identifies several factors that influence the Sacco member decision whether to receive services from their own organization or from other service providers. According to Kuria (2008), this decision depends on factors such as: the types of products offered, the cost of the products, time taken to process the applications, mode of disbursement, staff performance, promotional strategies, and the physical evidence of services (Kuria, 2008).

Naibei (2017) adds other factors like: the competitive interest rate and variety of financial products. Saccos in Tanzania are said to be charging prohibitive interest rates making them failing to achieve their objective of supporting small businesses (Obadia, 2014). In Uganda, Saccos monthly interest rate charges range from 5% to 12% translating into 60% to 144% p/a far higher than commercial bank rates (Uganda debt network ,2013). The high interest rate charged on loans, the complex lending procedure and the Sacco distance tends to reduce the loyalty of members to Saccos (Kiprotich et al, 2017; Rukhsana et al, 2016). Naibei (2017) attributes the successful performance of Saccos among others to be affected by membership base, loyalty and accessibility to a range of products like: emergency loans, savings and withdrawals, personal loans, education to members, education loans, asset financing, farm inputs and insurance services. These findings are very crucial if Saccos are to strengthen their role in the provision of services to uplift their members' welfare and stay relevant in a highly competitive market. The findings relate to the need to build strong customer relations and easing access of Sacco services to members.

The literature identifies several determinants of access to microfinance loans by members. The factors include: access to information about MFI products; MFI proximity in terms of place, time, order, occurrence, or relation; education level of MFI managers (Alforte, 2006); loan application process borrower characteristics (Suleiman, 2014). One of the key challenges to the Saccos objective of uplifting member welfare through extending credit to them is the reality that

most Sacco members lack collateral to access loans and in cases where the collateral requirement is relaxed as in most operations of Saccos, the rate of loan delinquencies tends to be high leading to Sacco failure (Nuwagaba, 2012; Kibui & Moronge, 2014). It is also possible that the high rate of loan delinquencies is as a result of Saccos extending credit to members without adequately preparing and educating them on how to utilize these loans productively. Langat (2016), based on his study findings on the 'Influence of Savings and Credit Cooperative Societies' Products on Members Livelihoods, a case of Imarisha Sacco made a recommendation that Saccos strengthen the guidance and education on loan utilization before extending loans especially to new members. This recommendation is supported by Theron (2007) on the services provided by Saccos that include providing training to members especially in financial management skills.

Urassa & Melania (2015) conducted a study on the contribution of savings and credit cooperative societies to income poverty reduction in Mbozi district, Tanzania. The study findings showed that Saccos provide shares, invest opportunities, savings, credit and training on entrepreneurship skills which was verified by 67.5 % of the Sacco members who reported to have received training in entrepreneurship. The multiple linear regression analysis showed a significant impact of Saccos to income poverty reduction.

Among the services provided by Saccos is the training of members on financial management (Theron, 2007). This is in line with the fifth principle of the cooperative movement highlighting the need for cooperatives to provide education and training to their members (Tchami, 2007). The default risk tend to increase with the low education level of managers and increase in the number of borrowers and thus the need for Saccos to follow up their members with overdue loans in order to manage the default risk (Magali, 2013). Obadia (2014) adds his voice on the need to train Sacco members in entrepreneurial skills to enable them utilize properly the acquired loans they receive from Saccos. The need for advisory services is underscored by Churk (2015) who cautions on the impact of financial services on welfare to vary with accessibility to complementary inputs like irrigation, education and market services. Bendig et al,(2009) argue that access to formal financial services is limited by the general lack of education, low income levels, distance and the lengthy banking formalities. The provision of financial education programs may improve savings behavior, borrowing and financial decision making of the Sacco member (Cole et al. 2009)

### **1.10 Literature gap**

The literature reviewed underscore the important role played by Saccos in uplifting the socio economic welfare of members through provision of ease access to credit. Most of the studies have been conducted outside Uganda. There is limited research on the role of teachers' Saccos in

promoting teachers' welfare especially in Uganda. The current study on the contribution of Luweero Teachers' Sacco to the socio –economic welfare of teachers in Luweero District, Uganda, is expected to fill this gap.

## **2. METHODOLOGY**

### **2.1 Research Design**

This study followed a mixed method approach as it allows the researcher to maximize the strengths and compensate for weaknesses in either the quantitative or qualitative approach. Specifically, the study adopted a case study research design as it allows for in depths study of a phenomenon at hand. The study's target population consisted of teachers who are members of Luweero Teachers' Sacco from both Government and private primary and secondary schools. The study also targeted the managers of Luweero Teachers' Sacco who directly deal with teachers who are members of the Sacco. The study sample was 162 teachers who are members of Luweero teachers' Sacco and four members of the Sacco management participated in the interviews. The unit of analysis is the views of the teachers in each of the participating member schools. The teachers that participated in the study were conveniently selected because of their easy accessibility to the researcher and willingness to voluntarily participate in the study. The Sacco management in this study refers to the employees of Luweero teachers' Sacco directly involved in the general management of the Sacco activities. The Sacco managers were purposively selected based on their positions in the Sacco. The study was conducted over a six months period, from November 2018 to April 2019.

### **2.2 Sources of data**

Both primary and secondary data sources were used. Primary data was obtained from the selected participants through the use of questionnaires and the interview guide. The secondary data was obtained through reviewing the existing literature on Luweero teachers' Sacco and Saccos in general while primary data was obtained through interviews held with selected Sacco managers.

### **2.3 Materials and Methods**

The study used both the questionnaire survey instrument and the interview guide to collect data. The constructed questionnaires were distributed among selected participants using drop and pick method while face to face interviews were conducted with Sacco managers. The researcher used a self-completion closed ended Likert type scale questionnaire. A four point Likert scale was used for the questionnaire in preference to the conventional five point scale because when an ordinal no response scale is used, there is a tendency for individuals to select responses like 'not



sure' or undecided usually in the middle of the scale to avoid making a real choice (Casley& Kumar,1988).

## **2.4 Data management and quality control**

The study instrument was subject to content validity where the instrument was given to a panel of experts in the area of Sacco management that provided views on the suitability of the items in the instrument. Their views were used to modify the original study instrument to capture the suggested improvements in the study items. The Cronbach alpha coefficient was run to establish the reliability of the study instrument and a value of 0.71 was obtained indicating that the study instrument was reliable. The collinearity statistics computed also pointed to the reliability of the estimates as no indication of multicollinearity was manifested.

After the data was collected, the researcher edited, coded, classified and tabulated the collected data for analysis. The data collected using the questionnaire was entered in the excel sheet, and then imported to the Stata 12 software to help with the required analysis. Descriptive statistics were generated, tests for multicollinearity done, correlation tests performed, the multiple regression was estimated to help quantify the combined effect of the independent variables to the dependent variable and the parameter estimates were estimated to determine the contribution of each predictor variable to the dependent variable. The qualitative data from the written interview filled by Sacco management has been analyzed according to overriding themes in line with the study variables. The self constructed questionnaire followed a four type Likert scale of: 1. Strongly Disagree (SD) 2. Disagree (D) 3. Strongly Agree (SA) 4. Agree (A). Each computed mean was then compared with the theoretical mean rating (assuming a normal distribution of responses) of 2.5. Statements which had their computed means above 2.5 indicated that respondents agreed with them while statements with computed means below 2.5 showed that respondents disagreed with them (NSoh and Amedorme, 2015). The theoretical model that guided the study is given by:

$$\text{Social economic welfare} = \alpha + \beta_1(\text{savings}) + \beta_2(\text{Loan}) + \beta_3(\text{Advisory}) + \varepsilon$$

Where

$\alpha$  is the intercept

$\beta$  – Coefficients

$\varepsilon$  - error term

The researcher ensured voluntary participation of the targeted population and individual consent was sought from the members of Luweero teachers' Sacco who signed the consent form attached

to the study instrument. The respondents were assured of confidentiality of all the information provided and their identities were concealed as they were not required to indicate their names on the study instrument. The respondents' privacy was also respected.

### **3. RESULTS**

#### **3.1 Descriptive Statistics**

##### **3.1.1 Savings services and socio economic welfare**

The first objective sought to establish the contribution of savings products to the socio – economic welfare of teachers in Luweero District, Uganda. The overall mean of (Mean 3.48, SD 0.62) indicates agreement among respondents that the Sacco savings products contribute to their socio economic welfare and there is less variation in their views.

##### **3.1.2 Loan access and utilization and socio- economic welfare**

The second objective of the study sought to establish the contribution of loan access and utilization to the socio –economic welfare of teachers in Luweero District, Uganda. The overall mean of (Mean 3.07, SD 0.37) indicates agreement among respondents that loan access and utilization provided by the Sacco contributes to their socio economic welfare and there is less variation in their views.

##### **3.1.3 Advisory services and socio- economic welfare**

The third objective of the study sought to establish the contribution of advisory services to the socio –economic welfare of teachers in Luweero District, Uganda. The overall mean of (Mean 2.37 and SD of 0.8) indicates some level of dissatisfaction among members with the level of advisory services offered to them by the Sacco and there is less variation in their views. The overall mean of 2.37 tends to our Decision mean of 2.5 which implies that the Sacco is offering some advisory services though Sacco members seem to suggest that this advice is still inadequate and falls short of their expectations.

##### **3.1.4 Summary of the respondents' open responses**

The respondents were also given space to air their views openly on the ways they think saving products offered by the Sacco; loan access and advisory services from the Sacco had benefited them socially and economically. The views expressed indicated the social benefits of the savings services to the socio economic welfare included: the ability to associate with different categories of people, ability to pay children fees, improve on family infrastructure, visiting new places and an improvement in the standards of living. The economic benefits associated with the savings

services were identified to include: improvements at the household level, ability to invest, set up small businesses, acquire land, construction of rentals, purchase of a car, purchase of a motor cycle, building of a house and ability to develop a savings and investment culture.

### **3.1.5 Summary of the responses from the written interview of the Sacco management**

The researcher also obtained a written interview from the Sacco management on the general operations of the Sacco. The savings products offered by the Sacco to its members include: savings account and sight deposit account; the loan products include: emergency loans (maximum 3 months) and long term loans (maximum 2 years); the specific challenges the Sacco face in reaching out to its members include: failure of some members to turn up for AGMs and many members who do more of the borrowing than saving. The challenges of the Sacco are being managed by education provided to members and sensitization of members about other benefits of being a member of the SACCO. The Sacco has contributed to the socio economic welfare of teachers in the district through enabling many of the teachers upgrade their academic status and get promoted to better positions while others have been able to set up income generating projects.

The issue of loan defaulters is being managed by: follow up by loan officers, issue of warning letters to those delaying to meet their obligations and the use of higher authorities to support the loans officers. The situations where a member delays to meet his/her loan obligations due to factors outside his/her control like in case of delayed salary payment is handled by encouraging the affected members to communicate to the loans office in time and where necessary a follow up is made with the district. The various loan periods offered to members are: one or two years for normal loans and 3 – 4 months for emergency loans. The income generating activities involved in by the Sacco were identified as Kiwogozi Luweero Teachers' Sacco gardens located at Kiwogozi.

The level of teachers' participation in the Sacco activities was rated as 50% for the reason that not all members usually make it for the AGM which is the universal activity. To become a member of the Sacco one had to pay membership fee of UGX10, 000 for government aided schools and for non-government schools buy at least one share of UGX 10,000. Teachers from government aided schools are required to fill a form authorizing the ministry to deduct a certain amount from their monthly salary. The trend of Sacco membership growth in the last 5 years (2014-2018) was best described as steady progress between 50% - 75% growth.

### **3.2 Inferential Statistics**

The inferential statistics were useful in testing the study hypotheses stated as:

- H<sub>0</sub>1: Saving behaviour does not contribute to the teachers’ socio-economic welfare in Luweero district
- H<sub>0</sub>2: Loan access and utilization does not contribute to the teachers’ socio-economic welfare in Luweero district
- H<sub>0</sub>3: Advisory services do not contribute to the teachers’ socio-economic welfare in Luweero district

**3.2.1 Multicollinearity Test**

**Table 1: Testing for multicollinearity of Independent variables**

<b>Variable</b>	<b>VIF</b>	<b>1/VIF</b>
Savings	1.95	0.513161
Loan	1.94	0.516201
Advisory	1.06	0.942252
<i>SACCO Membership in years (ref= below 5 years)</i>		
6-10 years	1.61	0.620857
Over 10 years	1.6	0.626942
<i>Loan value (ref= Below 500,000)</i>		
500,000-1,000,000	1.93	0.517405
1,000,000-2,000,000	1.58	0.631367
Above 2,000,000	1.72	0.581502
<b>Mean VIF</b>	<b>1.67</b>	<b>1.67</b>

Source: Primary data

Dependent variable: Socio economic welfare

The collinearity tolerance (1/VIF) for all predictor variables were greater than 0.1 (10%) with the corresponding variable inflation factor (VIF) for all variables ranging between 1.06 and 1.95 which was within the recommended interval of 1 and 10 indicating nonexistence of any multi collinearity. The estimators computed were thus considered reliable.

**3.2.2 Correlation Test**

**Table 2: Correlation matrix**

	Savings	Loan	Advisory	Socio-economic welfare
Savings	1			
Loan	0.692**	1		
Advisory	0.0438	0.0761	1	
Socio-economic welfare	0.3572**	0.4903**	0.247**	1

\*\* p= 0.05

The correlation matrix in Table 5 was run to test the relationship between the study variables and the dependent variable. The Correlation matrix indicates:

**H<sub>0</sub>1: Savings products do not contribute to the teachers’ socio-economic welfare in Luweero district**

The matrix shows a significant positive relationship between savings products and socio economic welfare (0.357; p<0.05). This means that savings behavior fairly positively contribute to socio economic welfare. The null hypothesis is rejected

**H<sub>0</sub>2: Loan access and utilization does not contribute to the teachers’ socio-economic welfare in Luweero district**

The matrix shows a significant positive relationship between loan access and socio economic welfare (0.4903; p<0.05). This means that loan access and utilization moderately positively contribute to socio economic welfare. The null hypothesis is rejected

**H<sub>0</sub>3: Advisory services do not contribute to the teachers’ socio-economic welfare in Luweero district**

The matrix shows a significant positive relationship between advisory services and socio economic welfare (0.247; p<0.05). This means that advisory services fairly positively contribute to socio economic welfare. The null hypothesis is rejected.

**3.2.3 Regression Test**

**Table 3: Regression of the coefficients (Parameter estimates)**

Variable	Coeff	std error	t-value	P> t
Savings	0.10	0.12	0.8	0.4250
Loan	0.60	0.12	4.89	0.0000
Advisory	0.11	0.04	2.52	0.0130
<i>SACCO Membership in years (ref= below 5 years)</i>				
6-10 years	2.25	1.24	1.82	0.0710
Over 10 years	3.05	1.43	2.14	0.0340
<i>Loan value (ref= Below 500,000)</i>				
500,000-1,000,000	0.67	1.37	0.49	0.6240
1,000,000-2,000,000	2.47	1.64	1.5	0.1340
Above 2,000,000	-3.07	1.57	-1.95	0.0520
Intercept	12.10	4.57	2.65	0.0090

The estimated equation is as follows and the results are shown in Table 6:

$$Social\ economic\ welfare = 12.10 + 0.10(savings) + 0.60(Loan) + 0.11(Advisory) + 3.05(over\ 10\ years\ membership) - 3.07(loan\ above\ 2million)$$

The coefficients (beta values) indicate which variable contributes more or less to the dependent variable. This relative importance is deduced from the standardized regression coefficients (beta-weights) whose magnitudes show how much relative impact the independent variables have on the dependent variable. The negative and positive signs associated with the coefficients show negative and positive impacts respectively. The findings imply that a unit increase in loan access increases social economic welfare by 60%; a unit increase in advisory services increases social economic welfare by 11% and a unit increase in savings may increase social economic welfare by 10%. Members who have stayed in a Sacco for a long period (over 10 years) are likely to benefit more from the Sacco services than those who have stayed in the Sacco for a short period of time. Members who are able to access a reasonable amount of loans (above 2,000,000) are likely to experience a worsening in their social economic welfare (-3.07). This can be explained by the fact that most teachers earn low salaries and at times find it hard to pay back monies lent to them which may lead to the confiscation of their collaterals and worsen their original position before they accessed the loans. The regression model summary is shown in Table 7

### 3.2.4 Regression Model



**Table 4: Regression Model Summary**

Source	SS	Df	MS		
Model	3305.209	8	413.1511	F(8,153)	Pr>F) = 0.0000
Residual	5878.23	153	38.4198	10.75	
Total	9183.438	161	57.03999		

Rsquared = 0.3599                      Adj Rsquared = .3264

Source: Primary data, 2019

Regression analysis is done to determine the contribution of each independent variable to the dependent variable and help model the relationship between the independent variables and the dependent variable. Collectively, the predictor variables explain 32.6% of the contribution of Luweero teachers’ Sacco to the socio economic welfare of teachers in Luweero district (R-square 0.326;  $p < 0.000$ ). The difference between the R square and the R adjusted square is only 0.03 meaning that the model fit is very good. The F test is also significant which indicates that our regression equation fits well the data set used in the analysis.

#### 4. DISCUSSIONS

##### 4.1 Saving products and socio- economic welfare

The first objective of the study was to establish the contribution of saving services to teachers’ socio economic welfare. The guiding null hypothesis stated that “saving products do not contribute to teachers’ socio economic welfare”. The overall mean (Mean 3.06, SD 0.40) implies that saving with the Sacco has improved the socio economic welfare of teachers in the Sacco. The improvement in household income has an implication on poverty reduction as found in Kihwele and Gwahula (2015). However the use of mobile money services in the process of savings is still limited.

The correlation tests showed the existence of a significant positive relationship between saving products and socio economic welfare (0.357;  $p < 0.05$ ). The null hypothesis was rejected. The regression of the coefficients indicated that a unit increase in saving products increases social economic welfare by 10% . It is clear that the more one saves with the Sacco, the easier it becomes for him/her to access credit which can be utilized to invest in projects that will lift his welfare. This implies that Saccos are playing their roles as agents that exercise good financial decisions for the maximization of the shareholders’ value as propounded in the Agency theory (Jensen & Meckling, 1976) and promoted by (Daily et al., 2003; Clarke, 2004). The significant positive relationship between saving products and socio economic welfare is also in support of the Harod – Domar growth model that lays emphasis on savings as a prerequisite for

accumulating more capital through investments which investments are part of the indications of a member socio economic growth.

#### **4.2 Loan access and utilization and socio- economic welfare**

The guiding null hypothesis stated that “loan access and utilization does not contribute to teachers’ socio economic welfare”. The established overall mean (Mean 3.07, SD 0.37) implies that loan access and utilization improves the socio economic welfare of teachers in the Sacco. Teachers are using the accessed loans to set up income generating activities like poultry farming, pay for the education of their children and do household improvement. The general agreement that loans are contributing to the teachers’ socio economic welfare is an indication that Sacco management is making prudent financial decisions necessary to generate acceptable returns to members/shareholders. These returns are only possible if members’ savings are invested wisely through the loans advanced to members as advanced in the stewardship theory as explained in Abdullah & Valentine, 2009. The findings are also in agreement with Kihwele and Gwahula (2015) findings that microfinance services contribute to poverty reduction provided the loans are invested in income generating activities. However the use of mobile money services in loan repayment is still limited.

The correlation tests showed the existence of a significant positive relationship between loan access and utilization and socio economic welfare (0.4903;  $p < 0.05$ ). This means that loan access and utilization moderately positively contribute to socio economic welfare. The null hypothesis was rejected. The regression of the coefficients indicated that a unit increase in loan access and utilization increases social economic welfare by 60%. The acquisition of loans add to a person’s level of capital accumulated to invest in various projects necessary to boost his/her welfare as suggested by the Harod Domar growth model. The findings also indicated that the level of loans accessed to a member should be commensurate to his/her income level as those who access loan amounts exceeding 2,000,000 were bound to experience a worsening in their social economic welfare (-3.07). This can be explained by the fact that most of the respondents were primary teachers who earn a low monthly income of between UGX500, 000- UGX750, 000 and may find difficulties in paying back the loans if the loan amounts are quite high. The limited access to loans is supported by earlier findings by Bendig et al,(2009) who attributed the limited access to formal financial services to the general low income levels among the population.

#### **4.3 Advisory services and socio- economic welfare**

The guiding null hypothesis stated that “advisory services do not contribute to teachers’ socio economic welfare”. The estimated overall mean (Mean 2.37, SD 0.8) implies that the level of advisory services offered to members is still below members’ expectations though there are all

indications that there is some good progress in this area as the overall mean of 2.37 tends towards the decision mean of 2.5. The advisory services offered to members were cited in the areas of: loan management, managing personal finances and financial challenges, financial education, financial information and how to set up income generating activities. Sacco management plays a mediation role between savers and borrowers of Sacco mobilized finances and to do this actively, they need to provide the necessary support services to members to enable them access and utilize accessed loans as argued by Churk, 2015; Gebremedhin, 2016; Tchami, 2007; Magali, 2013 and Obadia, 2014.

The correlation tests showed the existence of a significant positive relationship between advisory services and socio economic welfare (0.247;  $p < 0.05$ ). This means that advisory services fairly positively contribute to socio economic welfare. The null hypothesis was rejected. The regression of the coefficients indicated that a unit increase in advisory services increases social economic welfare by 11%. The advisory services offered to members in the areas of: loan management, managing personal finances and financial challenges, financial education, financial information and how to set up income generating activities are key in enabling members to use the accessed loans productively and invest in profitable income generating ventures that will lead to an improvement in their socio economic welfare. The more savings mobilized, the more capital will be accumulated as expounded in The Harod – Domar growth model.

## **5. CONCLUSIONS AND RECOMMENDATIONS**

### **5.1 Conclusions**

#### **5.1.1 Saving services and socio- economic welfare**

Saving services do fairly positively contribute to the teachers' socio economic welfare through enabling members to access loans for use in boosting their socio economic welfare. Since the amount of loans accessed largely depends on one's level of savings with the Sacco, it is prudent for members to raise the level of savings and the Sacco to come up with more innovative saving products that would encourage their members to save the more. The use of mobile money services in the process of savings is still limited.

#### **5.1.2 Loan access and utilization and socio- economic welfare**

Loan access and utilization does moderately positively contribute to the teachers' socio economic welfare". The loans provide additional funds to members which are used by members to set up income generating activities like poultry farming, pay for the education of their children and do household improvement. However the use of friendly innovative methods in loan management, such as, the use of mobile money services in loan repayment is still limited.

### **5.1.3 Advisory services and socio- economic welfare**

Advisory services do fairly positively contribute to teachers' socio economic welfare. Much as the level of advisory services offered to members by the Sacco is below the members' expectations, the existing advisory services have improved the members' financial management practices and have helped them to manage both acquired loans and personal finances. Members have received and utilized the advice given to invest wisely in preferred income generating activities like house rentals and poultry farming.

### **5.2 Study recommendations**

The Sacco should come up with new innovative saving products to boost the saving levels of members. The use of mobile money services to encourage savings, loan access and repayment among members should be explored as mobile money services improve access to financial products especially in areas with limited financial institutions. It is recommended that the Sacco invests in ICT and build the capacity of both staff and members in ICT use in the management of finances. The Sacco needs to boost its advisory services arm to rise to the members' expectations through the provision of timely and relevant financial information and financial education programs necessary to guide the members' investment decisions and enable their capacity to repay monies borrowed. At the policy level, there is a need to strengthen the supporting services offered to Saccos as most of the Sacco members seem to be limited in the areas of ICT as a vital tool in financial access and utilization to support the financially excluded segments of the population.

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