

Document: EB 2013/LOT/G.19
Date: 13 December 2013
Distribution: Public
Original: English

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Enabling poor rural people
to overcome poverty

**President's report on a proposed grant under
the country-specific grants window to the
Canadian Cooperative Association (CCA) for
Developing a Sustainable Savings and Credit
Cooperative Union under the Project for
Financial Inclusion in Rural Areas in Uganda**

Note to Executive Board representatives

Focal points:

Technical questions:

Alessandro Marini
Country Programme Manager
Tel.: +39 06 5459 2115
e-mail: a.marini@ifad.org

Dispatch of documentation:

Deirdre McGrenra
Head, Governing Bodies Office
Tel.: +39 06 5459 2374
e-mail: gb_office@ifad.org

For: Approval

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Results-based logical framework

Abbreviations and acronyms

CCA	Canadian Cooperative Association
CEO	Chief Executive Officer
M&E	monitoring and evaluation
MTIC	Ministry of Trade, Industry and Cooperatives
PROFIRA	Project for Financial Inclusion in Rural Areas
PY	project year
SACCO	savings and credit cooperative
UCSCU	Uganda Cooperative Savings and Credit Union
WOCCU	World Council of Credit Unions

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed grant to the Canadian Cooperative Association for Developing a Sustainable Savings and Credit Cooperative Union the Project for Financial Inclusion in Rural Areas in Uganda as contained in paragraph 7.

President's report on a proposed grant under the country-specific grants window to the Canadian Cooperative Association (CCA): Developing a Sustainable Savings and Credit Cooperative Union under the Project for Financial Inclusion in Rural Areas in Uganda

I submit the following report and recommendation on a proposed grant under the country-specific grants window in the amount of one million United States dollars (US\$1,000,000).

Part I – Introduction

1. This report recommends the provision of IFAD support to a project of the Canadian Cooperative Association (CCA).
2. The project description of the proposed grant for approval by the Executive Board is contained in the annex to this report:

Canadian Cooperative Association (CCA): Developing a Sustainable Savings and Credit Cooperative Union Subcomponent under the Project for Financial Inclusion in Rural Areas (PROFIRA)
3. The objectives and content of the project are in line with the evolving strategic objectives of IFAD and the Fund's policy for grant financing.
4. The overarching strategic goal that drives the revised IFAD Policy for Grant Financing, which was approved by the Executive Board in December 2009, is to promote successful and/or innovative approaches and technologies, together with enabling policies and institutions, that will support agricultural and rural development, empowering poor rural women and men in developing countries to achieve higher incomes and improved food security.
5. The policy aims to achieve the following outputs: (a) innovative activities promoted and innovative technologies and approaches developed in support of IFAD's target group; (b) awareness, advocacy and policy dialogue on issues of importance to poor rural people promoted by, and on behalf of, this target group; (c) capacity of partner institutions strengthened to deliver a range of services in support of poor rural people; and (d) lesson learning, knowledge management and dissemination of information on issues related to rural poverty reduction promoted among stakeholders within and across regions.
6. The proposed project is in line with the goal and outputs of the revised IFAD grant policy. In particular, this grant will support the creation of an enabling institutional environment for the development of the savings and credit cooperative (SACCO) movement in Uganda. To this effect, the capacity of the Uganda Cooperative

Savings and Credit Union (UCSCU) to sustainably provide services to SACCOs will be strengthened through a partnership with a consortium of experienced international cooperative associations. This will allow UCSCU to access the necessary managerial and technical expertise to establish sound business practices, acquire knowledge and train staff in their practical application within the context of the organization's five-year strategic plan to develop a self-sustainable institution, and thereby a healthy SACCO system.

Part II – Recommendation

7. I recommend that the Executive Board approve the proposed grant in terms of the following resolution:

RESOLVED: that the Fund shall provide a grant not exceeding one million United States dollars (US\$1,000,000) to the Canadian Cooperative Association in order to finance, in part, the Project for Financial Inclusion in Rural Areas in its Developing a Sustainable Savings and Credit Cooperative Union subcomponent. The grant will be for a period of five years upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board herein.

Kanayo F. Nwanze
President

Canadian Cooperative Association (CCA): Developing a Sustainable Savings and Credit Cooperative Union under the Project for Financial Inclusion in Rural Areas in Uganda

I. Background

1. Uganda's development experience over the past two decades has been characterized by high growth and significant decline in poverty. Growth accelerated from 6.3 per cent in the 1990s to an annual average of 7 per cent from 2000-2010. By 2011, Uganda had already achieved its 2015 Millennium Development Goal target of halving the proportion of the population living on less than one dollar a day, down from 53 per cent in 1993 to 24.5 per cent. While the proportion of people living in poverty has significantly declined, the reduction in the number of poor people is much less marked due to the high population growth rate. Poverty remains mainly a rural phenomenon, with 34 per cent of the rural population living below the national poverty line.
2. Limited access to financial services is a key constraint facing rural development and poverty reduction. As of 2009, only 15 per cent of the population in rural areas used banking services and just 7 per cent were served by other formal institutions. Nearly half of the population was relying on informal financial arrangements (mostly friends and relatives), while 31 per cent lacked access to finance of any kind. While there is a relatively broad range of financial intermediaries in Uganda, the supply of financial services to rural areas is still limited and falls significantly short of demand. At present, community-based financial institutions such as the SACCOs and community-based savings and credit groups are the only financial intermediaries responding to the demand for financial services in most rural communities.
3. In order to respond to the above needs, during its 109th session in September 2013, the IFAD Executive Board approved a loan of SDR 19.3 million in support of the Project for Financial Inclusion in Rural Areas (PROFIRA) whose objective is to sustainably increase access to and the use of financial services by the rural population. The proposed grant will complement the approved loan in financing PROFIRA, with a specific focus on the subcomponent on developing a sustainable SACCO union.

II. Rationale and relevance to IFAD

4. PROFIRA is fully aligned with the strategic priorities of both the Government of Uganda and IFAD, which share a common view regarding the development of the rural financial sector. Both recognize the continuing need to promote rural finance and see the focus on financial inclusion as a key pillar of Uganda's efforts to eradicate poverty, with particular emphasis on community-level financial institutions as an appropriate tool for financial inclusion. One of the three strategic objectives of IFAD's country strategic opportunities programme (COSOP) for 2013-2018 focuses on access to and use of financial services by the rural population.
5. Within this framework, the development of a sustainable SACCO movement in Uganda is a key building block of the country's strategy to ensure access to viable financial services for rural households. The technical assistance to be supported by the grant will facilitate the creation of an enabling institutional environment for the development of the SACCO movement. The support provided to UCSCU to evolve into a financially viable institution able to provide high-quality services to its member SACCOs is a prerequisite for a healthy SACCO sector. The technical

assistance provided through the grant will complement the performance-linked financial support provided to the UCSCU, through the loan.

6. UCSCU is at a critical time in its development. While it includes the majority of SACCOs as its members, it faces considerable challenges in making the transition from an institution that has been largely dependent on government support to one that is able to operate as a financially viable institution, with a rigorous business mentality and within the framework of a sustainable financial cooperative system. UCSCU has started down this path, but it has considerable work to do to transform itself into such an organization and needs high-level, committed, professional management support to help it make the transition. The successful transformation of UCSCU is a key element in the development of a sustainable credit cooperative system in Uganda and will be dependent on effective technical assistance in support of the institution's five-year strategic plan.
7. Only a limited number of international institutions have the requisite experience and depth of expertise to provide the support required. Most of these institutions are closely aligned to the credit cooperative movement and are active in working with these cooperatives and their apex bodies locally and internationally. The CCA, the organization proposed as grant recipient, is one of the leading organizations supporting the development of SACCOs internationally and is prepared to make the technical and financial commitment to assist UCSCU in developing into a financially viable and sustainable institution. CCA has a solid international track record, a strong presence in Uganda and considerable experience in SACCO development in the country. The World Council of Credit Unions (WOCCU), the global trade association and development agency for credit unions, as grant sub-recipient,) brings knowledge and international experience that complements that of the CCA. It has therefore been chosen as the key implementing partner and subgrantee.
8. The grant will be key in facilitating the establishment of a partnership with the above international organizations for the provision of management and technical assistance to the UCSCU. An important element in the partnership is the cost-sharing agreement, which envisages a contribution from the international partners to the cost of providing the support. This is expected to bring greater commitment, involvement and support and set the ground for a long-term institutional partnership between UCSCU, the grant recipient and the grant subrecipient that will go beyond the scope and time frame of the grant itself.

III. The proposed grant¹

9. Given the strong complementarity of the proposed grant with PROFIRA, the logical framework of the grant mirrors that of PROFIRA. Thus the PROFIRA development objective, to "sustainably increase the access to and use of financial services by the rural population" is also the goal of the proposed grant, and the outcome of component 1 of PROFIRA is the development objective of the grant, i.e. "to enable SACCOs to provide enhanced levels of services to more members." The expected outcome of the grant is that UCSCU provides sustainable services to its members (output 1.2 of PROFIRA).
10. The principle focus of the grant will be to assist UCSCU in its transformation into a dynamic, business-focused cooperative union that can sustainably provide the support needed in the SACCO sector. This will necessitate reorganizing UCSCU's internal structures, and creating a lean and dynamic organization through rationalizing staffing and cutting unnecessary expenses. In parallel, UCSCU will need to strengthen its ability to provide services to members increasingly on a cost-plus basis, and develop complementary income-generating activities. Instilling a

¹ Full details on the implementation of the activities to be supported by the grant are provided in the Design Completion Report of PROFIRA, approved by the Executive Board at its 109th Session, see EB 2013/109/R.19.

business ethic will be key to enabling UCSCU to become a sustainable and profitable organization within five years.

11. The target group for the grant support is essentially the same as for the main project. It involves the range of rural households and individuals that need access to financial services that are designed to respond to their specific needs, constraints and aspirations. It includes not only individual members of SACCOs – who are both male and female, and many of them poor – but groups such as the community savings and credit groups (predominantly female), supported under the second project investment component, which are also members of the SACCOs. Furthermore, the support is targeted at both existing members who need better and wider-ranging services and individuals who do not currently have access to financial services – i.e. the financially excluded. A stronger SACCO Union is expected to contribute to more sustainable and professional SACCOs, which will ultimately provide better financial services to the above target group.
12. While the project will have a seven-year duration, the grant is designed to provide professional support to the UCSCU over the first five years, linked to UCSCU's five-year strategic plan (2014-2018). This will include long-term management support for the UCSCU board, chief executive officer (CEO) and executive management, which will be provided by a "CEO/board mentor" for approximately 42 months, spread over the first five years of the project. It will also include short-term technical/management support to complement the work of the CEO/board mentor. The aim is to work with and train management, help improve UCSCU's systems and operating procedures and, in essence, transfer sufficient knowledge to the UCSCU board and management to enable them to implement their business plan efficiently and manage their future knowledge requirements.
13. Therefore, the grant will finance CCA with WOCCU as grant sub-recipient for some activities, covering the following key institutional subjects: (i) board governance; (ii) executive professional development; (iii) enterprise risk management; (iv) external relations (government and stakeholder); (v) marketing and business development; (vi) supplier relations; and (vii) SACCO systems and monitoring.

IV. Expected outputs and benefits

14. The key outputs will be:
 - Business and performance-focused culture instilled in UCSCU with strengthened brand and sales management
 - Roles of the board and management clearly delineated
 - Efficient functioning of UCSCU's Central Finance Facility and cost reduction strategies implemented
 - Internal audit service capabilities strengthened
 - Increased constructive engagement with the Government and with other apex organizations.
15. As for PROFIRA overall, the ultimate expected benefits of the grant would accrue to the individuals who use the services of SACCOs that are UCSCU members. A stronger and more dynamic SACCO Union will provide better support to SACCOs nationwide, thereby enabling them to be stronger, more financially sound and better able to provide a range of financial services to their members in rural areas. This will ultimately have an impact on the incomes and livelihoods of the households of the SACCO members, depending on how the increased availability of loans and savings resources is used. However, the most direct benefits of the grant will be seen at the SACCO level in terms of: (i) increased membership; (ii) access to sustainable financial services offered by the UCSCU (e.g. by the Central Finance Facility); (iii) enhanced capacity of SACCO staff and the board through the support

and capacity-building services offered by the UCSCU; and (iv) better capacity for lobbying and advocacy at the national level.

V. Implementation arrangements

16. **Management and coordination.** Given its existing network and field presence in Uganda, the CCA will be the grant recipient and will be responsible for day-to-day management and for the overall management of funds from the IFAD grant. WOCCU's depth of experience with similar projects internationally enables it to provide invaluable complementary support to the CCA, thus justifying its role as grant subrecipient. The overall responsibility for coordinating and implementing the grant will therefore lie with CCA Uganda. CCA and WOCCU will enter into a sub-agreement clearly defining their respective roles and responsibilities in the implementation of the grant. The sub-agreement, which will include requirements to meet IFAD fiduciary standards, including anti-corruption measures, will be reviewed by IFAD before signing of the grant agreement.
17. The senior resident CCA officer will be designated as the PROFIRA grant coordinator and will be responsible for: (i) managing the grant activities, in particular the long and short-term technical assistance; (ii) preparing annual workplans and budgets (AWPBs) for the implementation of the grant activities and their integration into the overall PROFIRA /AWPB, which will be submitted for the approval of the PROFIRA project oversight committee and subsequently to IFAD for no objection; and (iii) reporting biannually, and on an ad hoc basis as required, on the performance and impact of the grant-financed activities as part of the overall PROFIRA reporting.
18. A grant steering group will be formed to oversee implementation. The group will comprise the PROFIRA grant coordinator, the designated WOCCU officer responsible for the subgrant, the CEO/board mentor, the PROFIRA project coordinator and one representative from the IFAD country office, as observer. The grant steering group and the AWPBs will be the key instruments to facilitate coordination with the rest of the PROFIRA activities financed by the IFAD loan, in particular the financial support to UCSCU provided under the same project subcomponent. The PROFIRA project management unit (PMU), through review and consolidation of the AWPBs and monitoring of their implementation, will play a crucial role in ensuring the coherence of the overall project, including the grant-financed activities, by monitoring progress, results and impact.
19. **Financial management.** CCA will be responsible for the overall financial management of the grant, including budgeting, financial reporting, accounting, internal controls, disbursement, procurement and audit, in accordance with the General Provisions Applicable to IFAD Large Grant Agreements. The selection of the CEO/board mentor will be made through an international competitive process with IFAD's no objection required at key stages of the process. The CCA will provide a consolidated audit report not later than six months after the end of each financial year, which will include overall activities performed, including those performed by WOCCU. Funds will be disbursed to the CCA bank account in accordance with IFAD policies and procedures. Expenditures will be justified based on certified statements of expenditures.
20. **Monitoring and supervision.** The activities provided for under the grant form an integral part of subcomponent 1.2 of PROFIRA, Developing a Sustainable Savings and Credit Cooperative Union. The monitoring of the grant will therefore be included within the project's monitoring and evaluation (M&E) system. The grant coordinator, in close coordination with the M&E officer, will be responsible for monitoring and reporting on the specific activities financed by the grant, against the targets specified in the grant agreement. The grant will be supervised by IFAD as part of the regular PROFIRA supervision.

VI. Indicative programme costs and financing

21. The total technical assistance support package for UCSCU is estimated at US\$1.25 million over a period of five years. The total IFAD grant will be US\$1 million, while the CCA will contribute about US\$250,000, equivalent to 20 per cent of the total costs.

Table

Summary of budget and financing plan for grant-financed activities
(Thousands of United States dollars)

<i>Number</i>	<i>Type of expenditure</i>	<i>IFAD</i>	<i>Cofinancing*</i>
1	Consultancies	850	250
2	Training	25	
3	Overheads/management fees	125	
	Total	1,000	250

* CCA contribution through own staff time.

Results-based logical framework (CCA grant)

Results Hierarchy	Indicators	Means for Verification	Risks (R) & Assumptions (A)
Goal. To sustainably increase the access to and use of financial services by the rural poor	1. 300 000 men, women and youth are active members of Project-supported SACCOs	MTIC statistics and SACCO inventory data	
Development Objective. To enable SACCOs to provide enhanced levels of services to more members	1. 300 000 members of project-supported SACCOs (of which 150,000 new - 30% women [non-youth], 15% youth) actively save increasing amounts (min. 50% average increase per SACCO by PY5) and repay SACCO loans 2. At least 80% of project-supported SACCOs offer at least 2 savings and 3 loan products to their members	M&E data; service provider reports, UCSCU annual report, MTIC inventory data	(A) Conducive Tier 4 regulation passed (R) MTIC not able to provide effective regulation /support to SACCOs
Outcome 1. UCSCU provides sustainable services to members	1. UCSCU has sustainability of operating income, covering 100% of operating expenses by PY5	M&E data; service provider reports, UCSCU annual report	(R) Project-supported SACCOs not able to attain financial sustainability (R) Failure of UCSCU to attain operational sustainability after five years undermines conducive environment for SACCOs
Output 1.1 Business and performance-focused culture instilled in UCSCU with strengthened brand and sales management	1. UCSCU financial performance/profitability improves each year with annual targets as set in the five-year Strategic Plan attained	M&E data UCSCU annual report	(A) Five-Year UCSCU Strategic Plan is attainable in either its current or revised form
Output 1.2 Roles of the Board and management clearly delineated	2. Roles and responsibilities of the Board and management agreed and included in revised statutes of UCSCU	SACCO audited accounts & progress reports	(A) UCSCU and the CEO/Board Mentor develop a conducive and constructive working relationship
Output 1.3 Efficient functioning of UCSCU's Central Finance Facility	3. UCSCU's Central Finance Facility providing funding to qualifying member SACCOs in a timely fashion	UCSCU statutes	(A) CCA and WOCCU develop a workable and complementary partnership in support of UCSCU
Output 1.4 Internal audit service capabilities strengthened	4. Annual internal audits carried out in line with professional audit standards		
Output 1.5 Increased constructive engagement with government and with other apex organizations	5. Memoranda of Understanding agreed with government and other parties providing a sound basis for UCSCU's operations		