



MEKELLE UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF COOPERATIVE STUDIES

**DETERMINANTS OF SAVING AND CREDIT COOPERATIVES (SACCOs) OPERATIONAL
PERFORMANCE IN GONDAR TOWN, ETHIOPIA**

by

Zerfeshewa Betru

A Thesis

Submitted in partial fulfillment of the requirement for the Master of Arts Degree

in

Cooperative Marketing

Advisor

Dr. Girmay Tesfay

June, 2010

Mekelle

DECLARATION

This is to certify that this thesis entitled “*Determinants of Saving and Credit Cooperatives (SACCOs) Operational Performance in Gondar town, Ethiopia,*” submitted in partial fulfillment of the requirements for the award of the Degree of Master of Arts in Cooperative Marketing, to the College of Business and Economics, Mekelle University, through the Department of Cooperative Studies done by Mr. Zerfeshewa Betru (ID.No. CDANR/PR0029/01) is an authentic work carried out by him under my guidance. The matter embodied in this project work has not been submitted earlier for award of any Degree or Diploma to the best of my knowledge and belief.

Name of the student: Mr. Zerfeshewa Betru

E-mail: Zerfeshewa @yahoo.com

Signature _____

Date _____

Name of the Supervisor: Dr. Girmay Tesfay

Signature _____

Date _____

DEDICATION

To Wudu Betru,

I never miss your beloved say “Affuye”.

God bless you.

ACKNOWLEDGMENT

It gives me a great pleasure to extend my sincere gratitude to Dr. Girmay Tesfay for his valuable advice on each and every step of the research paper.

Special thanks go to Mr. Tefera Derbew, Mr. Kebede Yemam and Mr. Agegnhu Teshager for support and encouragement to attain this M.A. program.

I would like also to express my best regards to Mr. Baye Getahun, Mr. Endalkachew Abebe, staff of North Gondar Zone Cooperative Promotion Office, and Gondar town Agriculture Office for their unreserved material as well as moral support from the beginning till the end of the study.

Finally, I would like to thank my family, friends, the saving and credit cooperative societies in Gondar and all people involved directly or indirectly for the accomplishment of this project.

LIST OF ACRONYMS

ADLI	Agricultural Development led Industrialization
CGAP	Consultant Group to Assist the Poor
CSA	Central Statistics Authority
FAO	Food and Agriculture Organization
FCA	Federal Cooperative Agency
FDRE	Ethiopian Federal Democratic Republic
GDP	Gross Domestic Product
ICA	International Cooperative Alliance
IMF	International Monetary Fund
MEDaC	Ministry of Economic Development and Cooperation
MFI s	Micro Finance Institutions
NBE	National Bank of Ethiopia
SACCO	Saving and Credit Cooperative
SACCOL	South Africa Saving and Credit Cooperatives League
USD	United States of America Dollar
WOCCU	World Counsel of Credit Union

TABLE OF CONTENTS

DECLARATION	ii
ACKNOWLEDGMENT	iv
LIST OF ACRONYMS	vi
LIST OF TABLES	ix
LIST OF FIGURES	xi
ABSTRACT.....	xii
CHAPTER ONE INTRODUCTION	1
1.1 Background.....	1
1.2 Statement of the problem	4
1.3 Purpose of the study.....	5
1.4 Objective of the Study	6
1.5 Research question	6
1.6 Hypothesis.....	6
1.7 Scope and limitation of the study.....	7
CHAPTER TWO LITERATURE REVIEW	8
2.1 Definition	8
2.2 Concepts, characteristics and role of SACCOs.....	10
2.3 Financial products	13
2.4 Advantages of SACCO.....	17
2.5 Challenges for SACCOs development.....	20
2.6 The SACCO Model	22
2.7 Brief History of Savings and Credit Cooperatives in Ethiopia.....	29
2.8 Empirical Studies	31
CHAPTER THREE MATERIALS AND METHODS	35
3.1 Description of the study area	35
3.2 Definition of operational performance indicators and SACCOs features.....	38
3.3 Sampling technique.....	40
3.4 Data sources and collection method.....	41
3.5 Technique of data analysis.....	41
CHAPTER FOUR RESULT AND DISCUSSION	43
4.1 Nature of SACCOs and feature of their members	43
4.1.1 Socio-economic profile of respondents.....	43

4.1.2 Member's growth.....	46
4.1.3 Financial status of SACCOs	47
4.1.4 Patronage dividend.....	48
4.1.5 Loan users	49
4.1.6 Frequency of loan	49
4.1.7 Purpose of loan	50
4.1.8 Loan default	51
4.1.9 Operation area of SACCOs.....	52
4.1.10 Educational status of members	53
4.1.11 Training.....	54
4.1.12 Menu of products	55
4.1.13 Collateral.....	56
4.1.14 Trust level	56
4.1.15 Cooperative act	57
4.1.16 Cooperative governance.....	57
4.1.17 Leverage ratio	59
4.1.18 Internal and external control	60
4.1.19 Office equipment and employee	61
4.1.20 SACCOs service delivery	62
4.2 Operational Performance evaluation of SACCOs in Gondar town.....	62
4.2.1 Financial performance.....	62
4.3 Determinants of Operational Performance of SACCOs	72
4.4 Challenges and prospects for the development of SACCOs.....	75
CHAPTER FIVE CONCLUSION AND RECOMMENDATION	78
5.1 Conclusion	78
5.2 Recommendation	80
REFERENCES	84
Appendix I-The "PEARLS" Monitoring System Goals	88
Appendix II-The "PEARLS" Monitoring System Manual.....	89
Appendix III-Financial report.....	92
Appendix IV-Interview schedule.....	94

LIST OF TABLES

Table 1: Key PEARLS Indicators.....	29
Table 2: SACCOs in Gondar town	37
Table 3: Financial status of SACCOs in Gondar town	38
Table 4: Sample size	41
Table 5: Total years of membership	44
Table 6: Marital status	44
Table 7: Amount of monthly income in Birr	45
Table 8: Amount of monthly saving in Birr.....	45
Table 9: Membership growth (2006 – 2009)	46
Table 10: SACCOs financial status	47
Table 11: Amount of patronage dividend dispersed to members	48
Table 12: Have you ever taken a loan from your SACCO	49
Table 13: Loan amount and repayment period	49
Table 14: For how long period did you take the loan?	50
Table 15: Purpose of loan	51
Table 16: Major factors leading to late payment and default.....	52
Table 17: Penalty applied in your cooperative.....	52
Table 18: Is the operation area of SACCO appropriate?	53
Table 19: Reasons for appropriateness of operation area	53
Table 20: Education status	54
Table 21: Have you got training from your SACCO?	54
Table 22: Menu of products.....	55
Table 23: Collateral types	56
Table 24: Reasons of members trust.....	57
Table 25: Proclamation 147/98 favorable to promote SACCO	57

Table 26: Committees of SACCOs.....	59
Table 27: Meetings and General Assembly	59
Table 28: Leverage Ratio.....	60
Table 29: Annual audit.....	61
Table 30: Office equipment and employee	62
Table 31: Management committee facilitate services delivery.....	62
Table 32: Financial performance of SACCOs	71
Table 33: Correlation of financial performance indicators with socio economic features of SACCO members.....	74

LIST OF FIGURES

Figure 1: Map of the study area	35
Figure 2: Marital status of respondents.....	44
Figure 3: Members growth.....	47
Figure 4: Financial status of SACCOs.....	48

ABSTRACT

In recent years, the growth and expansion of saving and credit cooperatives is playing its significant contribution to poverty reduction strategy of developing countries including Ethiopia in solving the financial problem of urban and rural dwellers.

The main objective of the study was to identify the determinant factors for development of SACCOs in Gondar town. The study area was selected purposively, due the presence of long established SACCOs.

Using simple random sampling method, from seven case SACCOs selected for this study, 120 members were selected at probability proportionate to size. As key informants 30 SACCO officials were also considered. Structured questionnaire was used to generate primary data from sample respondents. Secondary data were collected from financial and performance report of the case SACCOs. To analyze qualitative and quantitative data descriptive statistics, correlation and World Council of Credit Union (WOCCU) financial standard tools were employed.

Result of the study indicates that narrow alternate options in collateral requirement inhibits members to get loan as they require and it becomes the causes for excess accumulation of liquid asset in banks. Less attention of SACCOs for training and promotion, poor external control in auditing, limited variety of financial products and unavailability of standard financial indicators to regulate and supervise SACCOs were contributing for poor operational performance. Better formal education level of members and officials contributes to have successful operation of SACCOs for long years and minimize loan default risk. Favorable cooperative act, members trust, presence of committed management and SACCO governance contribute for good operational performance of SACCOs.

The study recommended the importance of transformation mechanism of SACCOs into modern service delivery practice, financial product diversification and improving collateral system, adopting appropriate financial standards and the need for formulation of SACCOs act. These recommendations should get the attention of SACCOs, development workers and policy makers to improve the current situation. These measures will ultimately provide SACCOs not only to the advantage of members but also for the development of financial market at community level.

Key words: *SACCOs / Credit Unions, Operational Performance, Financial performance standards, Gondar, Ethiopia.*

CHAPTER ONE

INTRODUCTION

1.1 Background

Ethiopia stands as the fourth largest in size and the second populous country in Sub-Saharan Africa; with a total area of 1104.3 thousand square kilometers and 80 million people enumerated in the third Population and Housing Census, of which 50.5 % were males and 49.5 % were females(CSA ,2007).

According to the statistics of IMF (2007), cited by the Financial Standards Foundation, the per capita income of Ethiopia is estimated 207 USD. About 45 percent of the population in Ethiopia live below the absolute poverty line (47 percent of the rural and 33 percent of the urban population), unable to fulfill the minimum livelihood standard. According to MEDaC (1999), as cited in Wolday (2000), agricultural sector is the mainstay of the economy, which forms the basis for livelihood of 85 percent of the population. It accounts for about 50 percent of the GDP. Performance of the agricultural sector is inadequate to feed the growing population. Repeated drought, civil war, land degradation, limited uses of modern input, low level of investment as a result of insignificant domestic savings are among the reasons for low performance of the sector (*ibid*, 2000).

Currently the government of Ethiopia implements a development strategy called Agricultural Development Led Industrialization (ADLI) which includes cooperative establishment and strengthening as a component to alleviate the chronic poverty problem and prompting

investment. Based on these saving and credit cooperatives strive to satisfy the requirements of its members' financial service without any complications. Saving and credit cooperatives help to prevent or overcome poverty, facilitate members' education, and they develop a spirit of mutual aid and self-reliance. This form of cooperative also encourages productivity of its members by providing credit and leads to adopt democratization process at a significant level in SACCO members.

The aims of saving and credit co-operative have always been to mobilize savings from middle and low income groups and supply credit to its members (Sharma, 2003). Saving and credit co-operatives have their origin mainly in agricultural sector. Germany land reforms and emancipation of the Jewish population in terms of rights and religion had created an impoverished peasantry in Germany which led to some farms being overextended with mortgage debt. Responding to these conditions, Schulze-Delitzsch founded a number of cooperative credit associations during the 1840s and 1850s (Herrick and Ingalls, 1915), and was followed by Raiffeisen, who founded his first in 1864. Raiffeisen's co-operatives were modeled according to the Schulze-Delitzsch bank, with the exception that they did not focus mainly on small urban artisans and "hand workers", but instead were primarily rural based (Guinnane, 2001).

With European immigration the idea of financial self-reliance disseminated to other countries, and soon Austria, Italy, France, England and other European countries all found the importance of saving and credit co-operatives present in their financial sectors (Guinnane , 1997).

Today, Canada, the United States, Ireland and Australia have the most established movements. In many of these countries credit unions have a much larger presence than commercial banks (Saccol, 2006).

Even if the history of SACCO Societies shows that they were established initially for the relief of poverty among the poorer economic classes in Europe, United States and India, they were not that much promoted in developing countries including Ethiopia.

In recent years the potential of member owned saving and credit cooperatives as a tool for poverty alleviation has been increasingly recognized in developing countries. As stated by FAO (2001), a system of financial intermediation is necessary to channel the flow of funds from suppliers to users. An effective and smoothly functioning financial system will increase the mobilization of savings, lower transaction costs, disperse risks and direct the allocation of resources to the most productive use.

In Ethiopia the delivery of financial products and services through micro-finance institutions is one of the policy instruments used to enable rural and urban households to increase their output and productivity, induce technology adoption, increase input supply, increase income thereby helping them reduce their poverty and attain food security (Wolday, 2002).

The study area, Gondar town, has 23 saving and credit cooperatives, which gives a service to the public and private organization employees. Their presence still have encouraging effect to its members and the financial activity as a whole, but as compared with its long establishment year they are not fully benefited from the financial market due to various factors which limits its operational performance. Therefore to assist poverty eradication program of the country and to assure national development at macro level, it is necessary to give much attention for community based financial intermediaries' expansion at a grass root level. Thus, the study aims to identify the determinant factors for SACCOs operational performance and their success.

1.2 Statement of the problem

SACCOs have multiple functions but two of them are fundamental. These are financial intermediation and investment (Pelrine, 2001).

The most basic function of a SACCO is financial intermediation. That is bringing savers and borrowers together in a system that covers all of the costs of doing business and is useful to both parties. Specifically the financial intermediation function of a SACCO is to take members savings in the appropriate amounts and at the appropriate times; lend them back to the members for use in their businesses, with appropriate management; recover all of the loans on time and with interest; cover all costs to the SACCO from the interest; and pay the members a premium on their savings from the profit remaining from the interest after all costs have been paid.

The other essential function of a SACCO is investment. That is to allow members to form a business by placing their capital at risk and to receive a return (profit) on that investment. Specifically, the investment function of a SACCO is selling shares to members in the appropriate amounts and at the appropriate times; using those shares to guarantee the savings and loans of the members, by providing the correct amount of liquidity in the SACCO to manage risk of withdrawal or late repayment; retaining some profit from interest earned on the lending operation to pay dividend to the members on the basis of the shares owned; redistribute the profits to the members as dividend on the basis of shares owned.

Management skills and decisions within savings and credit-cooperatives must reflect sound financial risk management strategies i.e. managing liquidity risk, default risk and interest rate risk is far different from managing a stock of goods; machinery or even goods on credit. Money is, by definition, the most liquid of assets. The management of money, because it is so liquid,

subject to easy conversion into other assets, fungible and capable of being embezzled, requires uniquely skilled management and systems of control. While there are some similarities between managing money and other assets, historically the task of savings and credit management has been left to trained experts (*ibid*, 2001).

Therefore, this research has made an attempt to answer the following questions; what are the main factors that determine operational performance of savings and credit cooperatives (SACCOs)? What relations have the financial performance of SACCOs in relation with recognized standards? What are the products of SACCOs? What are the institutional and governance status of SACCOs? What constraints are faced by the savings and credit cooperatives? What are the opinion and suggestion of respondents about the challenges and prospects of SACCOs to improve their operational performance?

1.3 Purpose of the study

This study has a supreme importance through providing adequate information for policy makers, for saving and credit societies, cooperative promoters', development workers and other stakeholders about how to make SACCOs operationally efficient.

This enables them to design appropriate policies and programs on SACCOs successful establishment and strengthening to have speedy economic contribution in poverty elimination and encouraging investment at micro business level.

Moreover, it furnishes information on the factors to be considered for SACCOs success as competent and sustainable financial institutions.

1.4 Objective of the Study

General Objective

The overall objective of this study is to investigate determinants of saving and credit cooperatives operational performance in Gondar town, Ethiopia.

Specific objectives

- 1 To understand nature of SACCOs and their operational performance in Gondar town,
- 2 To explore factors that determinant the operational performance of SACCOs in Gondar town,
- 3 To study challenges and prospects for the developments of SACCOs in Gondar town, and
- 4 To recommend possible solutions for the development challenges of SACCOs in Gondar town.

1.5 Research question

1. What are the determinant factors for the operational performance of SACCOs?
2. What are the challenges and prospects for the development of SACCOs?

1.6 Hypothesis

Ho: SACCOs operating in Gondar town does not have good operational performance.

Ha: SACCOs operating in Gondar town has good operational performance.

1.7 Scope and limitation of the study

This study was geographically limited to Gondar town and also only covers saving and credit cooperatives challenging factors to become operationally effective and their future prospects for development. However, this area specific study may not be a guarantee to generalize beyond this study area. Moreover, getting reliable data were been difficult due to unavailability of well documented and organized secondary data. But great effort has been made to convince the sample respondents about the objective of the study and give promises to keep the information given confidential. Finally, financial and time constraints were limits on the scope of the study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Definition

Savings and Credit Cooperatives are user-owned financial intermediaries. They have many names around the world, including credit unions, SACCOs, COOPECs, etc. Members typically share a “common bond” based on a geographic area, employer, community, or other affiliation. Members have equal voting rights, regardless of how many shares they own. Savings and credit are their principal services, although many offer money transfers, payment, and insurance services. Sometimes savings and credit cooperatives join together to form second -tier associations for the purposes of building capacity, liquidity management, and refinancing. Second-tier associations also play a useful monitoring role (CGAP, 2005).

The fundamental objective of a cooperative is not "to maximize the profits" as in a capitalist company, nor to act initially like "actor of a social change" as in the non-profit-making associations, but "to maximize the benefit which the member users can obtain from their commercial transactions with the cooperative" (Birchall, 2004). In fact, with their cooperative, the members try to obtain the maximum of individual benefit through the particular type of commercial transactions which they carry out with it. It is thus for example, that a SACCO could promote by the mutual aid, the economic and social welfare of its members in their granting loans to cover their economic needs, by supporting the spirit of initiative and agricultural or industrial local work, by the careful use of the saving produced locally.

Financial institution is private (shareholder-owned) or public (government-owned) organizations that, broadly speaking, act as a channel between savers and borrowers of funds (suppliers and consumers of capital). Two main types of financial institutions (with increasingly blurred dividing line) are: (1) Depository banks and credit unions which pay interest on deposits from the interest earned on the loans, and (2) Non-depository insurance companies and mutual funds (unit trusts) which collect funds by selling their policies or shares (units) to the public and provide returns in the form periodic benefits and profit payouts (www.businessdictionary.com).

Operational performance is firm's performance measured against standard or prescribed indicators of effectiveness, efficiency, and environmental responsibility such as, cycle time, productivity, waste reduction, and regulatory compliance (www.businessdictionary.com).

Operational performance is viewed in both the Industrial Organization and Strategic Management literatures as the product of firm-specific factors such as: management skill, innovation, cost control, and market share, which determine current firm performance, and critically, the sustainability of this level of performance (McWilliams and Smart, 1993).

Performance, in general, is considered as a “survival condition” for firms that function in competitive environments (Färe, Grosskopf, and Lovell, 1985).

Afriat (1988) loosely defines “performance” as the relation between ends and means and its measure as “the extent to which they are matched”.

Standards is Written definition, limit, or rule, approved and monitored for compliance by an authoritative agency or professional or recognized body as a minimum acceptable benchmark. Standards may be classified as (1) government or statutory agency standards and specifications enforced by law, (2) proprietary standards developed by a firm or organization and placed in

public domain to encourage their widespread use, and (3) voluntary standards established by consultation and consensus and available for use by any person, organization, or industry. Once established, standards (like bureaucracies) are very difficult to change or dislodge. For example, the world standard for broad gauge railway line is 4 feet and 8½ inches between the parallel tracks. This odd figure has its origin in the axle-width of Roman army chariots designed to accommodate the rear ends of two horses yoked side-by-side (www.businessdictionary.com).

2.2. Concepts, characteristics and role of SACCOs

SACCOs are user-owned financial institutions that offer both savings and credit services to their members. Members of these financial institutions can be both net savers and net borrowers. Depending on a country's legal framework, SACCOs may be authorized to mobilize member savings and non-members savings or member savings only. They are established by voluntary people based on the philosophy of building self-help society or "people helping people". They are owned, managed, controlled by members. Members have the right to decide on its issues and to benefit from its service.

SACCO Society is formed initially for the poorer to provide financial services such as safe place for savings and providing easy accessible loans to members. They organise "not for profit or for charity" but serve members at fair profit margins. In these organisations once overhead and other expenses are paid, reserve for cushion against any loss, and for expansion of services set aside, the remaining income from loans is returned back to members in the form of dividend on savings, share or both.

The basic structure of the SACCOs and credit unions is what differentiates them from banks. They are user-owned financial intermediaries. Members typically have a “common bond” based on geographic area, employer, community, industry or other affiliation. Each member has equal voting rights regardless of their deposit amount or how many shares they own.

Their principal products are savings and credit, however some offer money transfers, payment services and insurance. SACCOs sometimes join together to create second-tier associations for the purposes of building capacity, liquidity management and refinancing; these second-tier associations can play a useful role in monitoring (CGAP, 2005)

It is commonly agreed that poor people have a significant capacity to save, proven by the existence of various informal savings mechanisms found throughout the world and by a few recent empirical studies. It is further understood that many people, particularly in rural households, are obliged to save during certain times of year, such as harvest, in order to compensate for periods when their income is drastically reduced, such as the dry season. Finally, it is widely accepted that though only a certain number of people will need credit at any given time, virtually all people need to save at any given time. We can therefore conclude that poor people will deposit their savings in a financial institution if an appropriate institutional structure and appropriate savings products exist to the depositor’s mix of savings needs.

SACCOs reach out to low savings and income individuals by offering products geared towards their unique needs within a secure and accessible structure. In order to ensure appropriate financial intermediaries for the poor to exist, appropriate external and internal incentives must exist. High performance standards required by regulatory authorities and effective supervision will necessarily translate into higher management capabilities, especially with regard to cost, liquidity and risk management.

Access to secondary structures is another key issue for all financial institutions under consideration. SACCOs need to be strongly supported in political terms by secondary structures such as the Ministry of Commerce and the Ministry of Local Government. In addition, government need to facilitate alliance formation between SACCOs and MFIs so SACCOs are able to delegate functions to their respective secondary structures in order to benefit from economies of scale and scope also provide their clients with the opportunity to upgrade in order to access larger loans (Robinson, 2004).

The role and characteristics of SACCOs are to (Rural SPEED, 2006):-

- 1 Allow and encourage members to develop formal business and investment, facilitate them with sustainable loan services,
- 2 Encourage members to buy shares in the appropriate amounts by leveraging with their savings at the appropriate times; using those shares guarantee the savings and loans of the members, by providing the correct amount of liquidity in the SACCO Society to manage risk of withdrawal or late repayment;
- 3 Retaining some profit from interest earned on the lending operation to pay dividend to the members on the basis of the shares owned; redistribute the profits to the members as dividend on the basis of shares owned.

In general SACCO Societies are financial institutions designed for people, to have their own efficient financial service giving institutions that empowers themselves in building asset by teaching thrift culture and make themselves accessible to credit in sustainable way.

Therefore, to be successful and sustainable the SACCO Society should function similar to banks as a market for money in a group sharing a common bond. SACCO Society is a financial institution that purely deals with mobilizing money from members as savings, shares and

providing easy accessible loans to members on time. Since SACCO Society deals with cash (the most liquid asset) that can be easily lost, it needs high quality management and special attention to minimize the risk. Therefore, to minimize the risk the function of the SACCO Society should not be mixed with other functions.

2.3 Financial products

I/ Saving

Saving can be defined simply as holding something back from today's consumption. Saving means withholding something valuable for future use. This simple phrase describes two key elements of any saving activity (FAO, 2002). Saving is:

1. A Discipline - because it teaches people to use their resource in a wise manner and develop an Asset in the future.
2. A Sacrifice, Planning for tomorrow (future), because it teaches people to give up today's expenses and to with hold valuable resource for future possible out coming instead of consuming immediately.
 - Saving teaches people to anticipating, forecast and preparing for possible risks and emergencies (bad harvest, sickness and death)
 - Saving teaches people to think on starting a new business or expanding existing once.
 - Saving teaches people to anticipating and preparing for upcoming events and expenditures (School fees, Marriage, Old age, retirements etc).

Therefore, saving is everything, which can empower human being to have bargaining power, makes himself secured and person with full confidence.

In the SACCO society, saving is an asset to members, and a liability to the SACCO society. Saving is collected from member to lend to members. Saving is sources of income to the SACCO society because it lends to members with interest. This loan interest is the main source of income of the SACCO society.

For a SACCO society, it is a must to have a regular saving flow from members and to promote efficient financial services to members. SACCO societies have three kinds of savings:

- Compulsory Savings
- Voluntary Savings
- Contract Savings (Time Deposits)

Compulsory savings

- 1 Compulsory saving is a saving that a member forced to save on regular basis; it is a membership saving i.e. must be saved on monthly basis.
- 2 This compulsory saving is collected to lend to members. If members fail to save on time they will get penalized based on the saving policy of the society. Unless the member quits from membership, he should save on regular basis.
- 3 If a member wants to withdraw from the SACCO society, he has the right to take this compulsory saving with one-month priors notes to the Board of Directors.
- 4 The society will provide interest for this savings.

Voluntary savings

If the potential SACCO members are farmers and only receive income once or twice a year, how can they save the appropriate amount at the appropriate time?

- 1 This kind of saving is very important to farmers since they do not have regular income they can save as voluntary saving during harvest time, and transfer monthly to their compulsory saving accounts. Voluntary savings are deposited and withdrawn as the member sees fit. Farmers, and other individuals, can save the full amount for the coming year's compulsory savings in advance with the SACCO by depositing 12 months worth of saving in a voluntary account. Following that, each month on the appropriate day the member will come to the SACCO to withdraw the amount of one month's compulsory saving from the voluntary saving account and deposit it in the compulsory saving account. This maintains the fundamental function of the SACCO and allows individuals with seasonal incomes to be members.
- 2 This ensures regular flow of cash to the SACCO society and promotes members participation.
- 3 This kind of saving can be withdrawn at any time when the owner needs it.
- 4 The SACCO society may or may not provide saving interest for this voluntary savings.

Contract savings (time deposits) or fixed deposit

This kind of saving will not be invited unless the SACCO society acquires good experience in managing their savings and loans properly. This kind of saving will invited in the future when the SACCO society is in a good capacity and position of managing its savings and loans properly and if there is a shortage of feasible financial demand by members. It can be collected from members and none members but the amount, period of collection and interest for this saving should be decided by the General Assembly of members. Time deposit brings the opportunity of high interest rate on savings.

II/ Share

Share is the capital of the SACCO society and an asset to members. It is a risk protecting capital that collected from members in proportion to compulsory Savings. Since share is risk protecting capital it should be saved in a bank. If a member wants to withdraw from the SACCO membership they have the right to take it after 12 month or after Audit. This is to protect the SACCO from any loss and to give the member the chance of having dividend for the period to stays as a member within the society.

III/ Loan

Loan is having some one's money for productive, for school fee, etc and that will pay back at agreed period with additional interest. According FAO, (2002) having a loan (borrowing) can be expensive, risky, difficult and stressful.

Loan is expensive by nature because borrower will have to pay the loan itself with additional interest more than or equal to what it produces. It is risky because it may be exposed to risks caused by weather, income fluctuations, disease and death, that may create a problem for repayment. The poor has more difficulties in obtaining loans than the rich. Local moneylenders, friends, even families and banks are unwilling to lend to people they think will have problems to repay. It can be stressful because loan involves promise to repay to the lender. Failure to repay may mean losing of valuable possessions (jewellery, a cow, a plot of land, etc) or losing well reputation. Therefore, loan (borrowing) must be examined and treated carefully and honestly in the SACCO society.

2.4 Advantages of SACCO

SACCOs and credit unions hold some real advantages for microfinance outreach and development (Birchall, 2004). An organized SACCO is:

- a. An easy way of organizing a community to save and recycle savings in a given locality;
- b. Since the nature of a SACCO is local, it mobilizes savings locally, within the community, and then the profits are returned to members in the form of loans. The money stays and works within the membership and the area. This mutually achieved success helps to not only build a sense of ownership and pride in an area, it creates a culture of saving and investing.

Reach

The reach of SACCOs is local, as mentioned above. SACCOs reach members and areas (i.e. rural) that are unattractive to banks. They can provide access to members of the population who would not normally save in the formal sector, nor be able to physically access a traditional financial institution, especially commercial, due to locality and deposit restrictions.

Savings

One of the key elements of a SACCO is their savings product. Unlike most micro-credit NGOs and institutions they provide a savings product which offers interest and a return on their deposits, which provides a new income stream for the individual and can either be reinvested or withdrawn for use.

Ease

SACCOs can be started with relative ease. They are typically started by a group with a common bond such as farmers, teachers, artisans or women and tend to have very little major external support. They do not require donations from outside resources to start-up since it is funded through member's deposits, which makes the process simpler and more straight forward.

Stability

Due to the nature of SACCOs they have a solid base of small savings accounts which creates a stable and relatively low-cost funding source. This stability creates confidence in the institutions and in the financial sector and as confidence grows so too does the use of financial products.

Low Overhead

Well-run SACCOs are known for having low overhead and low administrative costs, which enables them to make loans at interest rates that are lower than those charged by other micro-credit providers.

Garber (1997) in a paper for the University of Miami, recommends 7 Steps to build sustainable credit and savings programs. These are as follows:

1. Choose a programme model

One specific programme model for financial services and microenterprise development cannot be recommended for all situations. However, certain basic technical and socio-economic criteria can be employed - large scale, reaching the poor, providing easy access to savings and credit services, mechanisms for cost recovery and financial sustainability. Combining credit and savings, and credit with other socio-economic programmes also ensure better participation and sustainability.

2. Build consensus

Building a consensus among the various stakeholders, whether project staff members, the target community, or other individuals/organizations, is an important element in the success of credit programmes. This is critical in facing the challenge of adjusting their values and roles as new

financial service models reduce the subsidy element, stress the rotation of funds and feature partnerships.

3. Designate staff for economic development

Project staff members specifically designated to oversee development and implementation of financial services, plays a critical role in facilitating an increased understanding and awareness, and in transferring lessons learned. Experience in project design, implementation, management and evaluation, and experience in working with poor women is essential for effective outreach.

4. Formalize national policies

Clear national/regional policies for microcredit and poverty lending permit greater scale, specialization and sustainability. This avoids local programme design and budget decisions, as well as enables sharing of best practices and high performance ideas.

5. Assess and choose financial institutions as partners

Dynamic partnership models are necessary to successfully promote sustainable financial institutions. Partners typically take up the activities of managing funds or provide services to poor clients; they may also monitor service delivery and socio-economic impact, and assist in financial management and management information systems. As a result, both parties enhance their understanding of effective development and become stronger organizations.

6. Create agreements with partners

Agreements with partners define common visions and spellout contents of the programme. Roles and responsibilities, joint review, problem solving/mediation, and performance indicators are also identified. Agreements specify reporting standards and forms that will be similar so that

performance measuring becomes easy. These include loan portfolio performance, cost-recovery, progress toward sustainability, and socio-economic impact (overcoming gender inequities, effects on children).

7. Manage partnership agreements

Managing partnership agreements requires an understanding of the broader programmatic, institutional and financial issues associated with developing partner organizations. This may require technical assistance, training and systems development etc. to make partnerships more efficient. Measuring programme impact and institutional development of partners depends on good information systems and monitoring instruments.

2.5 Challenges for SACCOs development

While SACCOs and credit unions have distinct advantages to banks regarding access, they face challenges which banks would not normally encounter (CGAP, 2005). Some of the most major problems are:-

Governance weakness

SACCOs are usually governed by a volunteer board of directors elected by the membership; small, young SACCOs are also often staffed entirely by volunteers. As they grow and perform more risky operations they require more professional managers, it is at this point problems occur when volunteer board members continue to make operational decisions after professional managers have been recruited when they should be focusing on the monitoring of operations.

It is difficult for board members to balance the contradictory interests of net borrowers and savers. Borrower domination is unhealthy for SACCOs because they have few incentives to ensure prudential discipline or profitability; whereas, net savers are most interested in protecting

their deposits and earning an attractive rate of return. The “one person, one vote” decision-making system is meant to ensure equality of interests, but many people do not exercise their right because of they feel they wield very little influence as an individual; as a result, in some cases, community elites or net borrowers dominate the structure for their own gain (*Ibid*, 2005).

Inadequate regulation and supervision

Competent external regulation and supervision can identify, avoid and resolve many common problems experienced by SACCOs and credit unions. In many countries, SACCOs are supervised by the same government agency that is responsible for all kinds of non-financial cooperatives, including agricultural and marketing; such agencies do not have the financial skills or political independence needed to oversee financial intermediaries effectively.

In Latin America, more bank superintendence are adding supervision departments for SACCOs and in West Africa, central banks have designated a department, such as microfinance, to supervise SACCOs. Delegated supervision to an outside body only works if that body is not controlled by the SACCOs being supervised, but requires an understanding of their unique risk profile and supervision must be adapted accordingly(CGAP, 2005).

Limited Menu of Products

As stated in CGAP (2006) , traditionally SACCOs offer only one type of loan a 3:1 or 5:1 multiple of a member’s savings balance, with no variations to risk levels (borrower repayment capacity, type of activity financed etc...). These types of loans are not flexible enough to meet member’s diverse credit needs, including short-term working capital for micro-entrepreneurs and agricultural inputs for small-holder farmers. Many SACCOs are introducing a greater variety of products, such as housing loans and use better tools to assess and manage loan risk. SACCOs in

Mexico and Ecuador apply credit scoring tools for risk analysis and offer flexible lines of credit to find working capital needs (*ibid* ,2006).

Damage done by external credit

Donors have channeled funds through SACCOs to target specific types of clients. Experience has shown that this practice tends to harm participating SACCOs; external funds decrease the incentive to mobilize deposits, skew incentives toward net borrowers, and are not managed as carefully as the member's own money. External funding does have the advantage of being resources for longer-term loans, but it should be limited in relations to member's deposits and the internal capacity for managing a larger loan portfolio. In Benin (CGAP, 2005), FECECAM, a federation of cooperatives, suffered loan quality and asset deterioration when donor-driven credit increased and was channeled through cooperatives that did not meet prudential standards.

2.6 The SACCO Model

Despite the challenges faced by SACCOs they can be an effective tool if governed, regulated and held to best practices, and if guided by the core values of self-help, self-responsibility, democracy, equity, solidarity, honesty, openness, social responsibility and caring for others.

There are a variety of SACCO models throughout the world and there is not one model which applies to every country or group of people, but there are some best practices and standards.

The International Cooperative Alliance (ICA) stresses that SACCOs are essentially cooperatives. Cooperatives are democratic organizations controlled by their members who set their own policies. Therefore, SACCOs are self-determined and self monitored; theirs policies must be set by members and should not be externally managed (WOCCU, 2002).

Education is the key to success

Due to the nature of democracy within SACCOs, it is important to have an informed membership; an uninformed membership the ICA says is the greatest threat to any SACCO. The ICA stresses that cooperatives and SACCOs in return, should provide education and training for their members, elected representatives, managers and employees so they can contribute effectively to the development of their cooperatives.

The education of SACCO members is an absolute must for maintaining democracy, member control and transparency within the SACCO or once a SACCO is badly managed to benefit a limited few, it is very difficult to bring the institution back to the fundamentals; this is where greater regulation has a role.

Best Practices and Regulation

Cooperative legislation should provide promotion, registration and governance supervision to SACCOs and credit unions; whereas, financial sector legislation is meant for the protection of savings and prudential supervision of the industry. The WOCCU recommends credit union laws which create financial management disciplines, controls and supervision. The licensing of SACCOs and credit unions is an instant way in creating confidence and should be done by the government to ensure best practices. In Rwanda, according to CGAP (2005), SACCOs as other financial institutions are licensed and supervised by the Central Bank.

The basic standards which should be applied to achieve a license according to WOCCU are the following:

- ❖ Standardized accounting reporting
- ❖ External audit
- ❖ Capital Adequacy (capital reserves/assets)

- ❖ Fully funded provisions for loan losses
 - Loan Loss provisions
- ❖ Liquidity standards
 - Liquidity reserves
- ❖ Limits on non earning assets
- ❖ Internal controls
 - Borrowing/leverage limits
 - Loan concentration limits
- ❖ Policies: credit, collections, savings
- ❖ Bylaws

Below are the WOCCU international standards for financial performance monitoring, which was developed for monitoring and managing credit unions (WOCCU, 2002).

“PEARLS” financial standards

Each letter of the word PEARLS measures key areas of credit union operations: **P**rotection of asset, **E**ffective financial structure, **A**sset quality, **R**ates of return and cost, **L**iquidity and **S**igns of growth. PEARLS is a financial performance monitoring system designed to offer management guidance for credit unions and other savings institutions. PEARLS is also a supervisory tool for regulators. PEARLS can be used to compare and rank institutions; it can provide comparisons among peer institutions in one country or across countries.

PEARLS are a set of financial ratios or indicators that help to standardize terminology between institutions. In total, there are 44 quantitative financial indicators (see Annex I) that facilitate an integral analysis of the financial condition of any financial institution. The purpose for including

a myriad of indicators is to illustrate how change in one ratio has ramifications for numerous other indicators.

Each indicator has a prudential norm or associated goal. The target goal, or *standard of excellence* for each indicator is put forth by the World Council of Credit Unions, Inc. (WOCCU) based on its field experience working to strengthen and modernize credit unions and promote savings-based growth. Depositors can have confidence that savings institutions that meet the *standards of excellence* are safe and sound.

PEARLS, primarily a management tool for institutions, can also be used as a supervisory tool by regulators. As a management tool, PEARLS signals problems to managers before the problems become detrimental. For boards of directors, PEARLS provides a tool to monitor management's progress toward financial goals. For regulators, PEARLS offers indicators and standards to supervise the performance of savings institutions.

Protection -The primary goal of evaluating the Protection indicators, as the heading implies, is to ensure that the financial institution provides depositors a safe place to save their money. Provisions for loan losses are the first line of defense against unexpected losses to the institution. Allowances for loan losses are essential, since delinquency signals that loans are at risk; thus, the institution must set aside earnings to cover those possible losses so that member-client savings remain protected. When financial intermediaries do not recognize loan losses:

- Asset values are inflated;
- Reported net income is overstated;
- Provisions for loans losses are lacking;

- Member-client savings are not secure; and
- Dividends are overstated and erroneously paid out.

Effective financial structure - The financial structure is the most important variable that affects growth, profitability and performance. Credit unions that maintain most (70-80%) of their total assets in the loan portfolio have the greatest opportunity to maximize returns on these productive assets while providing their member- clients with the credit services they seek. Similarly, institutions that fund their assets primarily (70-80%) with member-client deposits are independent from the fluctuating price of external funds.

Financial structure is always changing and requires careful management, especially in cases of rapid growth. The Effective Financial Structure area of PEARLS focuses on an institution's sources of funds (savings, shares, external credit and institutional capital) and its uses of funds (loans, liquid investments, financial investments and non-earning assets). The PEARLS system provides information over time; therefore, managers, directors and regulators can observe the structural evolution of both the sources of funds and the uses of funds. An institution has an effective financial structure when assets, financed by savings deposits, generate sufficient income to pay market rates on savings, cover operating costs and maintain capital adequacy

Asset Quality- is the main variable that affects institutional profitability. An excess of defaulted or delayed repayment of loans and high percentages of other non-earning assets have negative effects on credit union earnings because these assets are not earning income. As mentioned in the protection discussion, it is essential that delinquency be measured correctly and minimized. Delinquency, commonly referred to as portfolio-at-risk, is the total outstanding balance of loans delinquent greater than 30 days. This ratio is a measurement of institutional weakness because if

delinquency is high, then other key areas of credit union operations could be weak; e.g. loan loss provisions, institutional capital and net income. In addition to controlling delinquency, institutions also must monitor the ratio of non-earning assets to total assets and ensure that these non-earning assets are not financed by savings deposits, external credit or member shares (in the case of a credit union or other user-owned financial cooperative). Sources of funds that have a financial cost such as savings deposits need to be invested in productive assets that will earn a return greater than the cost of funds. The only way to have non-earning assets, such as fixed assets, without negatively affecting earnings is to finance those assets with no-cost capital such as institutional capital or reserves.

Rates of Return and Costs - indicators monitor the return earned on each type of asset (use of funds) and the cost of each type of liability (source of funds). On the assets side, one can determine what types of assets earn the highest returns. On the liability side, one can determine what the least and most expensive sources of funds are. Yields and costs directly affect the growth rates of an institution. The intent is for an institution to pay real rates of return on savings and shares, charge rates on loans that recover all costs and pay competitive salaries for employees.

Liquidity – Effective liquidity management becomes a much more important skill as the credit union shifts its financial structure from member shares to more volatile deposit savings. In many movements following the traditional model, member shares are very illiquid and most external loans have a long payback period, therefore there is little incentive to maintain liquidity reserves. Liquidity is traditionally viewed in terms of cash available to lend a variable exclusively controlled by the credit union. With the introduction of withdrawable savings deposits, the

concept of liquidity is radically changed. Liquidity now refers to the cash needed for withdrawals a variable the credit union can no longer control (WOCCU, 2002).

Total Liquidity Reserves (L1) measures the percentage of savings deposits invested as liquid assets in either a National Association or a commercial bank. The "ideal" target is to maintain a minimum of 15% after paying all short-term obligations (30 days and under). L1 serves to maintain short-term investment liquidity to respond to member-client withdrawal and disbursement demands. The goal of indicator L3 is to maintain the ratio of costly non-earning liquid assets to less than 1% of total assets. Liquidity reserves are important but they also imply a lost opportunity cost, the target is to reduce idle liquid funds (L3) as close to zero as was possible.

Signs of Growth - reflect member client satisfaction, appropriateness of product offerings and financial strength. Growth directly affects an institution's financial structure and requires close monitoring to maintain balance. An institution needs to maintain accurate macroeconomic information, particularly the annualized inflation rate, in order to attain positive real growth.

Table1: Key PEARLS Indicators.

Indicators	Standard
P1. Allowance for Loan Losses/Delinquency > 12 months	100%
P2. Net Allowance for Loan Losses/Delinquency of 1-12 months	35%
E1. Net Loans/Total Assets	70%-80%
E5. Savings Deposits/Total Assets	70%-80%
E6. External Credit/Total Assets	Maximum 5%
E9. Net Institutional Capital/Total Assets	Minimum 10%
A1. Total Loan Delinquency/Gross Loan Portfolio	<= 5%
A2. Non-Earning Assets/Total Assets	<= 5%
R7. Total Interest (Dividend) Cost on Shares/Average Member Shares	Market Rates >= R5
R9. Total Operating Expenses/Average Total Assets	5%
R12. Net Income/Average Total Assets	Linked to E9
L1. ST Investments + Liquid Assets – ST Payables/Savings Deposits	Minimum 15%
L3. Non-earning Liquid Assets/Total Assets	< 1%
S11. Growth in Total Assets	> Inflation

NOTE: If there is a difference between the PEARLS *standards of excellence* and a country's national standards of performance, then WOCCU encourages its credit union partners to opt for the more conservative of the two standards.

Source: Richardson, David C. World Council of Credit Unions (October 2002)

2.7 Brief History of Savings and Credit Cooperatives in Ethiopia

Cooperation is the way of life of Ethiopians and has a long year of experience as a tradition. This cooperation may be facilitated by cultural or religious organizations that make the population bring together. For example, *Iddir* /focuses on funeral celebration/, *Ikuib* /which helps for saving money and selfhelp to the members/, and *Debo* / which is focused on the cooperation on labor peak times like in the time of harvest, wedding , etc./.

Modern cooperative in Ethiopia was started at the time of Emperor Haile-selasie first in 1961 by Decree number 44/1961 and later on a proclamation were enacted on 1966. With all shortcomings, this legal ground gave inputs for co-operative development in the country. During the Dergeue regime, tremendous efforts were exerted to organize different types of co-operatives in line with proclamation No.138/1983. During this time, co-operatives were mainly organized to transform rural economy to the socialist style rather than benefiting their members. In this process, internationally accepted co-operative principles were violated which consequently led to the dissolution of co-operatives and devastation of their properties during the transition period. (Dagnew Gessesse, 2004)

However, the recent enactment of co-operative society proclamation No.85/94 and No.147/98 created fertile ground for restructuring the previous co-operatives and organizing new ones, in line with the new market oriented economic policy of the government, EPRDF.

In 2006, the total number of cooperatives reached 19,147 with 4,076,323 members and total capital of Birr¹ 316,140,725. The number of savings and credit cooperatives was 22% of the total cooperatives (unpublished annual report of FCA, 2006).

Savings and credit cooperatives in Ethiopia have no very long origin. The first savings and credit cooperative in Ethiopia was established in 1964 by employees of Ethiopian Airlines and the initiative of interested individual Ethiopians who have foreign countries exposure and peace-core workers of foreign citizens. During the same period, savings and credit cooperatives were established by employees of Ethiopian Road Authority and the Telecommunication Agency (Dejene, 1993).

¹ *Ethiopian Currency name (1USD=13 Birr in 2010).*

Until the year 2001, there was no a saving and credit cooperative society in rural Ethiopia. The first rural savings and credit cooperative society in Ethiopia is *Hidu* primary savings and credit cooperative society. It is found in Oromiya Regional State, East Shewa Zone, ‘Error’ Woreda at ‘Hidu’ farmers association (Kebele²).

According to CIA world fact book (2008), Ethiopia has SACCOs or Credit Unions of 5975, with total members 477817, penetration rate³ of 1.1% and savings of US\$ 88,381,822, Loans of US\$12,846,339, reserves of US\$ 9,324,233 and total assets of US\$ 99,193,964.

2.8 Empirical Studies

Savings play a critical role in financial management strategies of poor people. Deposit facilities make it easier for poor clients to turn small amounts of money into “useful lump sums,” enabling them to smooth consumption and mitigate the effects of economic shocks (Rutherford 2001). Secure savings also can provide a measure of independence to socially and economically vulnerable individuals, notably women and children. And, unlike credit, the benefits of savings are not limited to the economically active. Although significant research has documented the benefits of saving to the poor, the microfinance sector remains focused largely on credit delivery.

According to World Bank (2006) and UNDP (2006), perhaps the most important factor that determines the success of financial cooperatives is the quality of internal governance. The governance structures of SACCOs have typically 3 tiers: the general assembly of all members, a board of directors elected by the general assembly, and a management team appointed by the

² *The lowest organizational structure in the administrative level of Ethiopian government.*

³ *Penetration rate is calculated by dividing the total number of reported credit union members by the economically active population.*

board. The boards' role is to establish strategic direction, make policies, and hire, supervise and fire managers. Management takes care of the day-to-day operations of the cooperative with in the powers delegated to it by the board.

Financial services integrate markets, encourage savers to hold larger production of their wealth in the form of financial assets than unproductive inflation hedges, and allocate ingestible resources more efficiently. Financial deepening is achieved by reducing risks and minimizing transaction costs through exploitation of economies of scale and scope, professional portfolio management and diversification, systematic collection of information, and fostering a better lender - borrower relationship (Padmanabhan, 1987).

Formal microfinance institutions are regulated by the financial authorities of a country –with special microfinance windows, semi formal microfinance institutions (savings and credit cooperatives, village banks, etc.) are under the control of non-financial authorities and informal micro financial institutions are controlled by customary law and peer pressure (Rajaram, 2001).

The theoretical literature group's household's savings motives into four such as to provide resources for retirement and bequest; to finance large lifetime expenditure; to finance unexpected losses of income; and to smooth the availability of financial resources over time to maintain a more stable consumption profile (Griffiths and Stuart, 1986).

Macroeconomic and political stability affect expectation and thus the saving rate. The services provided by government, such as social security, the availability and the quality of financial services can affect saving rate (Padmanabhan, 1987).

According to FAO studies (2001), on average, rapidly growing countries have higher savings rates than slower-growing countries. These rates are influenced by many factors: the level of

income per capita, the rate of income growth, the age composition of the population and attitude toward thrift. The results of the study conducted by Muradoglu and Taskin *et al.* (1996) indicated that demographic variables such as age groups, birth rates, dependency ratio and financial variables such as interest rates, inflation rates, available financial instruments and initial wealth levels affected the decision of household savings significantly.

There are different types of financial institutions in the world. A single institution model suitable to all countries does not exist, no one structure could say to be clearly preferable to others (Orazio and Miguel, 2000). What is important is that these institutions should be able to adapt to local conditions and financial flow. As a short-term solution to the lack of savings by the households, governments of developing countries are embarking on micro financing schemes to enable the households to venture in to small business activities. However, these measures are not only costly but also not sustainable in the longer run if the societies are not empowered to save by themselves (*ibid*, 2000).

The major problems of cooperatives in Africa are absence of experienced management, uneconomic base level units, lack of supporting infrastructure like extension, training etc., poor member participation, insufficient supervision and auditing of cooperatives, and too much political disturbance (SACCOL, 2003).

The existence of functioning cooperative societies leaves a positive mark on the economic and social structure of a country since cooperatives develop on the basis of local initiative and local economic strength; decentralized cooperative systems can operate in close proximity to markets and target groups. (Zvi Galor, 2006).

In the context of globalization, cooperatives are particularly well-equipped to combine the advantage of local activities with regional and national networking within the system, provided they adapt their structures and operations accordingly, thus contributing considerably not just to strengthening their members but the local/regional economic structure in which they are operating.

“Microcredit programmes have successfully contributed to lifting people out of poverty in many countries around the world”, notes the UN resolution of 15 December 1998. In his speech launching the “Year of Microcredit” on 18-11-2004, Kofi Annan emphasized the fact that sustained access to microcredit has contributed to poverty reduction by generating income and employment, enabling children to attend school, families to receive medical care and by offering individuals the opportunity for taking the best possible decisions for themselves.

The fact that cooperative financial institutions in addition to municipal saving banks (Sparkassen) have had the most prolonged and successful experience in the mobilization of microsavings and microlending is uncontroversial both decisive factors for income generation (*ibid*, 2006).

CHAPTER THREE

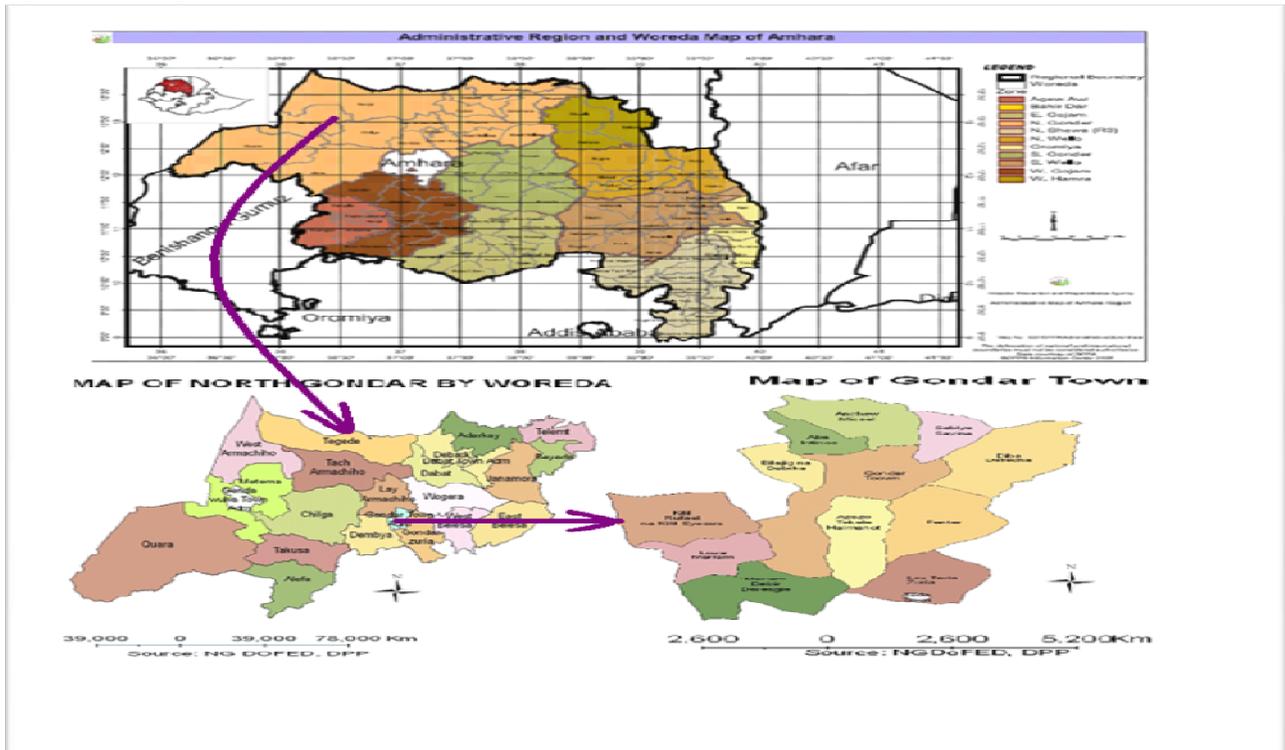
MATERIALS METHODS

3.1 Description of the study area

Gondar is one of the three metropolitan cities in Amhara National Regional State, which is found at North Gondar Administrative Zone surrounded by Lay-Armacheho, Dembya and Gondar Zurya woredas. Gondar is also known historically as the capital city of Ethiopia in the ancient period and the home of Fasil castle and other recognized world heritages.

Gondar is selected purposively for the study, because it has a number of SACCOs with long year of establishment as compare to other areas in Amhara region.

Figure 1: Map of the study area



3.1.1 Demography

According to Gondar town Information Office (2010) Gondar is the former capital city of Ethiopia was bring into being in 1635 during Emperor Fasil Regime and it has the long history place in the country. Gondar is situated at 748 km from Addis Ababa and 182 km from Bahirdar. Gondar city has an area of 5560 hectare. The city is located at N 12⁰ 40¹ and E 37⁰ 45¹. Its climate has an average annual temperature of 19-20 degree Celsius and average annual rain fall amount 1800mm. The elevation varies from 2000-22000m above sea level.

The population of the city according to CSA 2007 estimated 206, 987 out of which 98,085 are male and 108,902 female. The city administration of Gondar is comprised with 12 urban and 10 rural kebeles as well as one satellite town (Teda). The city served with an international airport, digital telephone communication, 24 hours hydro-electric power and have an inter- urban road which covers a distance of 41 kilometer asphalt and 65 kilometer gravel road. The city has also conducive land transportation access to the south with Addis Ababa, west with Sudan, north with Axum, and northwest with Humera.

3.1.2 Socio – economic features of the study area

Gondar town has 34 governmental and 10 private primary schools, 4 secondary and 2 preparatory public schools. Also have 19 kindergartens, one university and a number of privately owned colleges. The town delivers health service with one public hospital, 4 health station, and 45 clinics to the residents of the city and the surrounding community.

In the city there are 4 public and 6 private banks, one public and 5 private insurance company and also different agro business industries and hotel service.

3.1.3 SACCOs in Gondar

The first SACCO was established in Gondar before 31 years in 1978 by Meseret Primary School teachers. The current profile of SACCOs in Gondar town shows that 23 SACCOs provide their service to 4474 members, out of which 2933 are males and 1441 females. The financial status indicates the presence of a total asset of Birr 20,965,605.03 collected from members in the form of share capital and saving account. Each members save monthly within a range of Birr 10 to 800. Currently these organizations extend credit amount of Birr 13,157,121.71 dispersed to 2017 members for different purposes.

Table 2: SACCOs in Gondar town

Serial No.	Name of SACCOs	Member			Current active borrowers			Amount of loan Dispersed (in Birr)
		Male	Female	Total	Male	Female	Total	
1	Matemia dereget	54	26	80	14	7	21	74665
2	Azezo Atse Fasil	65	96	161	43	69	112	638560
3	Gondar tite medameca	10	10	20	10	5	15	19331
4	Gondar ketema gibrena	37	23	60	3	3	6	20440
5	Ageleglot	41	44	85	20	23	43	19400
6	Gondar geberena meremer	38	14	52	7	4	11	99673
7	Gondar ketema wuha agelgelot	56	12	68	29	9	38	0
8	Mengiest hoteloch	33	21	54	11	10	21	38000
9	Geberena 98	91	30	121	34	11	45	280096
10	Heberet temehert bete	308	198	506	43	16	59	1995382
11	Awraja temehert bete	79	76	155	11	9	20	541699
12	Gondar hekemena science college	971	428	1399	411	195	606	1432000
13	Negade setoch	0	24	24	0	11	11	32100
14	Fasiledes	119	47	166	69	17	86	607178
15	Leselasa metete	77	58	135	70	22	92	102200
16	Meseret	315	275	590	214	188	402	4796825.25
17	Dashen beer	129	48	177	51	18	69	52100
18	Shenbikit andenet	22	11	33	0	0	0	0
19	Negedena industry	36	26	62	11	7	18	42300
20	Changina awraja	342	0	342	342	0	342	2332742.46
21	Memeheran college	66	32	98	0	0	0	0
22	Addis fana	18	15	33	12	8	20	0
23	Temehert memria	26	27	53	3	10	13	32430
	Total	2933	1541	4474	1393	624	2017	13157121.71

Source : Gondar town Agriculture Office, Cooperative Department, 2009

Table 3: Financial status of SACCOs in Gondar town

Serial No.	Name of SACCOs	Financial capacity			Range of saving amount		Date of last Audited	Establishment Year
		Capital	Liability	Asset	Maximum	Minimum		
1	Matemia dereget	47597.55	288267.17	335864.72	500	10	25/11/2008	1991
2	Azezo Atse Fasil	9780.00	998007.40	1007787.40	300	20	30/1/2008	1993
3	Gondar tite medameca	480.00	49783.58	50263.58	100	10		1998
4	Gondar ketema gibrena	6060.00	123310.26	129370.26	500	20	30/12/2008	2007
5	Ageleglot	4040.00	148086.20	152126.20	300	20		1997
6	Gondar geberena meremer	22503.00	158754.99	181257.99	600	20	25/11/2007	2006
7	Gondar ketema wuha agelgelot	3660.00	68869.00	72529.00	300	10		2006
8	Mengiest hoteloch	37320.00	403171.41	440491.41	200	20		1988
9	Geberena 98	93600.00	528920.00	622520.00	800	30	1/8/2008	2006
10	Heberet temehert bete	422680.00	3838308.86	4260988.86	500	20	30/12/2007	1986
11	Awraja temehert bete	88250.00	554664.07	642914.07	500	20	30/10/2007	1985
12	Gondar hekemena science college	11403.08	2679836.58	2691239.66	500	50		1984
13	Negade setoch	7160.00	55750.00	62910.00	500	20		2008
14	Fasiledes	150000.00	890000.00	1040000.00	500	20	30/1/2007	1980
15	Leselasa metete	1015.00	634430.31	635445.31	400	10		1991
16	Meseret	71687.56	5028561.00	5100248.56	300	50	30/1/2009	1978
17	Dashen beer	524.00	130347.66	130871.66	600	50		2007
18	Shenbekit andenet	480.00	3920.00	4400.00	20	10		2007
19	Negedena industry	350.00	74163.35	74513.35	300	20		1996
20	Changina awraje	0.00	3246000.00	3246000.00	200	200	2006	1980
21	Memeheran college	0.00	0.00	0.00	0	0		1988
22	Addis fana	7120.00	2914.00	10034.00	100	20	2006	2005
23	Temehert memria	3179.00	70650.00	73829.00	300	50		2000
	Total	988889.19	19976715.84	20965605.03	800	10		

Source : Gondar town Agriculture Office, Cooperative Department, 2009

3.2 Definition of operational performance indicators and SACCOs features

Operational performance indicator: performance is measured by considering PEARLS financial standards for SACCOs. The indicator includes adequate protection of asset, availability of effective financial structure, asset quality, the rate of return and costs, effective liquidity management, and sign of growth in SACCOs by using the percentage of key financial indicators.

The features of SACCOs and members considered as explanatory variables for the variation in performance are discussed here under:

1. **Educational status of members:** represents the year of formal schooling in SACCO member. The variable ordered as members' education status in primary, secondary, diploma, degree and above degree level.
2. **Access to training members:** Training would increase the awareness level of members and it contributes for good operational performance of SACCO. It is explained by the number of members who have got training and those who have not got training by SACCO.
3. **Internal and external control:** is frequency and quality of regular control by the SACCO management body and annual audit by external auditor, it is a dummy variable for the presence or absence of control.
4. **Collateral:** is the presence or absence of alternative choice of asset that the borrower can pledge to the lender SACCO as security and it is discrete.
5. **Leverage ratio:** is the proportion of members saving and share capital in percentage, it is continuous.
6. **Trust:** is an important social capital in cooperative explained by the presence or absence of members confidence on the reliability of their institution and SACCO officials' performance. It is a dummy variable.
7. **Office equipment and employee:** availability of basic office equipment and number of appropriate professional or experienced employee in SACCO. It is discrete.
8. **Governance skill / Co-operative Governance:** is measured based on SACCO by-law, how efficiently the management and other committees organized and perform their duties

Indicates how SACCOs are responsible, responsive, accountable, transparent, competitive and sustainable.

9. Cooperative act: is the presence or absence of perception and knowledge of members and officials on the FDRE proclamation No. 147/98 for successful development of SACCOs.

10. Menu of products: is the types and proportion of financial products rendered in SACCOs to members.

11. Service delivery: is the presence or absence of members' satisfaction on the already existing financial service delivery system of SACCO.

3.3 Sampling technique

Gondar town was selected purposively for this study because it has long established SACCOs and considerable amount of liquid asset. There were 23 SACCOs in the town. For this study, seven SACCOs were purposively selected based on availability of data and completeness of records. Because to analyse financial performance of sample SACCOs by using PEARLS standards, it needs to select SACCOs which have appropriate financial report.

To select target respondents from the sample seven SACCOs, simple random method of sampling were used to select 120 respondents from all SACCOs members using a probability proportionate to size (PPS). In addition, 30 officials from the seven SACCO executive committees were used as key informants.

Pre-testing of the structured interview schedule was carried out with the use of 20 non sample respondents and based on the result adjustments were made to the final version. Trained enumerators were used to collect data.

Table 4: Sample size

Serial No.	Name of SACCO	Total Member	Sample size
1	Matemia dereget	80	6
2	Ketema gibrena	60	5
3	Geberena 98	121	8
4	Heberet temehert bete	506	36
5	Awraja temehert bete	155	11
6	Fasiledes	166	12
7	Meseret	590	42
	Total	1678	120

Source : Gondar town Agriculture Office, Cooperative Department

3.4 Data sources and collection method

This study was designed to identify socio-economic factors which are determining on saving and credit cooperatives operational performance and to determine the relative importance of the factors.

In this study both primary and secondary data were collected. Primary data was collected from both sample SACCO members and officials by using a structured interview schedule. On the other hand, secondary data was collected from SACCO records, financial reports, government office, and other reliable sources.

3.5 Technique of data analysis

The data was entered into computer and analyzed using statistical software (SPSS version 17). The findings on the operational performance of SACCOs explained in the form of Tables,

percentages, graphs and charts to describe the present nature of SACCOs and also the saving profile, loan provision and loan repayment procedure of members. In general, the socio-economic profile of the respondents in Gondar town was used to examine the performance of SACCO in service provision to members. The descriptive analysis made use of tools such as mean, standard deviation, ratios, χ^2 test, correlation and summarizing the challenges and prospects of SACCOs through SWOT analysis. To detect the operational performance of SACCOs, standards were calculated using PEARLS formula (see annex II).

CHAPTER FOUR

RESULT AND DISCUSSION

4.1 Nature of SACCOs and feature of their members

4.1.1 Socio-economic profile of respondents

The plan was to collect primary data from seven SACCO with a sample size of 120 members and 30 officials but 8 (6.6 %) member respondents did not be gave their response properly. Therefore, the analysis was based on the response of 112 (93.3 %) members and 30(100%) officials. The composition of member respondents was male 75 (66 %) and female 37 (33%) and for official respondents male 28 (93.4 %) and female 2 (6.6%) was used to describe the nature and the way how their SACCOs operate efficiently in terms of saving, loan provision and repayment, collateral system, members and financial growth, institutional and governance arena to maximize their service and extending as a successful financial institute.

4.1.1.1 Membership duration

Comparatively SACCOs in Gondar town have long years of service in Amhara Region. As indicated in Table 5, members have a range of 1-28 years of affiliations. For the last five years, SACCOs increase new members in a better proportion which contribute to increase SACCOs service coverage, i.e. 35.7% of members have 1-5 years, the rest members have 6-10 years, 11-15 years,16-20 years, 21-28 years with a proportion of 19.6%, 13.4%,19.6%, and 11.6%, respectively.

Table 5: Total years of membership

	Frequency	Percent	Valid Percent	Cumulative Percent
1-5	40	35.7	35.7	35.7
6-10	22	19.6	19.6	55.4
11-15	15	13.4	13.4	68.8
16-20	22	19.6	19.6	88.4
21-30	13	11.6	11.6	100.0
Total	112	100.0	100.0	

Source: Survey result

4.1.1.2 Marital status

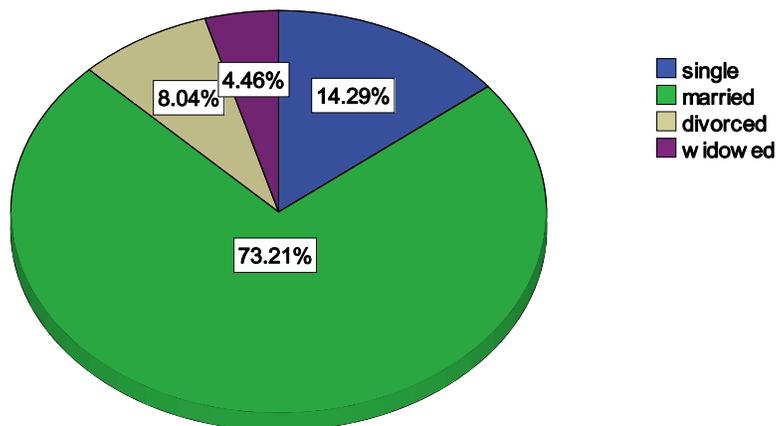
As indicated in Table 6, of the sample SACCO members, 73.2% are married and the other 26.8% are single or divorced or widowed.

Table 6: Marital status

	Frequency	Percent	Valid Percent	Cumulative Percent
Single	16	14.3	14.3	14.3
Married	82	73.2	73.2	87.5
Divorced	9	8.0	8.0	95.5
Widowed	5	4.5	4.5	100.0
Total	112	100.0	100.0	

Source: Survey result

Figure 2: Marital status of respondents



4.1.1.3 Monthly income and saving amount

The study indicates the entire sample SACCO members are permanent employee of different public institutions, which have got their income from monthly salary. Table 7 shows 86.6% of members have a salary of less than 2000.00 birr, and the rest 13.4% have got monthly income of above 2000.00 Birr. As shown in Table 8, 75% of SACCO members save monthly within a range of 50 to 100 Birr and the rest 25% save from 100 to 500 Birr monthly.

Table 7: Amount of monthly income in Birr

	Frequency	Percent	Valid Percent	Cumulative Percent
<1000	9	8.0	8.0	8.0
1000-2000	88	78.6	78.6	86.6
2000-3000	13	11.6	11.6	98.2
>3000	2	1.8	1.8	100.0
Total	112	100.0	100.0	

Source: Survey result

Table 8: Amount of monthly saving in Birr

	Frequency	Percent	Valid Percent	Cumulative Percent
50.00	29	25.9	25.9	25.9
60.00	1	.9	.9	26.8
80.00	1	.9	.9	27.7
100.00	53	47.3	47.3	75.0
120.00	1	.9	.9	75.9
150.00	6	5.4	5.4	81.3
195.00	1	.9	.9	82.1
200.00	16	14.3	14.3	96.4
240.00	1	.9	.9	97.3
300.00	2	1.8	1.8	99.1
500.00	1	.9	.9	100.0
Total	112	100.0	100.0	

Source: Survey result

4.1.2 Member's growth

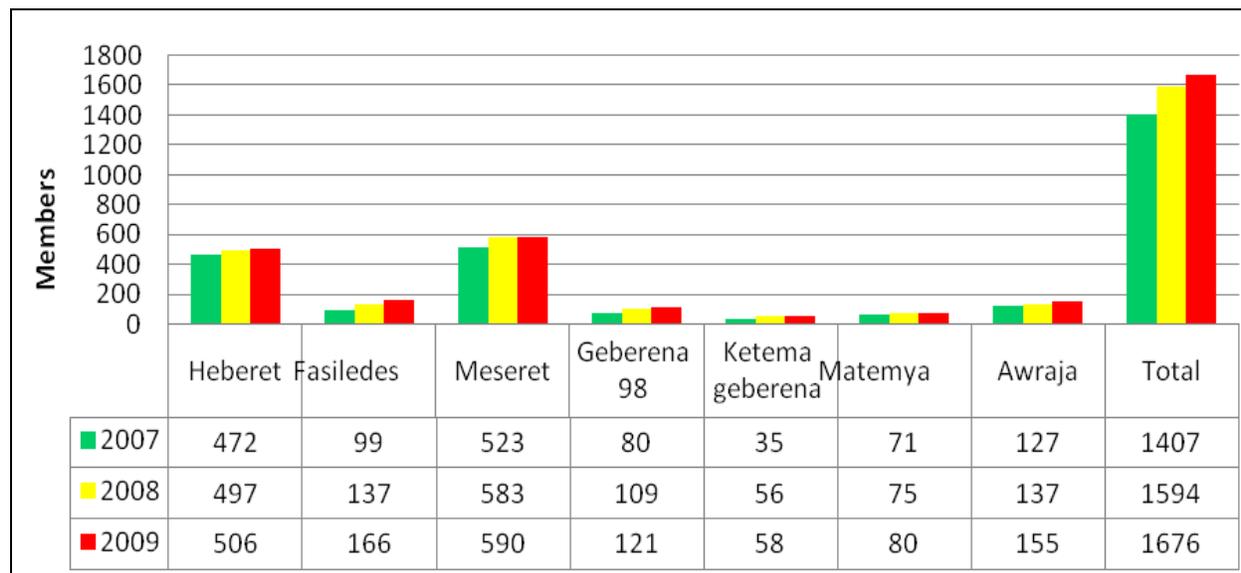
As indicated in Table 9, for the last three years, from 2006/7- 2008/9, SACCOs shows an average increment of 10.7% in total membership. When we see the growth of members by sex, female members increase by 12.24% and males by 7.26%.

Table 9: Membership growth (2006 – 2009)

Name of SACCOs	Year Established	2006/7			2007/8			2008/9		
		Male	Female	Total	Male	Female	Total	Male	Female	Total
Heberet	1986	307	165	472	311	186	497	308	198	506
Fasiledes	1986	83	16	99	105	32	137	119	47	166
Meseret	1978	280	243	523	307	275	583	315	275	590
Geberena 98	2006	62	18	80	85	24	109	91	30	121
Ketema geberena	2007	22	13	35	36	20	56	36	22	58
Matemya	1991	52	19	71	51	24	75	54	26	80
Awraja	1985	65	62	127	70	67	137	79	76	155
Total		871	536	1407	965	628	1594	1002	674	1676

Source: Servey result

Figure 3: Members growth



4.1.3 Financial status of SACCOS

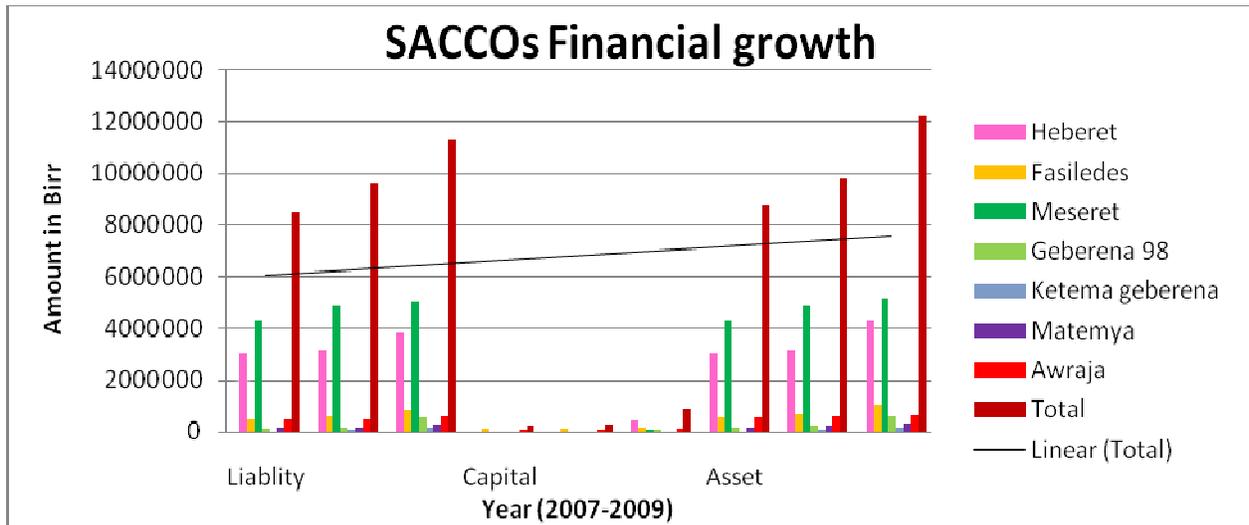
The financial status of sample SACCOS, as shown in Table 10, indicates for the last three years from 2007 to 2009 has increased by 12.5% and 24.25% consecutively in total asset. The financial status of SACCOS shows linear growth.

Table 10: SACCOS financial status

SACCOS	Liability (Birr)			Capital (Birr)			Asset (Birr)		
	2007	2008	2009	2007	2008	2009	2007	2008	2009
Heberet	2,988,253.00	3,116,789.00	3,838,308.86	0	0	422,680.00	2,988,253.00	3,116,789.00	4,260,988.86
Fasiledes	446,802.00	596,168.00	816,695.00	93,300.00	97,300.00	150,000.00	540,102.00	693,468.00	1,040,000.00
Meseret	4,274,309.00	4,874,909.72	5,028,561.00	0	0	71,687.56	4,274,309.00	4,874,909.72	5,100,248.56
Geberena 98	145,410.00	203,100.00	528,920.00	27,840.00	36,900.00	93,600.00	173,250.00	240,000.00	622,520.00
Ketema geberena	0	53,116.17	158,348.20	0	2,780.00	9,259.37	0.00	55,896.17	167,607.57
Matemya	172,960.30	201,786.90	288,267.17	41,210.00	43,270.80	47,597.55	214,170.30	245,057.70	335,864.72
Awraja	448,363.26	490,354.79	554,664.07	67,590.00	78,203.00	88,250.00	515,953.26	568,557.79	642,914.07
Total	8,476,097.56	9,536,224.58	11,213,764.30	229,940.00	258,453.80	883,074.48	8,706,037.56	9,794,678.38	12,170,143.78

Source: Gondar town agriculture office (2010)

Figure 4: Financial status of SACCOs



4.1.4 Patronage dividend

As indicated in Table 11, SACCOS show a remarkable growth in the amount of dividend distributed to members. Each year from 2007 to 2009, the dividend increased almost double as compare to the previous year. However, there was a problem of annual auditing to distribute the dividend regularly in each year.

Table 11: Amount of patronage dividend dispersed to members

SACCOS	Patronage Dividend in Birr		
	2007	2008	2009
Heberet	23,457.00	52,200.00	76,264.98
Fasiledes	18,441.10	18,106.64	34,000.00
Meseret	0	0	192,401.00
Geberena 98	6,548.00	9,822.00	10,022.00
Ketema geberena	0	250.96	1,058.49
Matemya	2,768.65	4,894.31	4,946.21
Awraja	6,864.49	12,502.72	13,094.27
Total	58,079.24	97,776.63	331,786.95

Source: Gondar town agriculture office (2010)

4.1.5 Loan users

Of sample SACCOs, 84.8% of their members have taken loan at least once from their SACCO and the rest 15.2% did not take any. The loan size by individual borrowers range from Birr 300 to 75,000 and loan repayment period covers from 10 up to 60 months depending on the credit policy of each SACCOs.

Table 12: Have you ever taken a loan from your SACCO

	Frequency	Percent	Valid Percent	Cumulative Percent
yes	95	84.8	84.8	84.8
no	17	15.2	15.2	100.0
Total	112	100.0	100.0	

Source: Servey result

Table 13: Loan amount and repayment period

SACCOs	Loan amount in Birr			Loan repayment period in month	
	Maximum	Medium	Minimum	Maximum	Minimum
Heberet	75,000	20000	300	60	12
Fasiledes	25,000	10000	1,000	42	10
Meseret	30,000	15000	1,000	50	12
Geberena 98	30,000	10000	3,000	36	12
Ketema geberena	12,000	5,000	1,000	24	18
Matemya	25,000	12000	1,000	48	12
Awraja	40,000	8,000	1,000	60	12

Source: Survey result

4.1.6 Frequency of loan

As indicated in Table 14, the study shows 15.5% of SACCO members did not take any loan and the rest i.e. 18.8% once , 15.2% twice , 17% three times , 17% four times , 6.3% five times, 4.5% six times , 1.8% seven times , and 4.5% take ten times.

Table 14: For how long period did you take the loan?

	Frequency	Percent	Valid Percent	Cumulative Percent
0	17	15.2	15.2	15.2
1	21	18.8	18.8	33.9
2	17	15.2	15.2	49.1
3	19	17.0	17.0	66.1
4	19	17.0	17.0	83.0
5	7	6.3	6.3	89.3
6	5	4.5	4.5	93.8
7	2	1.8	1.8	95.5
10	5	4.5	4.5	100.0
Total	112	100.0	100.0	

Source: Servey result

4.1.7 Purpose of loan

Members have take loan for different purpose. Table 15 shows, 38.4% of the borrowers used for house construction and maintenance, 19.6% to fulfill household goods and furniture, 13.4% to cover educational costs for the members themselves, to their children and relatives, 2.7% for medical purpose, 9% for consumption and ritual ceremonies (wedding, new year celebration, Christmas and Epiphany). The other 9.8% used loan for unexpected urgent expenses.

From loan users, 85% of them assure that they were not facing any problem to get loan from SACCOs. But the other 8.9% loan users blame their SACCOs for unfair loan provision service, because the SACCOs were not serving all members equally. To get loan, 38.4% of SACCO members asked to bring their plan and 46.4% were not asked about their business plan.

Table 15: Purpose of loan

Purpose	Frequency	Percent	Valid Percent	Cumulative Percent
No response	17	15.2	15.2	15.2
Household goods	22	19.6	19.6	34.8
House construction and maintenance	43	38.4	38.4	73.2
For education	15	13.4	13.4	86.6
For medical purpose	3	2.7	2.7	89.3
For consumption and ritual ceremonies	1	.9	.9	90.2
Other	11	9.8	9.8	100.0
Total	112	100.0	100.0	

Source: Servey result

4.1.8 Loan default

Delinquency or loan repayment problem on due date occurs due to different causes. Table 16 shows default as a result of 77.7% personal behavior or negligence in members, but 5.4% default because of SACCOs inefficient loan collection system and 1.8% of respondents cannot pay their loan on time for many reasons (annual leave, summer education, field work) and 15.2% of respondents did not take any loan from their SACCO.

To control loan default SACCOs exercise different measures. The study shows 11.6% strengthening fallow up on borrowers, 5.4% strong screening before loan provision, 4.5% restricting saving withdrawal, 23.2% requesting borrowers to have collateral and collateral substitute, 0.9% to promote other members give discount (incentive) to borrowers who have pay before due date, 37.5% sanctions (penalties) for late payment, and 0.9% provide technical support (extension) after loan.

As explained in Table 17, to control default 79.5 % of SACCO members assure that financial penalty is the main controlling mechanism for late payment, 4.5% refusal of repeated loan and 0.9% disclosing defaulters to the public.

Table 16: Major factors leading to late payment and default

	Frequency	Percent	Valid Percent	Cumulative Percent
No response	17	15.2	15.2	15.2
Personal behavior	87	77.7	77.7	92.9
Inefficient payment collective system	6	5.4	5.4	98.2
Other	2	1.8	1.8	100.0
Total	112	100.0	100.0	

Source: Servey result

Table 17: Penalty applied in your cooperative

	Frequency	Percent	Valid Percent	Cumulative Percent
No response	17	15.2	15.2	15.2
Financial penalty	89	79.5	79.5	94.6
Refusal repeat loan	5	4.5	4.5	99.1
Disclose to the public	1	.9	.9	100.0
Total	112	100.0	100.0	

Source: Servey result

4.1.9 Operation area of SACCOs

Table18 indicates 92.9 % of members assure that the operation area of SACCOs is appropriate however 7.1 % rate the operation area as not appropriate to get service. The reason for the appropriateness of the operation area was explained as 12.5% said it gives an opportunity for members to know each other and communicate easily, 33.9% accessible to mobilize and manage savings, 3.6% contributes low operational costs, 0.9% can easily understand opportunities and treats associated with members, 6.3 % increase ownership feelings and 37.5 % due to all the reasons explained in the above.

Table18: Is the operation area of SACCO appropriate?

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	104	92.9	92.9	92.9
No	8	7.1	7.1	100.0
Total	112	100.0	100.0	

Source: Servey result

Table19: Reasons for appropriateness of operation area

	Frequency	Percent	Valid Percent	Cumulative Percent
No reason	6	5.4	5.4	5.4
Members know each other and communicate easily	14	12.5	12.5	17.9
Accessible to mobilize and manage savings	38	33.9	33.9	51.8
Low operational costs	4	3.6	3.6	55.4
Can easily understand opportunities and treats associated with members	1	.9	.9	56.3
Increase ownership feelings	7	6.3	6.3	62.5
All are reasons	42	37.5	37.5	100.0
Total	112	100.0	100.0	

Source: servey result

4.1.10 Educational status of members

In Ethiopia saving and credit cooperatives initially emerged through some scholars and urban employees. Also this study shows that 74.1% of the respondents are above college diploma, which indicates educated urban dwellers who have better information and those who need forced saving for future program execution and to solve their financial problem by using SACCOs as a means of solution . Table 20 shows proportions of all respondents' educational level; 25.9% are grade 9-12, 45.5% are college diploma, 25% are university degree and 3.6% of the members above university degree. SACCO officials profile shows 33.3% are university degree holders, 30% diploma, and 23.3% are at secondary school level, 10% above first degree

and 3.3% at primary level. Presence of educated members shows positive contribution to have better service and organizational performance in SACCOs.

Table 20: Education status

	Members		Officials	
	Frequency	Percent	Frequency	Percent
Primary (1-6)			1	3.3
Senior secondary (9-12)	29	25.9	7	23.3
University/college Diploma	51	45.5	9	30.0
University First Degree	28	25.0	10	33.3
Above University First Degree	4	3.6	3	10.0
Total	112	100.0	30	100.0

Source: Servey result

4.1.11 Training

Of the respondents, 94.6% did not ever got training and only 5.4% confirm as they got training in different issues from their SACCOs. Even if members have better level of education, appropriate training is also important to have sustainable development of SACCOs and lack of updating the knowledge of members and skill has a negative effect on the SACCOs performance.

Table 21: Have you got training from your SACCO?

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	6	5.4	5.4	5.4
No	106	94.6	94.6	100.0
Total	112	100.0	100.0	

Source: servey result

4.1.12 Menu of products

SACCOs as any financial intermediation focus on diversified financial products to become sustainable and competent in the financial market. In the study all respondents have an access of getting only *compulsory or forced saving and loan service*. There is a beginning of additional services in one SACCO with a proportion of 8% voluntary saving , 3.6% children or kids saving and 0% of health saving and other services . Therefore to be competent it is necessary to have different types of financial services (like voluntary saving, health saving, etc) in accordance with economic feasibility of the products.

Table 22: Menu of products

Name of SACCOs	Individual loan		Compulsory savings		Voluntary savings		Children savings		Health saving	
	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No
Matemya	7	0	7	0	0	7	0	7	0	7
Fasiledes	8	0	8	0	2	8	0	8	0	8
Meseret	40	0	40	0	3	40	0	40	0	40
Geberena 98	7	0	7	0	0	7	0	7	0	7
Ketema geberena	5	0	5	0	4	5	4	5	0	5
Aweraja	9	0	9	0	0	9	0	9	0	9
Heberet	36	0	36	0	0	36	0	36	0	36
Total count	112	0	112	0	9	103	4	108	0	112
Total percent	100%	0%	100%	0%	8%	92%	3.6%	96.4%	0%	100%

Source: Servey result

4.1.13 Collateral

As the results in Table 23 show, all sample respondents are using two types of collateral system to get loan from SACCOs. The first one is amount of individual saving; and the second type is if the member asks loan amount above his/her own saving amount, the member obliged to bring another voluntary member saving account as collateral.

Table 23: Collateral types

	No response		Yes		No	
	frequency	%	frequency	%	frequency	%
Asset collateral	17	15.2	0	0	95	84.8
Personal guarantee	17	15.2	95	84.8	0	0
Group guarantee	17	15.2	0	0	95	84.8
Compulsory saving guarantee	17	15.2	95	84.8	0	0

Source: Servey result

4.1.14 Trust level

One of the basic social capitals for the success of such kind of socio- economic organization is users trust on their organization and management. The study shows that the reason of members trust on their SACCO is the service provision performance and effectiveness covers the largest part of 64.3% and due to better understanding about the role and importance of SACCO is 19.6%. The last reason of members trust on their SACCO is because of having good and legal ground for cooperative development 16.1%. The result shows in all SACCOs members have good trust on their SACCOs and it contributes for sustainable serve and performance of SACCOs.

Table 24: Reasons of members trust

	Frequency	Percent	Valid Percent	Cumulative Percent
Provide efficient and effective services.	72	64.3	64.3	64.3
Have better understanding about the role and importance of SACCO	22	19.6	19.6	83.9
There is good and legal ground for the coops promotion	18	16.1	16.1	100.0
Total	112	100.0	100.0	

Source: servey result

4.1.15 Cooperative act

Conducive cooperative act availability and enough understanding on it have its own great value to establish and strengthen SACCOs appropriately. Respondents explain the favorability of cooperative proclamation 147/98 as follows 51.8% say yes it is favorable, 6.35 it is not favorable and 42% they didn't know about this proclamation. With respect to the current cooperative act there is an indication of some limitation in promoting the proclamation and it will have a drawback on SACCOs performance.

Table 25: Proclamation 147/98 favorable to promote SACCO

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	58	51.8	51.8	51.8
No	7	6.3	6.3	58.0
I do not know	47	42.0	42.0	100.0
Total	112	100.0	100.0	

Source: Servey result

4.1.16 Cooperative governance

All sample SACCOs have by-law and credit policy which were approve by the general assembly. According to the organizational structure of SACCOs each members exercise one man one vote democratic right to elect their representatives i.e. management committee, control committee,

loan committee and others .The management and other committees which perform the day to day business activity of SACCOs are unpaid voluntary elected members and they are accountable to the general assembly. Elected officials will have the right to govern a maximum of six years unless they are erroneously using their responsibility. But in Heberet, Meseret, and Fasiledes most of their leaders are serving for 17, 10 and 28 years, respectively. All SACCOs have management, control and loan committees. Education and promotion committees are present only in Heberet and Awraja SACCOs. The frequency of meetings by management committees differ by SACCOs. In 2008/9, the frequency was twice Heberet, three times each Ketema geberena and Matemya, four times each Geberena and Awraja and nine and ten times each Fasiledes and Meseret, respectively.

Control committees have great responsibility to check and balance the performance of SACCOs management committees by continuous assessment as a watch dog but their activity seems at a minimum frequency. Hebert conducted ones and Awraja twice during 2008/9 while other sample SACCOs control committees did not meet at all. Loan committees actively exercise their responsibility only in Heberet and Awraja. Education committee did not perform anything in all SACCOs. In the year 2008/9, except Meseret, all SACCOs (85.71%) undertake annual general assembly with their members to evaluate last year activities, to approve the audit report, to discuss on proration of dividend, to amend by-law, to elect officials for vacant positions and to confirm next year physical and financial plane.

Table 26: Committees of SACCOs

SACCOs	Management committee			Control committee			Loan committee			Education committee		
	Male	Female	Total	Male	Female	Total	Male	Female	Total	Male	Female	Total
Heberet	4	1	5	3	0	3	1	2	3	3	0	3
Fasiledes	6	0	6	2	1	3	3	0	3	0	0	0
Meseret	7	0	7	1	2	3	3	0	3	0	0	0
Geberena 98	5	0	5	2	1	3	2	1	3	0	0	0
Ketema geberena	4	1	5	2	1	3	2	1	3	0	0	0
Matemya	4	1	5	2	1	3	1	2	3	0	0	0
Awraja	4	1	5	3	0	3	1	2	3	3	0	3

Source: Servey result

Table27: Meetings and General Assembly

SACCOs	Meeting frequency in committees				General Assembly Meeting		
	Management	Control	Loan	Education	Frequency	Present members	Absent members
Heberet	2	1	12	0	1	401	105
Fasiledes	9	0	0	0	1	83	82
Meseret	10	0	0	0	0	0	0
Geberena 98	4	0	0	0	1	98	23
Ketema geberena	3	0	0	0	1	36	22
Matemya	3	0	0	0	1	63	17
Awraja	4	2	18	0	1	106	49

Source: Servey result

4.1.17 Leverage ratio

According to cooperative proclamation 147/98 and directives to organise cooperatives, each SACCOs have a responsibility to incorporate an agreement of 6:1 leverage ratio, i.e. every member is forced to have a share capital proportion of 1 for 6 unit of saving. The study in Table 31 shows Fasiledes, Geberena 98, Matemya and Awraja have a leverage ratio of 5.93:1, 5.65:1, 6.05:1, and 6.28:1, respectively, which is within the range of the standard. But, Heberet had 9.08:1, Meseret 70.14:1, and Ketema geberena 17.10:1. This indicates the leverage of these

SACCOs is out of the agreed standard. As the leverage amount increases, the institutional capital decreases and also the amount of saving deposit decreases. The mean average of sample SACCOs leverage proportion shows 17.17:1, which is an indication of negative influence on the SACCOs operational performance.

$$\text{Leverage} = \text{saving/equity}$$

Table28: Leverage Ratio

SACCOs	Leverage Ratio	Mean	Std. Deviation
Heberet	9.08:1	17.17	23.70
Fasiledes	5.93:1		
Meseret	70.14:1		
Geberena 98	5.65:1		
Ketema geberena	17.10:1		
Matemya	6.05:1		
Awraja	6.28:1		

Source: Servey result

4.1.18 Internal and external control

Annually each SACCOs were expected to be audited legally by the cooperative promotion agency auditors according to their accounting period. Table 29, shows from seven sample SACCOs, Ketema geberena , Geberena 98, Matemya and Awraja were audited annually, which is 57%. Heberet, Fasiledes and Meseret were not audited. The internal control system is maintained by organizing a set of management body (chairman, vice chairman, secretary, accountant and cashier) group decision. All SACCOs management bodies are unpaid and voluntary persons to control the internal account monthly, but due lack of appropriate professional accountant, negligence and lack of supervision by authorized officials there is a

consistency problem in internal control system and poor documentation of financial reports in some SACCOs. For instance in Meseret saving and credit cooperative, the chairman also serves as cashier and they were not audited for the last 11 years. The external control problem arises from unavailability of enough auditors and experts in Gondar town cooperative promotion work process. SACCOs as a financial institution unless they are audited and regulated regularly it had bad implication on their transparency to members, because annually each SACCO have a responsibility of presenting an audit report prepared by external auditor to members and based on it evaluating the performance and also used as a benchmark to approve the next year plan of SACCOs.

Table 29: Annual audit

Name of SACCOs	Have you audited annually	
	yes	no
Awraja	1	0
Fasiledes	0	1
Geberena 98	1	0
Heberet	0	1
Ketema geberena	1	0
Matemya	1	0
Meseret	0	1
Total	4	3

Source: Servey result

4.1.19 Office equipment and employee

As the study shows in Table 30, Fasiledes, Heberet and Meseret have office. Awraja, Fasiledes, Heberet and Meseret have office table and chairs. No one SACCO has safe and computer. Heberet and Awraja employee professional accountants and only Heberet had hired cashier.

Table 30: Office equipment and employee

Name of SACCOs	Office equipment					employee		
	Office	safe	chairs	table	computer	accountant	cashier	guard
Awraja	no	no	yes	yes	no	yes	no	no
Fasiledes	yes	no	yes	yes	no	No	no	no
Geberena 98	no	no	no	no	no	No	no	no
Heberet	yes	no	yes	yes	no	yes	yes	no
Ketema geberena	no	no	no	no	no	No	no	no
Matemya	no	no	no	no	no	No	no	no
Meseret	yes	no	yes	yes	no	No	no	no

Source: Servey result

4.1.20 SACCOs service delivery

As shown in Table 31, 87.5% explain SACCOs management committee facilitate services according to the need of members and 12.5% of respondents have complain on service provision, because SACCOs executives do not provide equal services to all members and they have not present on time to deliver saving and loan services.

Table 31: Management committee facilitate services delivery

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	98	87.5	87.5	87.5
No	14	12.5	12.5	100.0
Total	112	100.0	100.0	

Source: Servey result

4.2 Operational Performance evaluation of SACCOs in Gondar town

4.2.1 Financial performance

Financial ratio were calculated from the audit reports of sample SACCOs using PEARLS, which contain a package of identified prudential standards prepared by the International Credit Union Safety and Soundness Principles. They are intended to safeguard credit union members' savings from losses and to ensure credit unions function in a sound manner. While each credit

union must comply with local regulatory requirements and prudential standards, the International Credit Union Safety and Soundness Principles offer the best practice guides based on WOCCU extensive experience in the development of credit unions worldwide. The computations were performed based on income statement and balance sheet (see Annex III) of seven sample SACCOs in Gondar town.

4.2.1.1 Protection of assets

Adequate protection of assets is a basic tenet of the new credit union model. Protection is measured by 1) comparing the adequacy of the allowances for loan losses against the amount of delinquent loans and 2) comparing the allowances for investment losses with the total amount of non-regulated investments. Protection against loan losses is deemed adequate if a credit union has sufficient provisions to cover 100% of all loans delinquent for more than 12 months, and 35% of all loans delinquent for 1-12 months (WOCCU, 2002).

The study confirms that in Table 32, all SACCOs are not protected from loan loss risk and they are not bothered about the inadequacy of their allowances for loan losses. Because they consider their capital deposition in banks as a primary means of protection against loan losses. In addition they consider their tight collateral system was not leading them into a problem of loan delinquency or default risk. But as the international standard indicates, primary responsibility of SACCOs is not only protecting member's savings' from loan loss risk but also from excessive or unproductive accumulation of liquid assets in banks.

At the current loan provision system SACCOs have not face any adverse effect due to loan default but when SACCOs change their collateral system in the future without setting a mechanism to protect loan default, it will have a great problem on the sustainability and

performance of SACCOs and also excess deposit of liquid asset in banks will lead them to loss due to inflation .Therefore, to protect assets systematically it is necessary to be governed by the standard loan loss compensation system, that is in addition to the presence of appropriate collateral also setting an interest rate by including the risk cost of default to those who have take loan should be considered in all SACCOs.

4.2.1.2 Effective Financial Structure

The financial structure of the credit union is the single most important factor in determining growth potential, earnings capacity, and overall financial strength (WOCCU, 2002).

Assets

* 95% productive assets composed of loans (70-80%), and liquid investments (10-20%)

* 5% unproductive assets composed of primarily fixed assets (land, buildings, equipment, etc.)

Credit unions are encouraged to maximize productive assets as the means to achieve sufficient earnings. Since the loan portfolio is the most profitable asset of the credit union, the World Council of Credit Unions, Inc. recommends maintaining 70-80% of total assets in the loan portfolio. Excess liquidity is discouraged because the margins on liquid investments (e.g., savings accounts) are significantly lower than those earned on the loan portfolio. Non-Earning assets are also discouraged because once purchased, they are often difficult to liquidate. The only effective way to maintain the ideal balance between productive and unproductive assets is by increasing the volume of productive assets.

Liabilities

* 70-80% member deposit savings

A healthy percentage of deposit savings indicates that the credit union has developed effective marketing programs and is well on its way to achieving financial independence. It also indicates that members are no longer "saving" in order to borrow money, but are instead saving because of the competitive rates offered.

Capital

* 10-20% member share capital

* 10% institutional capital (undivided reserves)

The study result in Table 32 indicated, the financial structure of sample SACCOs is different within them and also as compare to the standard target.

The total average net loan portfolio (E1) of sample SACCOs is 64.38%, which is slightly below the standard. Only Fasiledes attain the standard by 74.08%. For the other SACCOs, Meseret 89.79%, Awraja 87.08%, Matemya 51.41%, Geberena 33.76%, Ketema geberena 52.01%, and Heberet 62.43%. Meseret and Awraja result implies those SACCOs might face a problem of liquid asset shortage for urgent cases because the total asset dispersed for loan is above the range of the standard. Matemya, Geberena, Ketema geberena, and Heberet result indicates in each SACCOs there is excess of unproductive liquid asset which were reserved within SACCOs without valuable benefit to members.

Saving deposit (E5) proportion, as compare to the total asset, for SACCOs was 89.72% for Matemya, 79.33% for Fasiledes, 93.99% for Meseret, 84.73% for Geberena, 90.71% for Ketema geberena, 94.19% for Awraja and 92.12% for Heberet. The average saving deposit proportion is 89.25% which indicates all SACCOs attain above the standard. This proportion reminds most of the asset source is members saving (liability) and the members share capital and institutional expansion capital have insignificant amount.

External credit (E6) proportion as compare to total asset is expected to be at a maximum of 5% of SACCOs asset, but in the case of sample SACCOs all of them were not be used external source of credit. Their source of finance is members saving and share capital.

Net institutional capital (E9) is non-distributable reserves of SACCOs, the standard proportion is minimally 10 % but sample SACCOs net institutional capital was showing 2.29% for Matemya, 2.97% for Fasiledes, 1.67% for Meseret, 0.4% for Geberena, 0.43% for Ketema geberena, 2.21% for Awraja, and 4.63% for Heberet. Even though Heberet have a little higher net institutional capital as compare to the other sample SACCOs, it is still far below the standard minimum level which indicates SACCOs are in a challenge to have quality service and limitation to expansion.

4.2.1.3 Assets Quality

A non-productive or non-earning asset is one that does not generate income. An excess of non-earning assets affects credit union earnings in a negative way (WOCCU, 2002).

Delinquency Ratio

Delinquency ratio is the most important measurement of institutional weakness. If delinquency is high, it usually affects all other key areas of credit union operations. By using the PEARLS formula to accurately measure delinquency, credit unions are properly informed of the severity of the situation before a crisis develops. The ideal goal is to maintain the delinquency rate below 5% of total loans outstanding.

Total loan delinquency to gross loan portfolio(A1) of sample SACCOs results for Matemya Fasiledes, Meseret, Geberena, Ketema geberena, Awraja and Heberet was 0.57%, 0.81%, 0.21%,

0%, 0%, 0.85% and 0.36% , respectively. All SACCOs loan delinquency is below 1% and some of them are at 0% which indicates they are not in a problem of default and presence of efficient management of default.

Percentage of Non-Earning Assets

The higher the ratio, the more difficult it is to generate sufficient earnings. The goal also limits non-earning assets to a maximum of 5% of the total credit union assets.

Where credit unions are in dire need of improving their poor physical image, the non-earning asset ratio can increase in the short run. An improved image is more important to the success of aggressive marketing programs than it is to keep a ratio within its limits. As new members join and deposit their savings with the credit union, the non-earning asset ratio begins to decrease as a result of increased public confidence.

Non-earning assets proportion as compare to total asset (A2) of SACCOs shows 48.58% for Matemya, 25.93% for Fasiledes, 10.2% for Meseret, 59.57% for Geberena, 47.98% for Ketema geberena, 12.91% for Awraja, and 37.56% for Heberet. It is an indication of excessive accumulation of non earning assets in all SACCOs and poor financial performance of SACCOs.

4.2.1.4 Rates of Return and Costs

It permits the credit unions to be ranked according to the best and worst yields. By comparing financial structure with yields, it is possible to determine how effectively the credit union is able to place its productive resources into investments that produce the highest yield. These powerful analysis techniques help management stay abreast of the financial performance of the credit union (WOCCU, 2002).

Total interest cost on savings deposits as compare with average savings deposits (R5) result shows 6.6% for Matemya, 6.05% for Fasiledes, 6.29% for Meseret, 2.07% for Geberena, 3.68% for Ketema geberena, 2.86% for Awraja, and 1.52%for Heberet. The standard value of saving deposit expects to become market rate above inflation rate, but to determine such rates it needs a macro level decision in the National Bank of Ethiopia according to the national inflation rate. The result tells us the cost of saving interest rate is below inflation rate. It implies due to SACCOs excess deposit of asset in banks they got less amount of interest to their saving, therefore it needs better financial management to escape from such problem.

Total interest (dividend) cost on shares as compare with average member shares (R7) result shows 3.6% for Matemya, 2.59% for Fasiledes, 2.84% for Meseret, 2.16% for Geberena, 2.29% for Ketema geberena, for 2.07% Awraja, and for 2.96% Heberet. The dividend rate is less than the inflation rate; it is due to the presence of excessive amount of liquid asset that was not engaged in to loan or investment or poor financial management of SACCOs. On the other way the uncontrollable effect comes from NBE interest rate fixation have its contribution for the least rate of dividend.

Total operating expenses as compare to average total assets (R9) result shows 0.25% for Matemya, 1.64% for Fasiledes, 3.55% for Meseret, 0.04% for Geberena, 0.03% for Ketema geberena, 1.63% for Awraja, and 0.38% for Heberet. The study explains that all SACCOs have efficient use of operating expense .Because most of the SACCOs executives are voluntarily working without payment; they have no utility, rent and other expenses. On the other way the presence of extremely less operating expense will have also some drawbacks, it leads to poor performance of SACCOs unless expending appropriate cost to expand and qualify the service.

Net income proportion as compare to the average total assets (RI2) result for Matemya, Fasiledes, Meseret, Geberena, Ketema geberena, Awraja, and Heberet was 6.77%, 4.76%, 5.42%, 0.68%, 1.01%, 2.51%, and 1.63%, respectively. The study indicates below the standard, which implies the capacity to build Institutional Capital of SACCOs is less efficient.

4.2.1.5 Liquidity

Effective liquidity management becomes a much more important skill as the credit union shifts its financial structure from member shares to more volatile deposit savings. In many movements following the traditional model, member shares are very illiquid and most external loans have a long payback period, therefore there is little incentive to maintain liquidity reserves. Liquidity is traditionally viewed in terms of cash available to lend a variable exclusively controlled by the credit union. With the introduction of withdrawable savings deposits, the concept of liquidity is radically changed. Liquidity now refers to the cash needed for withdrawals a variable the credit union can no longer control (WOCCU, 2002).

Adequacy of liquid assets (LI) result of SACCOs indicate for Matemya, Fasiledes, Meseret, Geberena, Ketema geberena, Awraja, and Heberet was 54.14%, 32.64%, 10.32%, 70.3%, 52.8%, 13.71%, and 40.77% , respectively. As compare to PEARLS standard all SACCOs are efficient and above the minimum requirement of liquid asset to satisfy all immediate obligations in less than 30 days.

4.2.1.6 Signs of Growth

The only successful way to maintain asset values is through strong, accelerated growth of assets, accompanied by sustained profitability. Growth by itself is insufficient. The advantage of the PEARLS system is that it links growth to profitability, as well as to the other key areas by evaluating the strength of the system as a whole (WOCCU, 2002).

Growth in total assets (S11) result show, for Matemya, Fasiledes, Meseret, Geberena, Ketema geberena, Awraja and Heberet was 31.1%, 12.96%, 18.54%, 26.67%, 25.18%, 20.6% and 7.02% , respectively . The growth rate is below the county inflation rate, but it is important to remember the year 2007-2009 peculiar occurrence with regard high inflation due to external shocks like the world food crises and internal factors of consumption increment throughout Ethiopia (NBE, 2008).

Table 32: Financial performance of SACCOs

Key PEARLS Financial ratio indicators	Standard	Sample SACCOs financial performance in percentage							Mean	Std. Deviation
		Mate mya	Fasile des	Meseret	Gebere na 98	K.geberna	Awraja	Heberet		
P1. Allowance for Loan Losses/Delinquency > 12 months	100%	0	0	0	0	0	0	0	0.00	0.00
P2. Net Allowance for Loan Losses/Delinquency of 1-12 months	35%	0	0	0	0	0	0	0	0.00	0.00
E1. Net Loans/Total Assets	70%-80%	51.41	74.08	89.79	33.76	52.01	87.08	62.43	64.36	20.48
E5. Savings Deposits/Total Assets	70%-80%	89.72	79.33	93.99	84.73	90.71	94.19	92.12	89.16	5.32
E6. External Credit/Total Assets	Maximum 5%	0	0	0	0	0	0	0	0.00	0.00
E9. Net Institutional Capital/Total Assets	Minimum 10%	2.29	2.97	1.67	0.4	0.43	2.21	4.69	2.04	1.46
A1. Total Loan Delinquency/Gross Loan Portfolio	<= 5%	0.57	0.81	0.21	0	0	0.85	0.36	0.40	0.35
A2. Non-Earning Assets/Total Assets	<= 5%	48.58	25.93	10.2	59.57	47.98	12.91	37.56	34.67	18.91
R5. Total Interest Cost on Savings Deposits / Average Savings Deposits	Market Rates >Inflation	6.6	6.05	6.29	2.07	3.68	2.86	1.52	4.15	2.13
R7. Total Interest (Dividend) Cost on Shares/Average Member Shares	Market Rates >= R5	3.6	2.59	2.84	2.16	2.29	2.07	2.96	2.64	0.53
R9. Total Operating Expenses/Average Total Assets	5%	0.25	1.64	3.55	0.04	0.03	1.63	0.38	1.07	1.29
R12. Net Income/Average Total Assets	Linked to E9	6.77	4.76	5.42	0.68	1.01	2.51	1.63	3.25	2.38
L1. ST Investments + Liquid Assets – ST Payables/Savings Deposits	Minimum 15%	54.14	32.64	10.32	70.3	52.8	13.71	40.77	39.24	22.00
S11. Growth in Total Assets	> Inflation	31.1	12.96	18.54	26.67	25.18	20.6	7.02	20.29	8.31
Annual average inflation rate of Ethiopia *		36.43	25.3	25.3	36.43	36.43	36.43	25.3		

*National Bank of Ethiopia Annual Report, 2007/2008 and IMF , 2009 World Economic

Outlook indicates Ethiopian inflation rate 15.8 percent in 2006/07, 25.3 percent in 2007/08 and 36.43 percent at the end of 2008/09.

Source: Own computation

4.3 Determinants of Operational Performance of SACCOs

Table 34 shows the correlation between features of SACCO and members profiles and the SACCOs performance indicators. A chi-square test was employed to measure the significance of the correlation.

Education of members show a strong positive correlation with all financial performance indicators of SACCOs. As the formal schooling of members increase, it have positive contribution to the efficiency of SACCOS. It has also positive impact on the composition of committees. Better good governance, internal control mechanism and service delivery was also feasible with better education of members.

Menu of financial productes or presense of different financial productes have a strong positive correlation with financial performance of SACCOs. Therefore, as required by members creating additional service would have good impact on the operational performance of SACCOs. Availability of alternative choice of collateral to members would have strong positive significance for good operational performance of SACCOs. The result explains, the presence of other collateral option contributes for SACCOs to compute and serve successfully in the financial market.

Annual audit was having strong positive correlation with financial performance of SACCOs. Thus, it becomes necessary to have regular annual audit for good performance. Leverage ratio of SACCOs have strong positive relaton with financial performance of SACCOs, as the leverage ratio of SACCOs maintained the level of their performance also increases.

The way how SACCOs deliver service to the already existing financial products is also have a positive correlation with financial performance of SACCOs. Therefore, SACCOs should evaluate their service delivery adequacy to become more efficient .

Table 33: Correlation of financial performance indicators with socio economic features of SACCO members

Service delivery	Leverage ratio	Audit	Cooperative Act	Collateral type	Menu of products		Education of members	Explanatory Variables		
					Children	Voluntary				
13.68	16.53	11.073	10.921	17.673	88.770	43.325	56.881	X ² value	E1	Financial performance of SACCOs
.033	0.000	0.000	0.536	0.000	0.000	0.000	0.000	p-value		
13.68	16.53	11.073	10.921	17.673	88.770	43.325	56.881	X ² value	E5	
.033	0.000	0.000	0.536	0.000	0.000	0.000	0.000	p-value		
13.68	16.53	11.073	10.921	17.673	88.770	43.325	56.881	X ² value	E9	
.033	0.000	0.000	0.536	0.000	0.000	0.000	0.000	p-value		
13.68	15.48	11.073	9.116	17.673	88.770	43.325	56.881	X ² value	A1	
0.18	0.000	0.000	0.521	0.000	0.000	0.000	0.000	p-value	A1	
13.68	16.53	11.073	10.921	17.673	88.770	43.325	56.881	X ² value	A2	
.033	0.000	0.000	0.536	0.000	0.000	0.000	0.000	p-value	A2	
13.68	16.53	11.073	10.921	17.673	88.770	43.325	56.881	X ² value	R5	
.033	0.000	0.000	0.536	0.000	0.000	0.000	0.000	p-value	R5	
13.68	16.53	11.073	10.921	17.673	88.770	43.325	56.881	X ² value	R7	
.033	0.000	0.000	0.536	0.000	0.000	0.000	0.000	p-value	R7	
13.68	16.53	11.073	10.921	17.673	88.770	43.325	56.881	X ² value	R9	
.033	0.000	0.000	0.536	0.000	0.000	0.000	0.000	p-value	R9	
13.68	16.53	11.073	10.921	17.673	88.770	43.325	56.881	X ² value	R12	
.033	0.000	0.000	0.536	0.000	0.000	0.000	0.000	p-value	R12	
13.68	16.53	11.073	10.921	17.673	88.770	43.325	56.881	X ² value	L1	
.033	0.000	0.000	0.536	0.000	0.000	0.000	0.000	p-value	L1	
13.68	16.53	11.073	10.921	17.673	88.770	43.325	56.881	X ² value	S11	
.033	0.000	0.000	0.536	0.000	0.000	0.000	0.000	p-value	S11	

Source: Own computation

4.4 Challenges and prospects for the development of SACCOs

The study findings in the previous section 4.2 and 4.3 confirms the strength of SACCOs in good governance , satisfactory service delivery, efficient protection of members saving and share capital, less loan default risk, having good trust of members on the operation of SACCOs and having better educated members. The challenges were limitation of financial products rendered to members, lack of having different alternatives in collateral choices to get loan, deposition of excess liquid asset in banks, poor officiation and documentation. Presence of favoring cooperative act is the opportunity to promote SACCOs and the threat is poor professional and technical support of the public. Perception of members and officials on the strength, weakness, opportunity and treats of SACCOs summarized as follows:

Strength

- Management Committees are dedicated and keen to deliver satisfactory service.
- Easy to save and borrow.
- The interest rate as compare to other institution is very low.
- Most of the members build their dwelling and become owner of household goods due the presence of their SACCO.
- Services are rendered with minimum cost.
- Easy to become a member and to quit membership.
- Corruption problem was at a minimum or none.
- As much as possible they are governed according to the rules and procedures of SACCO by-law and credit directive.
- Annually undertake regular meeting with members (general assembly).

Weakness

- They have not their own office, equipment and professional employee.
- Except management committee others are not actively performing their duty.
- Lack of training and education to members.
- All members were not present in general assembly meeting and there were not having created a mechanism to express opinion of absent members.
- Poor documentation about members profile and financial information.
- Sometimes there is default problem of borrowers.
- Since management committees are voluntary service providers, it is not possible to get them as required.
- Due to limitation of diversified collateral system, it is not possible to get loan unless the borrower gets enough personal guarantors from the members.
- Limited effort to attract non members.
- Management committees are serving for long years beyond the permitted period of time was illegal action and it can be considered as violation of SACCOs by-law.
- Accumulation of excess liquid asset in banks.
- The management committee was not trying to invest the excess money in reliable financial businesses in addition of lending to members.
- The time to repay the loan is short; and it leads to loss for some business types which needs long period to return the investment capital.
- Normally pass book used as individual members evidence for his/her account in SACCO, but some SACCOs take passbook from members and keep it for a long period

in their office with a reason to record the accrued interest on the pass book . But it is improper experience and will bring a question of trustworthiness on SACCOs operation.

Opportunity

- There is a legal support of government by preparing and implementing national and regional law to establish and strengthen cooperatives in every economic activity.
- Professional and technical support of the public.
- Enough access of public and private bank.
- Good infrastructural development in communication technology.

Threats

- Lack of having appropriate professionals in Auditing and financial advisory service by the regulatory public organization.
- Accumulation of excess or unproductive asset in bank will face a problem of inflation.
- A question of liability/security in members for their finance in SACCOs i.e. unfortunately if a risk happens on SACCOs operation who would become responsible and accountable for members saving and share capital.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATION

5.1 Conclusion

Access to means of secure savings and credit at non exploitive terms is of the greatest importance for the poor and those at risk of becoming poor. SACCOs provide credit on reasonable terms, either to render more efficient the house hold sector (house construction and maintenance, to have furniture and goods), to provide capital for entrepreneurial activities, or provide resources at times of emergency. They enable the poor to avoid dependency on money lenders and permanent indebtedness. Based on the study the lessons are concluded as follows.

Educational statuses of members and officials have its own effect on steady management of SACCOs and availability of committed members through long year service of saving and credit cooperatives. The study shows that due the presence of better educated members and officials, SACCOs contribute positively for efficient operation in service delivery and to make loan default risk at a minimum level of occurrence.

Training provision to members is at a minimum level, only 5.4% have got training and the rest 94.6% never got any kind of training. Unless SACCO members have enough knowledge on financial market and other important issues their contribution becomes limited and it will have a negative influence on SACCOs performance and development.

The regulatory and control system of SACCOs mainly focus on internal and external control system. Principally each SACCO should have audited annually by an external auditor from cooperative promotion office but only 57 % of SACCOs audited annually and 43% did not.

Auditing problems will cause a negative influence on transparency of SACCOs performance and active participation of members. In other way the internal control performed by SACCOs themselves, based on the by law, organizational structure and the financial control practice, indicates their good contribution for SACCOs operational performance.

The collateral type to get loan in all SACCOs is dependant only on the saving amount of the borrower. If SACCOs continue in this way without developing additional collateral system they will be in a problem of excessive unproductive liquid asset accumulation and leads them to poor operational performance in financial market.

The leverage ratio or the proportion of saving to equity of members vary within SACCOs, the leverage proportion is expected to be 6:1. But the average ratio of sample SACCOs was 17.17:1. It was an indication of poor operational performance of SACCOs in share capital collection.

Amazingly 100 % of members have trust on their SACCOs. The reasons was 72 % SACCOs provide efficient and effective services, 22% due the presence of better understanding about the role and importance of SACCO and 18% believe that there is good and legal ground for the cooperatives promotion by the public organization. Basically it was good opportunity to SACCOs success, thus to maintain such social capital sustainably SACCO executives are responsible to continue service provision according to the agreed plan with members and by adopting the actual practice in financial market.

Cooperative governance emanate from SACCOs by-law, cooperative act and presence of committed members and officials. All sample SACCOs are having by-law approved by the general assembly. Management committees perform in a good manner and also in some

SACCOs control and loan committees function significantly. Even if there is a limitation in the performance of some subcommittees, active participation of members and management committee good governance contribute for successful operational performance of SACCOs.

SACCOs having office are 43 % and only 25.54% have accountant. The rest serve without appropriate office and through unpaid elected committees indicates SACCOs poor operational performance in service delivery.

Cooperative act, proclamation 147/98, favorability to SACCO development, as evaluated by sample SACCO respondents, indicate 51.8% confirm its favorability, 42% could not have in depth knowledge about the proclamation and 6.3 % disagree with its favor because they argue that since SACCOs are financial institutions it is better to have their own act which gives a responsibility to promote and regulate them in an efficient way.

The financial performance of sample SACCOs as compare with international PEARLS standards indicates varied results. The variation was not only with the standard but also within them. It indicates the fate of each SACCO success were mainly depends on the effort and commitment of some elected executives (individuals) rather using a prescribed regulatory system or standard.

Thus, to sustain successful development of SACCOs, in addition to placing efficient human element, it is better to have a standard financial regulatory system which gives a responsibility for each SACCO to attain the standard target and also used as a tool to detect SACCOs performance with a uniform measurement scale.

4.2 Recommendation

Despite the fact that the research was conducted for SACOOS in Gondar, it will have an implication beyond the study area and also needs attention of policy makers. The recommendation focus on SACCOS sustainable development option and to have them significant contribution in the financial market sector.

1. SACCOS in Gondar town have extended their service for the last 31 years without significant progress, even if their members and capital increase each year but they continue to perform in a similar traditional performance. Therefore it needs a transformation mechanism. As SACCOS expand in membership and capital, more sophisticated operating and lending practices must be introduced. Usually primary SACCOS should join secondary tier at national/regional federations and global levels.
2. Compulsory saving and credit are the only dominant financial products rendered to members in Gondar SACCOS .In addition to the existing ones voluntary saving, children saving, health saving and other products should become available according to the interest of members and feasibility survey. Also the collateral system to get loan must be improved with some more alternative choices for instance using fixed asset as collateral or based on reliable business plan of the borrower. When SACCOS expand their service types also it is necessary to equip with appropriate employee and office facilities.
3. Promotion and training to SACCO members and the community about the importance of SACCOS in towns should get special attention. The issue of mainstreaming the idea of saving and credit has become the main agenda of development workers. The key reason to expand saving and credit cooperative to a large scale operation can be from the point of experience,

dealing with money helps communities (especially women) to develop skills in dealing with other issues such as employment access, entrepreneurial skill and developing empowerment to decide freely. In addition, a savings and credit scheme helps the urban poor to alleviate the need for money lenders and provides access to credit. Appropriate utilization of such potential is not only creating sustainable source of finance for town dwellers but also to ignite additional investment and jobs or used as a means to break poverty with their internal capacity .

4. The financial performance of SACCOs indicates the presence of excess amount of liquid asset in banks; which means it becomes unproductive finance to SACCOs. Rather to keep excess amount of finance in the form of saving deposit it is advisable to invest based on the will of members and calculated benefit. Therefore, in addition of lending to members SACCOs should develop the experience of investment in reliable financial businesses to make productive the excess deposit.
5. To build successful cooperative governance and members' participation, regular and urgent meetings has great value because members are owners and users of their organisation. But the study result shows all members were not present on the specified time and also there were absentees. Therefore, to incorporate the valuable ideas of the above mentioned types of members, SACCOs should build up a mechanism of using appropriate alternative communication means like e-mail, fax, postal, etc.

Policy implication

6. As the study indicates, there was not uniform financial performance of SACCOs. To supervise and assist SACCOs, there should be a regulatory standard. Therefore, the cooperative

promotion agency or any responsible organization would have a mandate to formulate SACCOs financial performance indicator guideline.

7. Since SACCOs are financial institutions, they should have governed with a cooperative act which satisfies their distinct nature. Therefore, to increase the operational performance of SACCOs, there should be SACCO act which promote and regulate them like any other microfinance institutions under the responsibility of National Bank of Ethiopia and cooperative promotion organization.

REFERENCES

- Branch, Brian, and Janette Klaehn (2002). *Striking the Balance in Microfinance: A Practical Guide to Mobilizing Savings*. Madison, Wisc.: World Council of Credit Unions.
- Birchall Johnston (2004). *Cooperatives and the Millennium Development Goals*, Geneva, ILO.
- Central Statistical Agency (CSA),(2008). population and housing census report, Ethiopia
- CGAP (2005). Working with Savings and Credit Cooperatives , *Helping to improve donor effectiveness in microfinance*, Donor Brief no. 25.
- [http://www.cgap.org/gm/document- 1.9.5254/DonorBrief_25_Eng.pdf](http://www.cgap.org/gm/document-1.9.5254/DonorBrief_25_Eng.pdf) (Accessed on October 2009).
- CGAP (2006). “*Regulation, Supervision, Governance & Control in Cooperatives: A Resource List*” http://microfinancegateway.org/resource_centers/savings/library/summary_RegSuGov (Accessed on October 2009).
- Dagneu Gessesse (2004). *Saving and Credit Cooperatives in Ethiopia*, Microfinance Development Review, Volume 3 No. 2.
- DE JONG, D. (2006). *A brief history of savings and credit co-operatives*.
- www.saccol.org.za/saccos.htm (Accessed on September 2009).
- DFID (2005). *How to Leverage the Co-operative Movement for Poverty Reduction*, Department for International Development, London., <http://www.dfid.gov.uk/pubs/files/how-to-cooperatives.pdf> (Accessed on October 2008).
- GUINNANE, T.W. (1997). Regional organizations in the German co-operative system, 1880-1914. *Ricerche economiche*. 51(3):251-275
- FAO (2002). *The group savings resource book* .Rome, Italy

- Farrell M.J. (1957). The Measurement of Productive Efficiency. *Journal of the Royal Statistical Society*, Volume 120, Part III, pp. 253-281.
- Färe, R., S. Grosskopf, and C.A.K. Lovell (1985). *The Measurement of Efficiency of Production*. Kluwer-Nijhoff Publishing
- Federal Democratic Republic of Ethiopia, Federal Negarit Gazeta, Proclamation No. 147/1998, Proclamation to provide for the establishment of cooperative societies. Addis Ababa
- Financial Standards Forum, March 24, 2008, Country Brief: Ethiopia.
- Garber C. (1997). *Private Investment as a Financing Source for Microcredit*, Miami. , <http://www.gdrc.org/icm/ppp/7-steps.html> (Accessed on November 2009).
- HERRICK, M.T. & INGALLS R. (1915). *Rural credits: Land and co-operative*. New York: Appleton and Compan
- McWilliams, A., and D. Smart (1993). Efficiency vs. Structure-Conduct-Performance: Implications for Strategy Research and Practice. *Journal of Management*: 19 (1): 63-78.
- OCDC (2007). *Cooperatives: Pathways to Economic, Democratic and Social Development in the Global Economy*, US Overseas Cooperative Development Council, Arlington <http://www.acdivocacoopex.org/acdivoca/CoopLib.2007.pdf> (Accessed on February 2009).
- PadmanabhanK. P. (1987). *Rural Credit: Lessons for rural bankers and policy makers*. Intermediate Technology Publications Ltd, Great Britain. Pp. 37-85.
- Pelrine (2001). *Selected Readings for the Promotion and Management of Saving and Credit Cooperatives*, VOCA/ Ethiopia
- Que Q. (2003). Determinant of household savings in China and their role in quasi-money supply: *Economics of transition vol. 11(3)*, 513-537.

- Richardson, David C. (1994). *Interrelationship of PEARLS* (Annex 1), October. Madison, Wisconsin USA.
- Richardson, David C. (2001). *PEARLS Monitoring System*. WOCCU Toolkit Series: Number 4
Madison, Wis: World Council of Credit Union, Inc.
- Robinson, Marguerite (2004). "Mobilizing Savings from the Public: Basic Principles and Practices." Washington, D.C.: USAID.
<http://www.microfinancegateway.org/content/article/detail/23749> (Accessed on December 2009).
- Rutherford, Stuart, with M. D. Maniruzzaman, S. K. Sinha, and Acnabin & Co. February 2006.
"Grameen II: The First Five Years." Nairobi: MicroSave. www.microsave.org.
- Rural SPEED (Rural Saving Promotion and Enhancement of Enterprise Development),
Sustainable development training material, the secretary general, messages on the United Nations international day of cooperatives Sep, 2006.
- Rutherford, S. (2000). *The Poor and Their Money*. Oxford, UK, Oxford University Press.
- SACCOL (2003). Savings and credit cooperatives: <http://www.Sacco.org.za/saccos.htm>, web
(Accessed on February 2009).
- SHARMA, O.P. (2003). *Brief history of urban co-operative banks in India*. Reserve bank of India. http://www.rbi.org.in/scripts/fun_urban.aspx. (Accessed on September 2009).
- Shiferaw, Bekele, and Wolday Amha (2002). "Revisiting the Regulatory and Supervision Framework of the Micro-Finance Industry in Ethiopia." Report no. 13. Drylands Coordination Group, Norway.

Teka G/tekle Tekle (2008). Members' savings behaviour and determinants of savings in rural savings and credit cooperatives in Alamata and Ofla woredas of Tgray region, Ethiopia, Unpublished M.Sc. Thesis, Mekelle University.

UNDP (2006). *Human development report*, New York .

Wolday Amha (2002). Product development in the Ethiopian microfinance industry: Challenges and prospects. Occasional paper No.4, Addis Ababa.

Wolday Amha (2003), Microfinance Institutions in Ethiopia: Performance Challenges and Role in Poverty Reduction, Addis Ababa, Ethiopia.

Zvi Galor (2006), Saving and Credit Cooperatives: A New Conceptual Approach.:

www.coopgalor.com (Accessed on December September 009).

Website [Http://www.woccu.org](http://www.woccu.org)

www.cgapdirect.org, Working with Savings & Credit Cooperatives

<http://www.coop.org> – <http://www.ica.coop>

CIA World Fact Book:<https://www.cia.gov/library/publications/theworldfactbook/geos/et.html>

www.businessdictionary.com

Appendix I-The "PEARLS" Monitoring System Goals

PEARLS ratio	Standard of excellence
P = Protection	
P1. Allowance for Loan Losses/Delinquency > 12 months (*)	100%
P2. Net Allowance for Loan Losses/Delinquency of 1-12 months (*)	35%
P3. Total Write-off of Delinquent Loans > 12 months	100%
P4. Annual Loan Write-offs/Average Loan Portfolio	Minimal
P5. Accumulated Loan Recoveries/Accumulated Loan Write-offs	100%
P6. Solvency (Net Value of Assets/Total Shares and Deposits)	>= 110%
E =Effective financial structure	
E1. Net Loans/Total Assets (*)	70%-80%
E2. Liquid Investments/Total Assets	Maximum 20%
E3. Financial Investments/Total Assets	Maximum 10%
E4. Non-financial Investments/Total Assets	0%
E5. Savings Deposits/Total Assets (*)	70%-80%
E6. External Credit/Total Assets (*)	Maximum 5%
E7. Member Share Capital/Total Assets	10-20%
E8. Institutional Capital/Total Assets	Minimum 10%
E9. Net Institutional Capital/Total Assets (*)	Same as E8
A = Asset quality	
A1. Total Loan Delinquency/Gross Loan Portfolio (*)	<= 5%
A2. Non-earning Assets/Total Assets (*)	<= 5%
A3. Net Zero Cost Funds (Net Institutional & Transitory Capital + Non Interest-bearing Liabilities)/Non-earning Assets	> 200%
R= Rates of return and costs(annualized)	
R1. Net Loan Income/Average Net Loan Portfolio	Entrepreneurial Rate
R2. Total Liquid Investments Income/Average Liquid Investments	Market Rates
R3. Total Financial Investment Income/Average Financial Investments	Market Rates
R4. Total Non-financial Investment Income/Avg. Non-financial Investments	> R1
R5. Total Interest Cost on Savings Deposits/Average Savings Deposits	Market Rates > Inflation
R6. Total Interest Cost on External Credit/Average External Credit	Market Rates
R7. Total Interest (Dividend) Cost on Shares/Average Member Shares (*)	Market Rates >= R5
R8. Total Gross Income Margin/Average Total Assets	Variable – Linked to R9, R11, R12
R9. Total Operating Expenses/Average Total Assets (*)	5%
R10. Total Loan Loss Provision Expense/Average Total Assets	Dependent on Delinquent Loans
R11. Non-recurring Income or Expense/Average Total Assets	Minimal
R12. Net Income/Average Total Assets (*)	Linked to E9
L= Liquidity	
L1. ST Investments + Liquid Assets – ST Payables/Savings Deposits (*)	Minimum 15%
L2. Liquidity Reserve/Savings Deposits	10%
L3. Non-earning Liquid Assets/Total Assets	< 1%
S = Sign of growth	
S1. Growth in Loans to Members	Dependent on E1
S2. Growth in Liquid Investments	Dependent on E2
S3. Growth in Financial Investments	Dependent on E3
S4. Growth in Non-financial Investments	Dependent on E4
S5. Growth in Savings Deposits	Dependent on E5
S6. Growth in External Credit	Dependent on E6
S7. Growth in Member Shares	Dependent on E7
S8. Growth in Institutional Capital	Dependent on E8
S9. Growth in Net Institutional Capital	Dependent on E9
S10. Growth in Membership	> 12%
S11. Growth in Total Assets (*)	> Inflation

(*) shows key ratios and target goals that WOCCU has selected as the minimum standards for measuring credit union performance or operational performance.

Source; [Http://www.woccu.org](http://www.woccu.org)

Appendix II-The “PEARLS” Monitoring System Manual

Purpose	Account	Formula
P1 =To measure the adequacy of the allowances for loan losses when compared to the allowances required for covering all loans delinquent over 12 months.	a. Allowance for Loan Losses (Balance Sheet) b. Percentage of allowances required for covering loans that are more than 12 months delinquent. WOCCU suggests use 100%, but a different percentage maybe used in countries where local laws or regulations are different. c. Loan Balances of all loans delinquent more than 12 months	$\frac{a}{b * c}$
P2 =To measure the adequacy of the allowances for loan losses after deducting the allowances used to cover loans that are more than twelve months delinquent.	a. Total Allowance for Loan Losses b. Allowances used for covering Loans that are more than 12 months delinquent c. Percentage of allowances required for covering loans that are 1-12 months delinquent. WOCCU suggests using 35%, but a different percentage may be used in countries where local law or regulations are different. d. Total Balance of all Delinquent Loans outstanding from 1-12 months e. Percentage of allowances required for non-delinquent loans. While WOCCU does not require any specific allowance for this category, some countries may require a specific percentage that is mandated by local law or regulations. f. Total Balance of all Non-Delinquent Loans.	$\frac{a - b}{c * d + e * f}$
E1=To measure the percentage of total assets invested in the loan portfolio.	a. Total Gross Loan Portfolio Outstanding b. Total Allowance for loan losses c. Total Assets	$\frac{a - b}{c}$
E5 = To measure the percentage of total assets financed by savings deposits.	a. Total Savings Deposits b. Total Assets	$\frac{a}{b}$
E6=To measure the percentage of total assets financed by external borrowing (i.e., debt obligations with other financial institutions outside of the credit union)	a. Total Short-term loan obligations b. Total Long-term loan obligations c. Total Assets	$\frac{a + b}{c}$

Purpose	Account	Formula
E9=To measure the real level of institutional capital, after adjusting the allowances for risk assets to meet the standards of P1&P2, and covering any other potential losses.	a. Institutional Capital b. Allowances for Risk Assets c. Balance of Loans Delinquent greater than 12 months. d. Balance of Loans Delinquent from 1 to 12 months. e. Problem Assets (Losses that will be liquidated) f. Total Assets	$\frac{[(a+b)-(c+0.35(d)+e)]}{f}$
A1=To measure the total percentage of delinquency in the loan portfolio, using the criterion of outstanding delinquent loan balances instead of accumulated delinquent loan payments.	a. Sum of all delinquent loan balances (a non-bookkeeping control) b. Total (Gross) Loan Portfolio Outstanding	$\frac{a}{b}$
A2=To measure the percentage of the total assets not producing income	a. Total Non-earning Assets b. Total Assets	$\frac{a}{b}$
R5 = To measure the yield (cost) of Savings Deposits	a. Total Interest Paid on Savings Deposits b. Total insurance premium paid on Savings Deposits c. Total Taxes paid by Credit Union on Savings Deposit Interest d. Total Savings Deposits as of Current year-end. e. Total Savings Deposits as of Last year-end.	$\frac{(a+b+c)}{\left(\frac{d+e}{2}\right)}$
R7 =To measure the yield (cost) of Member Shares.	a. Total Dividends paid on Member Shares b. Total insurance premium paid on Member Shares c. Total Taxes paid by credit union on Dividends on Shares d. Total Member Shares as of Current year-end e. Total Member Shares as of Last year-end	$\frac{(a+b+c)}{\left(\frac{d+e}{2}\right)}$

Purpose	Account	Formula
R9=To measure the cost associated with the management of all Credit Union assets. This cost is measured as a percentage of total assets and indicates the degree of operational performance or inperformance	a. Total Operating Expenses (exclusive of Provisions for loan losses) b. Total Assets as of Current year-end c. Total Assets as of Last year-end	$\frac{(a)}{\left(\frac{b+c}{2}\right)}$
R12=To measure the adequacy of earnings and also, the capacity to build Institutional Capital.	a. Net Income (After dividends) b. Total assets as of Current year-end c. Total assets as of Last year-end	$\frac{(a)}{\left(\frac{b+c}{2}\right)}$
L1=To measure the adequacy of the liquid cash reserves to satisfy deposit withdrawal requests, after paying all immediate obligations <30 days.	a. Total Earning Liquid Investments b. Total Non-earning Liquid Assets c. Total Short-term Payables <30 days d. Total Savings Deposits	$\frac{(a+b-c)}{d}$
L3 =To measure the percentage of total assets that is invested in non-earning liquid accounts.	a. Total Liquid Non-Earning Assets b. Total Assets	$\frac{a}{b}$
S11=To measure the year-to-date growth of Total Assets	a. Total current assets b. Total assets as of the Last year-end	$\left(\frac{a}{b}\right) - 1 * 100$

Source; [Http://www.woccu.org](http://www.woccu.org)

Appendix III-Financial report
Balance sheet

Name of SACCO	Matemya	Fasiledes	Meseret	Geberena 98	K.geberna	Awraja	Heberet
Financial year	2008/9	2007/8	2008/9	2007/8	2008/9	2008/9	2007/8
Currency	Eth. Br.	Eth. Br.	Eth. Br.	Eth. Br.	Eth. Br.	Eth. Br.	Eth. Br.
Assets							
Cash and due from banks	156085.17	158011.68	491973.15	181116.56	63359.96	80381.06	1201276.16
Reserves in central bank							
Total outstanding loan portfolio - gross value	165183.86	452017.00	4550324.75	122915	68678.82	541878.16	1996903.69
<i>Safe portfolio</i>	164233.86	448327.00	4540569.75	122915	68678.82	537267.16	1989682.69
<i>Portfolio contaminated</i>							
<i>Rescheduled portfolio</i>	950	3690	9755	0	0	4611	7221
(Loan loss reserve)							
Fixed assets - net value		236.25	24880.12			1	30
Total Assets	321273.03	610107.43	5067178.02	304031.56	132038.78	622260.22	3198209.85
Liability and Equity							
Liability							
Savings accounts: forced	288267.17	484026.26	4762979.14	257630.1	119782.06	586167.32	2946222.76
Savings accounts: voluntary					198.25		
Savings accounts: kids					4180.61		
Accrued interest but not yet due on savings accounts	16763	22901.96		2460.9	1058.49	17832.34	91068.83
Other liabilities	151.05	60	3038.17			48.38	
<i>Other Medium and long term liabilities</i>							
<i>Other Short-term liabilities</i>	151.05	60	3038.17			48.38	
Accrued interest but not yet due on loan							
Total Liabilities	305181.22	506988.22	4766017.31	260091	125219.41	604048.04	3037291.59
Equity							
Paid-in equity from shareholders or members	1940	83050	6870	42300	6060	3227	4960
Reserves	7385.37	18149.07	84992.68	1230.44	569.55	13807.79	150182.82
Prior years' retained earnings/losses, excluding cash donations	6667.46	1920.14	192401.75				
Other capital accounts			16896.28	410.12	189.82	1177.39	5775.44
Total Equity	16091.81	103119.21	301160.71	43940.56	6819.37	18212.18	160918.26
Total Liability and Equity	321273.03	610107.43	5067178.02	304031.56	132038.78	622260.22	3198209.85

Source; From SACCOs Audit report

Income Statement

Name of SACCO	Matemya	Fasiledes	Meseret	Geberena 98	K.geberna	Awraja	Heberet
Financial year	2008/9	2007/8	2008/9	2007/8	2008/9	2008/9	2007/8
Currency	Eth. Br.	Eth. Br.	Eth. Br.	Eth. Br.	Eth. Br.	Eth. Br.	Eth. Br.
Operating Income							
Interest and fee income from loans	39804.2	67404.99	1632875.22	7350.01	4706.36	42436.8	108029.72
<i>Interest from loans</i>	33024.05	58751.96	1545427.65	5045.55	3156.84	37433.73	71741.7
<i>Other fee income from loans</i>	6780.15	8653.03	87447.57	2304.46	1549.52	5003.07	36288.02
Return on charges for operating provision							
Other operating income	2060.03	1006	4448	200	168.21	165	2517.88
Total Operating Income	41864.23	68410.99	1637323.22	7550.01	4874.57	42601.8	110547.6
Operating Expenses							
Interest paid on savings	19137.11	29303.17	776045.35	5345.3	3487	16785.84	44989.37
Personnel fees							
<i>Credit officer salaries</i>							
<i>Other salaries directly linked to the credit activity</i>							
<i>Other salaries</i>							
Other Administrative Expense <i>(including other expenses directly linked to the credit activity)</i>	821.51	10041.42	179916.35	132.42	41.69	10147.6	12340.67
Charge of Provision for portfolio at risk							
<i>Including provision for unrecoverable portfolio</i>							
Charge of provision for other operating expenses							
Charge of depreciation							
Other Operating Expense	420						821
Dividend			406501.98				
Total Operating Expense	20083.12	39344.59	1362463.68	5477.72	3528.69	26933.44	58151.04
Net Operating Profit/Loss	21781.11	29066.4	274859.54	2072.29	1345.88	15668.36	52396.56

Source; From SACCOs Audit report

Appendix IV Interview schedule

Mekelle University

College of Business and Economics

Department of cooperative studies

This interview is held to gather data for the MA thesis paper entitled “Determinants of Saving and Credit Cooperatives (SACCOs) operational performance in Gondar town, Ethiopia”. I assure you that your responses are used only for academic analysis of the study. (*For members*)

Thank you in advance for your cooperation.

Date _____

Serial No. _____

I. Profile

1/Name of your SACCO _____

Address: Kebele _____ Tel. _____ P.O. Box _____

2/Age _____

3/Sex: 1) male 2) female

4/Occupation _____

5/Marital status: 1) single 2) married 3) divorced 4) widowed

6/ Family size: Total _____ 1) male _____ 2) female _____

7/Educational status

1. Primary (1-6)
2. Junior secondary (7-8)
3. Senior secondary (9-12)
4. University/college Diploma
5. University First Degree

6. Above University First Degree

7. Others/specify _____

8/Total years of Membership_____

II. General Questions

1. What types of financial services does your cooperative give to its clients?

1) Individual loan 1) Yes 2) No

2) Compulsory savings 1) Yes 2) No

3) Voluntary savings 1) Yes 2) No

4) Children savings 1) Yes 2) No

5) Health saving 1) Yes 2) No

2. Do you have strong confidence and trust on your SACCO? 1) Yes 2) No

3. If “yes” for Q 2, why you do have strong confidence? In order of rank

1) Provide efficient and effective services.

2) Have better understanding about the role and importance of SACCO

3) There is good and legal ground for the coops promotion

4) Other (specify)_____

4. If “no” Q 2, what is your reason? in order of rank

1. Interference of government bodies

2. No technical support is given by cooperative promoters.

3. Do not have detail know how about SACCOs

4. Other (Specify)_____

5. Do you know the rights and responsibilities of a member? 1) Yes 2) No

6. Do you know the duties of the chief executive of your cooperative?

1) Yes 2) No

7. Do you have written bylaws stating the duties and responsibilities of members?

1) Yes 2) No

III. Saving

1. Do you save regularly? 1) Yes 2) No

2. If Yes to question 1, when you pay your monthly saving, does the management committee or cashier present on the right time?

1) Yes 2) No

3. How do you check whether your saving is registered correctly?

1) Pass book 2) Ledger
3) Receipt 4) Other (specify) _____

4. Amount of your monthly income in birr _____

5. From your monthly income, currently what amount of birr you saved per month? _____

IV. Loan provision and repayment procedures

1. Have you ever taken a loan from your cooperative before? 1) Yes 2) No

2. If your answer to Q. No.1 was yes, please answer the following questions

2.1. Is the loan taken individually or in group?

2.2. For what purpose you have taken the loan (it could be for multiple purposes, but different amount)

2.3. What procedures have you followed in order to ask the loan?

2.4. Did you face any problem when you ask the loan?

1) Yes 2) No

2.4.1. If your answer was yes, what kind of problems have you faced?

1. Asset collateral
2. Loan saving amount
3. Personal Guarantees
4. Group Guarantees
5. Permitted less amounts from what you have asked
6. Other (s), please specify

2.5. During the last three years how much did you ask Birr _____ and
Received Birr _____

2.6. Is there a difference on what you have asked and received?

- 1) Yes
- 2) No

2.7. If yes for Q 2.6, please explain the reasons

2.8. For how long period did you take the loan? _____

2.9. How frequently you have paid the loan amount and interest?

1. Monthly
2. Quarterly
3. Semi-annually
4. Annually

5. Other, please specify _____

2.10. How much you pay per period?

Principal _____ Interest _____

2.11. What is the interest rate for your loan amount? _____

2.12. Do you think the interest rate is fair for you?

- 1) Yes
- 2) No

3. Did you have any available opportunity for obtaining loan before being a member of your cooperative?

- 1) Yes
- 2) No

4. If yes for Q.3, what were the alternative opportunities to get loan?

5. Have you ever been unable to pay your periodic loan repayment?

1) Yes 2) No

6. If your answer to Q. 4 was yes,

a. For how many periods _____

b. Please specify the reason(s)

c. What are the measures taken by the cooperative for delay?

1. Financial penalty, Please specify the amount _____

2. Refusal of additional loan

3. Reduce the additional loan amount

4. Other please specify, _____

7. Did the credit bring significant change in your living standard? 1) Yes 2) No

8. if yes to question no. 7 explain the change that you get

9. When you take loan are you provide business plan for SACCO management committee?

1) Yes 2) No

10. What are the collateral variables of borrowers to get loan?

1. Asset collateral 1)Yes 2)No

2. Personal guarantees 1)Yes 2)No

3. Group guarantees 1) Yes 2) No

4. Compulsory savings 1) Yes 2) No

5. Other (specify) _____

11. From the experience of your cooperative, what are the possible and major factors leading to late payment and default by borrowers?

1) Personal behavior

2) In efficient payment collective system

3) Others (specify) _____

12. What measures does your institution take to control credit default?

1) Strengthen physical follow up

2) Strength initial screening of borrowers

3) Restriction deposit withdrawal from savings

4) Requesting collateral and collateral substitutes

5) Giving discount (other incentive) to promote payment

6) Sanctions (penalties) for late payment

7) Provide technical support after loan extension

8) Other (specify) _____

13. If you have selected Penalty for late payment to the above question no12. which of the following penalty applied in your cooperative?

1) Financial penalty

2) Refusal repeat loan

3) Reduce the repeat loan amount

4) Disclose to the public

5) Others (specify) _____

V. Governance and Institutional arena

1 Does a management committee facilitate services according the request of the member?

1) Yes 2) No

2 If “no” for Q .1, what is the reason?

1) Do not provide equal services to all members 2) Do not present on time

3) Do not have ability to facilitate service 4) other (specify) _____

3 Did the management committee of SACCO follow your performance according to your business plan? 1) Yes 2) No

4 In order to increase the income of their SACCO do the management committee discuss with concerned bodies and NGOS? 1) Yes 2) No

5 Do you think that the committee members know their duties and responsibilities properly? 1) Yes 2) No

6 Are the committee members working according to the SACCO bylaw and approved plan of the general assembly? 1) Yes 2) No

7 In the last three years have you participated in the SACCO annual general assembly or urgent meeting appropriately? 1) Yes 2) No

8 If you say no for Q.7 what is the reason?

9 Have you got training from your SACCO? 1) Yes 2) No

10 If “yes” for Q. 9, what type of training you have got?

11 Is the operation area of SACCO appropriate? 1) Yes 2) No

12 If yes, for Q.11, what are your reasons? In order of reasons

1) Members know each other and communicate easily

2) Accessible to mobilize and manage savings

3) Decrease operational costs

4) Can easily understand opportunities and treats associated with members

5) Increase ownership feelings

6) Other (specify) /all are reasons _____

13 How do you evaluate educational and promotional activities of the SACCO to increase membership 1) Sufficient & Effective 2) Sufficient but ineffective 3) Insufficient but effective

4) Insufficient & ineffective

14 have you think that the current cooperative proclamation 147/98 favourable to promote SACCO? 1) Yes 2) No

15 If no for Q 14 what is the reason?

16. If you have any idea, or comment in relation to the benefits and deterrents of saving and credit function of your cooperative, other than the above issues, please put them on the space provided below.

V. SWOT Perceived by SACCO's Members

<i>Strength</i>		<i>Weakness</i>	
1		1	
2		2	
3		3	
4		4	
5		5	
6		6	
7		7	
<i>Opportunities</i>		<i>Threats</i>	
1		1	
2		2	
3		3	
4		4	
5		5	
6		6	
7		7	

Thank you again.

Interview schedule

Mekelle University

College of Business and Economics

Department of cooperative studies

This interview is held to gather data for the MA thesis paper entitled “Determinants of Saving and Credit Cooperatives (SACCOs) operational performance in Gondar town, Ethiopia”. I assure you that your responses are used only for academic analysis of the study. (*For official*)

Thank you in advance for your cooperation.

Date_____

Serial No._____

I. Profile

1. Name of your Cooperative_____

Address: Kebele _____ Tel _____ P.O. Box_____

2. Position in your Cooperative_____

3. For how long you worked in this position_____

4. Educational status

1. Primary (1-6)
2. Junior secondary (7-8)
3. Senior secondary (9-12)
4. University/college Diploma
5. University First Degree
6. Above University First Degree

7. Others/specify _____

II. General Questions

1. When was your cooperative established? _____

2. How many members does your cooperative have? _____

3. What was the source of your cooperative capital at the start up?

1) Own source

2) Loan with interest

3) Loan without interest

4) Donation by NGO

5) Donation by Government

6) Others, please specify _____

4. If your answer for question No. 3 was own source, what was the source of saving?

1) From salary employee

2) Other (specify) _____

5. What types of financial services does your cooperative give to its clients?

1) Individual loan 1) Yes 2) No

2) Compulsory savings 1) Yes 2) No

3) Voluntary savings 1) Yes 2) No

4) Children savings 1) Yes 2) No

5) Health saving 1) Yes 2) No

6 what is the current financial status of your SACCO in birr?

Liability/saving _____

Capital /share _____

Asset _____

III. Saving

1. Do members save regularly? 1) Yes 2) No

2. What is the saving amount of members?

Minimum _____

Maximum _____

3. If members do not save regularly, what type of measures taken by your SACCO?

4. Have you checked each members saving and capital proportion or leverage ratio?

1) Yes 2) No

5. If no for Q 4, why?

6. Provide information on member saving, share and patronage dividend in the SACCO.

Description	Total amount in Birr		
	2006/07	2007/08	2008/09
Compulsory saving			
Voluntary saving			
Share/capital			
Patronage dividend dispersed			

IV. Loan Provision and repayment Procedures

1 Mostly for what purpose members borrowed the loan? Put in order of its rank

1) Trade 2) For household goods 3) House construction

4) Consumption 5) other (specify) _____

2. Is the lending interest income enough to cover the cooperative's major costs?

1) Yes 2) No

3. If your answer to Q.No. 2 was no, is there any planned solution set for the problem?

4. What are your considerable factors to determine the lending interest rate?

1. Competition
2. NBE fixed rate
3. Cost of fund
4. Administrative cost
5. Loan loss amount
6. Others (specify) _____

5. How much is the loan size you provide to your clients?

1. Maximum _____
2. Average _____
3. Minimum _____

6. How long is your credit period?

1. Maximum _____
2. Minimum _____

7. When you give loan are you asking for business plan from the borrower?

1) Yes 2) No

8. What are the collateral types required in your SACCO to provide loan?

1. Asset collateral

2. Personal guarantees
3. Group guarantees
4. Compulsory savings
5. Other (specify) _____

9. From the experience of your cooperative, what are the possible and major factors leading to late payment and default by borrowers?

1. Personal behavior
2. Inefficient payment collective system
3. Others (specify) _____

10. What measures does your institution take to control credit default?

1. Strengthen physical follow up _____
2. Strength initial screening of borrowers
3. Restriction deposit withdrawal from savings
4. Requesting collateral and collateral substitutes
5. Giving discount (other incentive) to promote payment
6. Sanctions (penalties) for late payment
7. Provide technical support after loan extension
8. Other (specify) _____

11. If you have selected Penalty for late payment to the above question No. 10, which of the following penalty applied in your cooperative?

1. Financial penalty
2. Refusal repeat loan
3. Reduce the repeat loan amount
4. Disclose to the public
5. Others (specify) _____

V. Governance and Institutional arena

1 Do you think that the current operation of your SACCO have a mechanism to control liquidity?

- 1) Yes 2) No

2 If yes for Q.1, how your SACCO competes and sustain in the financial market?

3 If no for Q. 1, what is the reason?

4 Does the SACCO management committee facilitate services according the request of the member? 1) Yes 2) No

5 If “no” for Q. 4, what is the reason?

- 1) Do not provide equal services to all members 2) Do not present on time
 3) Do not have ability to facilitate service 4) other (specify)_____

6 Did the management committee of your SACCO operate according to the by-law and business plan approved by general assembly?

- 1) Yes 2) No

7 In order to increase the income of their SACCO do the management committee discuss with concerned bodies and NGOs? 1) Yes 2) No

8 composition and number of committees

Type of Committees	Male	Female	Total
1) Management Committee members			
2) Control Committee members			
3) Loan Committee members			
4) Education Committee members			

9 Number of Meeting conducted last year:

1. General Assembly Meeting _____

2. Management Committee _____

3. Control Committee _____

4. Loan Committee _____

5. Education Committee _____

10. Attendance at the last General Assembly Meeting

1. Number of members attended the meeting _____

2. Number of members absent from the meeting _____

11. Institutional Status of the SACCOs in fulfilling the following items, put this “✓” remark.

S.N	Description	Yes	No
1	Office		
2	Safe		
3	Chairs		
4	Table		
5	computer		
6	Accountant		
7	Cashier		
8	Guard		

12. Have you audited annually? 1) Yes 2) No

13. If no for Q. 12, why?

14. How do you evaluate educational and promotional activities of the SACCO to increase membership? 1) Sufficient & Effective 2) Sufficient but ineffective

3) Insufficient but effective 4) Insufficient & ineffective

15. Have you think that the current cooperative proclamation 147/98 favourable to strengthen SACCO? 1) Yes 2) No

16. If no for Q 15 what is the reason?

17. If you have any idea, or comment in relation to the benefits and deterrents of saving and credit function of your cooperative, other than the above issues, please put them on the space provided below.

VI. SWOT Perceived by SACCO's leaders

<i>Strength</i>		<i>Weakness</i>	
1		1	
2		2	
3		3	
4		4	
5		5	
6		6	
7		7	
<i>Opportunities</i>		<i>Threats</i>	
1		1	
2		2	
3		3	
4		4	
5		5	
6		6	
7		7	

Thank you again.