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Management of Savings and Credit Cooperatives from the Perspective of Outreach and Sustainability: Evidence from Southern Tigrai of Ethiopia

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Abstract

The rural economy and the urban economy in Ethiopia are largely disconnected .While urban banks have excess liquidity, which costs them money to manage, and some rural people have opportunities requiring credit to be profitable that are low risk, there is no mechanism to bring this liquidity from urban banks to rural businesses. Saving and Credit Cooperatives (SACCOs) can be the link that will give urban banks low risk loan opportunities in rural areas and give rural businesses access to credit at costs for lower than interest rates currently charged by moneylenders. So, this paper is concerned with management of SACCOs from the perspective of outreach and sustainability of Rural SACCOs to reach large number of members. The required data were obtained from members and SACCO documentation and analyzed using tables and percentages, financial ratios, and correlation analysis with the help of MINITAB, a statistical package. The descriptive findings show that membership and financial performance of the SACCOs under study showed an improving trend over the study period. The result of correlation analysis between independent variables and dependent variable showed that existence of strong positive correlation between financial performance (ROA) and the asset utilization. A moderate positive correlation relationship exists between operational efficiency and size of SACCOs (assets size). Conversely, there is a significant negative correlation between financial performance (ROA) and the operational efficiency with correlation coefficients. The study also came out with a range of perspectives on the factors affecting the outreach and sustainability of SACCOs under study. Lack of awareness and poor saving culture, weak organizational arrangement and governance, policy and regulatory environment, weak institutional capacity, low capital base, lack of differentiated products, inappropriate loan security requirements, and threats from other financial institutions (MFIs) were among the factors affecting the outreach and sustainability of SACCOs.

Keywords: outreach, sustainability, savings and Credit Cooperatives, correlation analysis, Southern Tigrai, Ethiopia

1. Introduction

During the 1960s and 1970s, multilateral and bilateral donor projects in the rural sector commonly supported directed credit projects to promote agricultural development. Although these interventions often helped improve agricultural yields in the short term, they overwhelmingly entailed high costs that were unsustainable over the long term. Consequantely ,they failed to reach the majority of farmers. The 1980s witnessed a few instances in which donors assisted in the successful restructuring of specialized agricultural development banks to provide rural and micro finance (RMF) to large numbers of clients on a profitable basis (for example, in Indonesia and Thailand), applying microfinance methodologies that were emerging from a variety of practitioners around the world (Otero and Rhyne 1994; Committee of Donor Agencies, 1995). At the same time, donors helped to improve the macroeconomic and policy environments for RMF through structural adjustment programs and to support a growing number of non-governmental organizations (NGOs), networks of savings and credit associations, and other microfinance institutions to achieve substantial improvements in terms of outreach and self-sustainability. Having this consensus,in recent years, international development organizations have focused increasingly on the policy environment, improving the legal and regulatory framework for RMF, building the institutional capacity of a wide range of rural finance providers, and introducing innovative products (especially savings) in order to expand outreach in a sustainable manner commensurate with demand (Empel and Sluijs, 2001). The World Bank's strategy likewise seeks to improve the demand and supply conditions for expanding access of the rural poor to a suitable "diversity of products and institutions that fill the financial needs of low-income rural clients in income generation and reduction of vulnerability" (World Bank, 2002).

Therefore, the objective of this study was managing the growth of saving and credit cooperatives to reach large number of members in Enderta Wereda, Tigray region of Ethiopia. Special attention was devoted to assess the performance of SACCO in terms of the growth / outreach, to examine the relationship among measures such as growth of SACCO and performance indicators, and to identify the factors that affect the growth of SACCO. Financial analysis was used to quantitatively examine the differences in performance among SACCO in Enderta, and the SACCO are ranked based on their financial measures and performance for each SACCO. As the research was based mainly up on secondary data from the sample SACCO and documentation from Wereda the Cooperative Promotion Bureau, .Thus, this study was organized as follows: chapter two that deals with the review of related literature. Then chapter three basically focuses on the methodological review of the whole study. The fourth chapter provides details of the results and analysis of the available data. Finaly, chapter five presents the conclusions and recommendation of the study.

2. Literature Review

Growth or outreach is "a hybrid measure that assesses the extent to which an MFI has succeeded in reaching its target clients and the degree to which the MFI has met the demand of clients for financial services" (Yaron, 1992). The indicators of outreach are the depth (types of clients reached and level of poverty) and breadth of outreach (number of clients served) (Yaron, 1992). Thus, growth of the microfinance institutions involves: (i) a permanent increase in the size, scale, and complexity in activities and various results being achieved by MFIs overtime. This includes increases in number of clients, outstanding loan portfolio and turnover, size of savings, etc. (ii) the other most important meaning of growth is the one signifying changes in character of institutions itself. This would mean the transformation of the institution (graduation of the organizations and to become regulated financial organization, improving and upgrading the capacity of the institution and obtaining high level of sustainability.

Growth in the microfinance industry is desirable to reduce poverty and attain operational and financial sustainability. Although growth or outreach has risk, unless planned and managed very well, it has also positive implications for financial institutions. First, growth enables the microfinance institutions to reach large number of clients. Hence, it is the key to make sound impact on reducing poverty. Second, growth reduces average operating cost for the MFIs. It reduces or eliminates losses, not by increasing lending interest rates, but by reducing operating costs. Third, growth improves operational and financial sustainability of MFIs. Fourth, it helps institutions to satisfy their client's need through various services. Fifth, it gives better image of the institutions to attract loanable fund form banks for further expansion and increases the borrower's willingness to repay.

Different literatures noted that financial sustainability is one of the areas that we need to look at to assess the performance of micro finance institutions. Meyer (2002) noted that the poor needed to have access to financial service on long-term basis rather than just a onetime financial support. Short-term loan would worsen the welfare of the poor (Navajas et al., 2000). Meyer (2002) also stated that the financial unsustainability in the MFI arises due to low repayment rate or un-materialization of funds promised by donors or governments. According to Meyer (2002), there are two kind of sustainability that we could observe in assessing MFIs performance: Operational self sustainability and financial self-sustainability.

There also are some dispute on the link between financial sustainability and outreach to the poor. According to some (Christen et al. 1995; Otero and Rhyne 1994), cited in Meyer (2002), outreach and financial sustainability are complimentary this is because as the number of clients increase MFIs enjoys economies of scale and hence reduce costs which help them to financial sustainable. On the other hand, Hulme and Mosely (1996) argued that there is inverse relationship between outreach and financial sustainability. Here the argument is higher outreach means higher transaction cost in order to get information about creditworthiness of clients and hence make MFI financially unsustainable.

3. Methodology Approach

In this part of the study the target area is described in order to give clear picture of the Wereda its overall population. Moreover, the data collection methods, techniques of sampling and data analysis method have been discussed.

3.1. Overview of the Study Area

Study area (Enderta Wereda) is located in the Southern part of Tigray state of Ethiopia. Enderta Wereda is located at the vicinity of Mekelle, the capital city of Tigray, with a total area of 1445.5 kilometer square situated at 13.50 latitude and 39.50 longitude. Based on the 2007 national census conducted by the Central Statistical Agency of Ethiopia (CSA), this Wereda has a total population of 114,297, an increase of 8.02% over the 1994 census, of whom 57,482 are men and 56,815 women; no urban inhabitants were reported. It has a population density of 36.00, which is less than the zone average of 53.91 persons per square kilometer. A total of 24,618 households were counted in this Wereda, resulting in an average of 4.64 persons to a household, and 23,856 housing units.

The study is based on 10 SACCO's (viz, Yikaal, Maiwieli, Deremeiti, lemlem, Sh/lemlem, Fre, Weini, Senay, and Hayelom) found in Enderta Wereda Tigray state of Ethiopia. The required data were obtained from primary data SACCO documentation, and Wereda cooperative promotion bureau for the financial source. The comparison of outreach and sustainability is made between years 2007 to 2010. Year 2007 is chosen to measure the baseline for outreach and sustainability after the introduction of a wide range of financial services to the rural financial sector in many SACCO's.

3.2. Sampling procedure and the survey

The study employed both quantitative and qualitative data collected through primary and secondary sources. These included literature review on SACCOs, review of financial reports of the SACCOs, and discussions with key informants including staff of the Wereda cooperative promotion bureau and management committee of the sample SACCOs to have more information about the problems of the cooperative societies with respect to outreach and sustainability. This study used a descriptive financial analysis was used to describe, measure, compare, and classify the financial situations of SACCOs. The sample of this study contained all of the ten Enderta Wereda SACCOOs. Tables, percentages, financial Ratios, and bar graph were used to interpret the data.

Financial performance is the dependent variable and measured by Return on Assets (ROA). The independent variables of this study are the following: size of SACCO measured by the total assets of the financial cooperatives, asset management measured by asset utilization ratio (operational income divided by total assets), and operational efficiency measured by the operating efficiency ratio (total operating expenses divided by average gross loan portfolio).In order to classify the financial cooperatives, this study uses the major SACCOs activities and is comprised of total deposits, total credits, return on equity, and return on asset. Also, correlations, ratio analysis were applied to examine and compare the impact of independent variables on the dependent variable. Pearson correlation coefficient is also used to investigate the correlation between the variables at1%, 5%, and 10% level of confidence according to the MINITAB software package.

4. Discussion and Analysis

4.1. Relationship between Outreach and Financial Indicator

Outreach is measured in terms of the number of active clients (with outstanding loan), loan size, number of saving clients, volume of saving, percentage of loans to clientele, percentage of female clients, range of financial and non-financial services offered to the poor, the level of transaction costs levied on the poor and the extent of client satisfaction with respect to financial services. In the last ten years, the saving and credit cooperative in Ethiopia has shown a remarkable progress in terms of outreach and performance. The SACCOs meet only less than nine percent of the demand for financial services of the active poor. This indicates that there is significant unmet potential demand for microfinance in Ethiopia.

Currently, some of the SACCOs are at the startup stage where their members are less than one hundred and at a level where they require sound support to build their capacity so that they can increase their members' base. There are also SACCOs with members between 150 and 200, where their emphasis is on consolidating their activities in order to improve their quality of portfolio, performance and increase outreach. There are also SACCOs delivering financial services to 100 to 200 members. The two of the largest sample SACCOs in Enderta Wereda provide financial services for more than 180 active members each.

Assessing the number of members being served by SACCOs has been noted in literatures as core performance indicator for a given SACCOs. To this end, the finding of the study in the sample SACCO is hopeful. The number of active members in the primary SACCOs and at the sector level is increasing, as can be observed from table1in annex. Primary SACCOs outreach has shown increment over the study period with different rates of growth, leading the sector's outreach to rise in the period from 2007 to 2010 on average by 25.08 percent.

Outreach is measured in terms of the number of active clients (with outstanding loan), loan size, number of saving clients, volume of saving, percentage of loans to clientele below the poverty line, percentage of female clients, range of financial and non-financial services offered to the poor, the level of transaction costs levied on the poor and the extent of client satisfaction with respect to financial services. In the last ten years, the microfinance industry in Ethiopia has shown a remarkable progress in terms of outreach and performance. The SACCOs meet only less than nine percent of the demand for financial services of the active poor. This indicates that there is significant unmet potential demand for microfinance in Ethiopia.

To assess the trend of membership of the ten SACCO , secondary data on the number of members were taken from the limitedly available documents of the SACCO. The table below presents the data.

The ten SACCO Membership rose from 860 in 2007 to 1037 in 2010. The most important pull factor that attracted new members to join the SACCO was found out to be cost and/or effort saving experienced by the earlier members from their affiliation. Better output prices, lower input prices, and dividend obtained from membership also contributed their own share in attracting new members. A similar study by Mitchell Group, Inc (2005) reported: "The payment of patronage dividends to farmers, which was set until recently at 70 percent of the net surplus of a Cooperative or Union, has been the most important incentive for farmers to join cooperatives."

Total Deposits

Table 2 and table 3 presented in annex shows comparisons of the SACCOs deposits and credits. The results of table 2 shows total deposits for all the SACCO through 2007-2010, and provides the growth rate of deposits based on 2007 as base year. The average of total deposits for Hayelom is 8,614.25 birr[1] with very high growth rate 185.80% in 2007 comparing with year 2010. The growth rate is 122.96 % for Teabe with average total deposits of birr 5,518.75. Furthermore, it indicates that growth rates of Deremeit, lemlem, Fre, Weini, Senay, Yikaal, and Maiwieli are 48.58%, 75.32%, 83.69%, 41.43%, 86.43%, 47.40%, 72.52%, and 96.06% respectively. To rank the SACCO based on their average total deposits, Deremeit SACCO is considered to be number one, Maiwieli SACCO is number two, and lemlem, Hayelom, Fre, Yikaal,and Weini are third, fourth, fifth ,and last one respectively.

Total Credits

The results of the amount of credit disbursed by various SACCO presented in table 3 in annex shows growth rate of credits and the average of total credits during 2007-2010 for each SACCO. Weini SACCO is the lowest credits growth rate in 2010 comparing with credits in 2007 whereas Deremeit SACCO is the highest average of total credits. However, the SACCO with highest growth rate of total credits during the period does not always mean having high average of total credits. Based on the average total credits of the listed SACCO in the study area ranked as: Deremeit SACCO is the first, Maiwieli SACCO is the second, and Lemlem SACCO, Hayelom SACCO, and Weini SACCO get positions of the third, the fourth, the fifth, and the last one in the total credits ranking respectively.

From table (2) and (3) presented in annex, member deposit growth in 2010 for all Enderta SACCO has higher than the loan portfolio. The combined deposits of these SACCO increased by 81.34% in 2010, while net credits rose by 61.52%.

Value of loan portfolio and savings

As of 2010, the ten SACCOs registered under federal cooperative agency have an active loan portfolio of about 113,086 birr (6812.41 USD) delivered to 1, 037 active members (see figure 1 in annex). The members served by the SACCOs comprise farmers' petty business owner, and employees. About 26% of the members of SACCOs were female and the rest were male. The average loan size in Ethiopia is about 1000 Birr (116 USD), which reveals that the microfinance industry in Ethiopia focuses on the active poor. SACCOs in the study area have attained significant outreach in a short period of time between 2007 and 2010, the number of members, savings and volume of loan portfolio increased by 20.58%, 81.34%, and 61.52% respectively.

The lending interest rates of SACCOs are again relatively higher than the interest rates in other financial institutions in Ethiopia. The lending interest rate of SACCOs varies between 14 and 16 percent per year. In fact, the lending interest rates of the SACCOs allow them to cover their operation costs that do not affecting their sustainability. Moreover, the financial reports of some the SACCOs reveal that they are operationally sustainable. Although all practitioners in the SACCOs believe that the activities of the poor are not profitable to cover higher interest rates, they could increase lending interest rates and still become operationally sustainable. Even though SACCOs charges exorbitant interest rate for its members, they allow members to get the loan interest in the form of dividend when dividend are declared by the general assembly.

Ethiopia has a clear regulatory framework where the SACCOs are allowed to mobilize saving starting from day one of their registration from the cooperative promotion agency. The gross savings as percentage of the loan outstanding, which was about 125.20 percent in 2010, indicates that the experience of the SACCOs in mobilizing savings is encouraging. Another indicator of good performance of the SACCOs is the high repayment rate which varies from 85 to 100 percent. The average repayment rate of the sector is 92 percent. There is a reasonable member or loan portfolio to field staff ratio in the sector, though this varies from one SACCOs to another.

4.2. Growth of SACCO vis-à-vis Financial sustainability and Profitability

Profitability and sustainability ratios reflect the SACCO ability to continue operating and grow in the future. Regardless of their non-profit or for profit status, donors and investors alike look to fund sustainable institutions. Sustainability and profitability of
SACCO were measured and analyzed using operational self-sufficiency ; return on assets ; and return on equity ratios as follows:

Sustainability Measured by Operational Self-Sufficiency

Sustainability requires that MFIs must cover all transaction costs (loan losses, financial cost and administrative cost etc.) with return on equity, and consequently function without subsides. It is the ability of an MFI to maintain or increase its flows of benefits or service through internally generated income or funds. Most of the MFIs have been experiencing difficulties on attaining sustainability over the long run due to limited outreach and poor financial management (Dhakal, 2001). In this context, financial sustainability of MFIs have been assessed using some of the financial sustainability indicators, such as financial performance, operating performance, operating self-sufficiency ratio, , administrative efficiency and staff productivity of the leading MFIs.

Although growth or outreach to reach large number of members and make sound impact on poverty reduction is the overriding objective of SACCOs, it does not make sense if these institutions are unstable, unsustainable, unprofessional and inefficient. If a SACCOs is not sustainable due to its entire emphasis on social objectives, it will break down, foster unhealthy message to the entire sector and distorts the financial market. Poor people will learn that it is foolish to repay a loan, and will be hesitant to deposit their savings in such institutions (Krahnen and Schmidt, 1994). Thus, a SACCOs which provides financial services must be structured and run in such a way that it can survive on its own. This implies that the effect of increasing outreach should be measured against the profitability, efficiency, productivity, and portfolio quality of SACCOs.

Financial Sustainability is closely linked to growth. Beyond a level of operations, the SACCOs will have to seek external funds. Donor money can only start up a SACCO activity. Donors cannot be a sustainable source of funding. Then, the only alternatives left for the SACCOs would be to either seek investments or loans. When SACCOs seek investments or loans from the mainstream organizations, questions will be asked on the ownership structure and capital adequacy. For a SACCOs to survive in the long run, it has to transform itself into a financial institution that is accountable. For instance in the Bolivian context the main constraint the SACCOs faced was that they were dealing with "other people's money." NGOs have clear-cut ownership structure and making people liable under the NGO format is a problem. If one were to be sustainable and grow, there is no option but to deal with mainstream institutions (Rhyne, 1998).

Sustainability, which also shows the ability of the SACCOs to cover their total expenses form their own financial service operations, has not been a major objective of SACCOs in Ethiopia. However, a large number of SACCOs in Ethiopia have achieved significant progress in terms of sustainability. In 2010, out of the ten SACCOs in Enderta Wereda, almost all are operationally sustainable; this shows that SACCOs in Enderta Wereda are able to generate income to cover operational costs. It could be concluded that SACCOs in Enderta Wereda are in transition from subsidized poverty reduction lending approach to commercially oriented lending approach.

Table 4 in annex shows that sample SACCOs are registering significant growth in outreach, in one year, in terms of number of active borrowers (ranging from 8% in Senay SACCOs to 70% in Yikaal SACCOs), gross loan portfolio (from 25.63% in Deremeit SACCOs to 129.28% in Teabe) and mobilization of savings (41.43% in Fre to 185.80% in Hayelom SACCOs). The growth in outreach is accompanied by a significant increase in operation self-sufficiency (all of the SACCOs). Thus, there is a substantial growth in outreach and improvement of operational Self-Sufficiency within four year (2007-2010). The overall operational Self-Sufficiency for sample SACCOs accounts 13.56 %.

Operational Sustainability Measured by ROA and ROE

The prime objective of any commercial activity is to maximize shareholders benefit through maximizing profit. The process by which the profitability of the shareholders can be measured is through determination of retune on equity. Return on asset is an overall measure of profitability that reflects both the profit margin and the efficiency of institutions. It gives an indication how efficient institutions are in utilizing their assets. ROE makes little sense for comparing SACCOs, which have widely divergent liability and equity structures. Many have large equity base built up through donor funds; others have little equity and are funded throu gh soft loans. Hence, return on asset is more appropriate to measure SACCOs performance (CGAP, MIS handbook, 1998). However, using such traditional indicators to measure performance of SACCOs is inadequate because of this ratios failure to reflect the tremendous impact of subsidies received b y MFIs (Yaron, 1992a). Therefore, ROA and ROE are not adjusted for subsides (since SACCOs in the study area did not received subsides) received, inflation, loan loss provision and exchange rate difference.

The Return on Equity (ROE) is considered to be one of the profitability performance ratios. It shows a higher value for Teabe SACCO when compared with other listed SACCO presented in table 5 in annex. The average ROE ratio is 97% for Sh/lemle SACCO while Lemlem SACCO is the lowest average ROE

(19%) during the period (2007-20107). The ROE is net profit after taxes divided by total owners' equity. It reflects the bank management's ability to generate net profits from using the owners' equity as one of the financial sources. Measures how well the SACCOs use its assets to generate returns. This ratio is net operating income and excludes taxes since the government gave tax exemption for cooperatives they did not pay any taxes to the appropriate authority.

Return on Assets indicates how well a SACCOs is managing its assets to optimize its profitability. Return on assets should be positive. It provides an indication of the ability of a SACCOs to expand profitably with unsubsidized funding. According to Seep Network Guideline on measuring performance of SACCO's sectors, a positive correlation exists between return on asset ratios and portfolio to assets. The ratio is higher for SACCO's that maintain a large percentage of the assets in the gross portfolio.

The Return on Assets (ROA) is financial ratio used to measure the relationship of profits or earnings and total assets. ROA measure assesses the profitability performance of total assets, and could be treated as measure of financial performance in this study. As it is known, this measure contains two elements, efficiency (total assets turnover), and effectiveness (profit margin). As mentioned earlier, ROA reflects the bank management ability to generate profits by using the available financial and real assets.

As revealed in table 6 in annex, the summary of ROA ratios during the period of 2007-2010for each Enderta Wereda SACCO is presented. In order to rank the banks based on this ratio, Teabe SACCO is the first one, it has an average of ROA 33%. The second position is for Lemlem SACCO with ROA equals to 31%, and the last position is belonged to Deremeit SACCO.

4.3. Hypotheses Testing

As mentioned in this study, there were two alternative hypotheses. The first hypotheses stated that there is a positive correlation relationship among the financial performance measured by ROA and the independent variables (operational efficiency, asset utilization, SACCO size). The second hypothesis was stated as "there exits an impact on operational efficiency, asset utilization, and SACCO size on financial performance of the financial cooperatives in Enderta Wereda. Correlations were used to test the hypotheses of the study.

Based on analyzing the average data for all variables of the study during the period 2007-2010 as shown in table 7 in annex, correlations were calculated to examine the impact of independent variables on the dependent variable.

The result of correlations analysis between independent variables and dependent variable showed that existence of strong positive correlation between financial performance(ROA) and the asset utilization (+64.7%). A moderate positive correlation relationship (+57.9%) exists between operational efficiency and size of SACCO (assets size). Conversely, there is a significant negative correlation between financial performance (ROA) and the operational efficiency with correlation coefficients of – 87.6%. Based on these correlations, then the first and hypothesis was accepted. Thus, there is a positive relationship among return on assets, asset utilization.

4.4. Factors Affecting the Growth / Outreach of SACCOs

Based on the above points, this section attempts to identify the most important critical challenges facing SACCOs in Enderta Wereda of Tigray region based on information obtained / data collected through interview schedule and key informants in the study area. However, one should recognize that these may not necessarily be the only factors affecting the growth or outreach / of the development of SACCOs in the Wereda that specific circumstances may also be important.

- **Lack of Awareness and Poor Saving Culture**

Many communities have little interactions with formal financial institutions like banks, which have affected their saving culture with financial institutions. The high level of poverty leads to increased propensity to borrow rather than to save. In other words, high level of poverty induces demand for loan. Thus there is generally poor saving culture and discipline in Ethiopia as a whole. And, the expansion of SACCOs both in rural and urban areas is severely constrained by poor saving culture and low awareness.

The problem is further compounded by the lack of awareness about the benefits of the services provided by SACCOs in mobilizing savings. According to the participants of the various focus group discussions organized in different parts of the study areas in the Wereda, the promotional efforts on the advantages and limitations of SACCOs have been very weak and unconvincing. It has been reported that there is generally weak extension and follow up services and that the promoters are not well trained and qualified to effectively discharge their responsibilities. Consequently, their promotional effort is weak to propagate information is limited.

Lack of continuity of saving by members is also a major problem for the development of SACCOs. Because of lack of awareness and poor saving culture, members do not often honor their saving and loan commitments with the SACCOs. They discontinue their saving and even their membership from time to time which makes it difficult for the SACCOs to become viable financial institutions.

- **Weak Organizational Arrangement and Governance Problems**

Since SACCOs are member managed financial institutions, they require members' involvement in the management activities. SACCOs are managed and run by elected committee members since voluntary and member-driven cooperatives are considered to be key tools to build economies of scale, improve management skills and change attitudes. The committees' ability to manage these financial cooperatives depends on the members' willingness, commitment, literacy level and the level of voluntarism. The management committees' commitment, dedication and management style can significantly affect the growth and development of SACCOs. In addition, personal quality is required from each committee member in terms of personal integrity, competence and commitment.

In spite of the above normative requirements, SACCOs in Enderta Wereda have several managerial and governance problems. The quality of the management staff is very much below what is required. Most of the SACCO leaders are not even visionary and hence they provide weak strategic leadership. According to information from the focus group discussions, members of the committee have very often little motivation since they are providing voluntary services. They very often play a very passive role. Some of the cooperative leaders are even illiterate (rural SACCOs in particular) and hence cannot fully undertake their management responsibilities. The members of the Focus Group Discussion indicated that illiteracy has seriously affected the management committee to fully exercise their roles and responsibilities. High illiteracy results in low competency in finance related matters among the members of the management committees.

- **Policy and Regulatory Environment**

The lack of a separate financial cooperatives law to promote cooperative banking is a major constraint to the development of SACCOs. Some of the big SACCOs in Addis Ababa (in terms of savings mobilized and assets owned) have surpassed the minimum requirement to establish even a commercial bank according to the banking law of the country. Due to lack of an appropriate financial cooperative law, their resources have been tied up and deposited in commercial banks. Efforts so far to establish cooperative banks have been frustrated; what were initiated as cooperative banks had to eventually register under the commercial banks act due to the lack of a cooperative law.

Another major constraint is lack of adequate trained manpower in the finance area to regulate and supervise SACCOs according to standard financial principles. Many SACCOs complain about the restrictive legal requirement that their accounts be audited by an appropriate authority. Without audit it is difficult to assess whether cooperatives are operating efficiently and are providing the necessary service to their members or not. Audit, is also important to build public confidence in the SACCOs thereby enabling them to mobilize more voluntary savings. Yet, the authority has not been able to regularly audit the accounts of SACCOs due to shortage of auditors. Recently some have opted to hire external audit firms, but it is too expensive for most of them.

- **Weak Institutional Capacity**

SACCOs have not been able to serve as role models for other cooperatives since they have remained weak and of limited capacity. The life of those who have joined the SACCOs is not changing much partly because most of the loan is primarily used for consumption rather than business. Besides, some of the SACCOs are not able to compete with other formal and informal financial institutions due to their weak capacity. In fact, proximity to market and financial centres has been reported to be a major threat to at least some of the SACCOs since people have more secured and formal financial institutions in their locality in which they can save and sometimes even take loan from.

Lack of active participation (poor attendance, unwillingness to serve in management committee, etc.) especially by educated members with knowledge and experience relevant for SACCOs is also reported as a major challenge for SACCOs. Committee membership being demand in terms of time, those with knowledge on finance are reluctant to become members. There is also lack of creativity on the part of SACCOs in benefiting from the expertise of professional members. For example, one way would be to involve them as advisory board/committee which only meets occasionally. In some cases it is even difficult to call a general meeting of the members due to large membership size. Members' ability to repay loans timely is also a major discouraging factor for the expansion of SACCOs. Many do not respect the loan repayment schedule (non-employee SACCOs in particular), making it difficult to have sufficient loan-bale fund. Some even refuse to pay the loan because they consider it as a charity and not as an obligation.

- **Low Capital Base**

Currently, SACCOs are preoccupied with facilitating access to finance for their members only rather than working towards developing savings based financial cooperatives with business concept. Since more emphasis is given to membership expansion base rather than raising lending capacity, loan size remains too small to encourage investment activities. Due to limited fund availability, SACCOs are often forced to prioritize lending (resulting in queues) and ration the quantity of credit. Members' high demand for loans means less money for investment by the SACCOs. There is no restriction based on purpose. The fact that the customers define the purpose of their need for loans enables them to solve whatever problem they may have. Lack of business orientation and lack of business ideas or opportunities as well as lack of information about good investment opportunities has also been mentioned as important constraints. The size of the loan is also not high enough to meet the investment demand of members.

- **Lack of Differentiated Products**

SACCOs have not yet provided demand driven financial products that could address the needs of their members in spite of their older age and better outreach to the grass root level and unbanked community. It has been observed that there is no clearly articulated and defined financial product development and revision policy within the Ethiopian SACCOs. If it happens it is either by chance or arbitrarily; It is not done in a systematic organized manner and by experts but rather by interested individuals or group of people (professionals or otherwise) and does not follow the necessary steps. It arises simply from a felt need or a problem prevailing in a SACCO. In general, there are no planned and structured ways of developing new products or revising them. Lack of trained personnel, lack of appropriate infrastructure and scarcity of resources are often cited as the major constraints to develop new products. Lack of adequate training on product development and fear of product failure are also mentioned as important limitations.

- **Inappropriate Loan Security Requirements**

As mentioned earlier, SACCOs insist on personal member-guarantors while soundness of the purpose of the loan is irrelevant. The personal guarantor requirement inhibits some members from borrowing because a given guarantor has to be a non-borrower and cannot borrow until his obligation as guarantor is settled (or transferred), getting a guarantor is difficult. It is sometimes argued that the low level of operation of SACCOs as well as the 100% security (through borrower's own savings and guarantee) rendered risk assessment unnecessary.

- **Threats from other Financial Institutions (MFIs)**

In most cases, communities have also access to microfinance (MFIs) services in their localities. Compared to the SACCOs, MFIs are more stable, better organized and financially stronger; they have relatively higher capital base and outreach. MFI lending is often associated or supported by training while this is missing in case of SACCOs. While MFIs accept group collateral SACCOs require personal guarantor. SACCOs adopt rigid loan terms while the MFIs are more flexible in this respect. In addition, SACCOs exercise little if any loan monitoring while MFI loans have closer supervision and follow up. Lack of financial norms and discipline is a major problem within the SACCOs while there is regulatory requirement and greater respect for these by MFIs. Penalties against default are more severe in case of MFIs than SACCOs. On the other hand, SACCOs are easily accessible to their members; MFIs are far from the communities. Unfortunately, MFIs and SACCOs are found to be competitors rather than being complementary financial institutions. So, the development and expansion of the SACCOs is seriously threatened by other financial institutions. Some members of the MFIs are not members of SACCOs simply because they are already highly indebted with MFI loans. Hence SACCOs discourage such indebted borrowers from joining.

5. Conclusion

The survey provided so far the best picture of the SACCCO' outreach and sustainability, given the time and financial constraints of the survey. Based on several criteria such as capital adequacy and, asset quality, rate of return and equity, profitability and productivity, it can generally be concluded that those grassroots and member-owned financial institutions called the saving and credit cooperatives were able to mobilize huge financial resources and to provide credit and savings services to a large mass base at a standard compared to that of formal financial institutions. Under the most demanding and adverse internal and external environment they have sustained their financial services to their members and managed to grow. In the countryside they are viable financial institutions whose development must be strongly supported.

The study specifically came up with the following points.

There is a substantial growth in outreach and improvement of operational Self-Sufficiency within four year (2007-2010). The overall operational Self-Sufficiency for sample SACCOs accounts 13.56 %. On the other hand, member deposits growth in 2010for all Enderta SACCO has higher than the loan portfolio. The combined deposits of these SACCO increased by 81.34% in 2010, while net credits rose by 61.52%.

The 10 SACCOs registered under federal cooperative agency have an active loan portfolio of about 113,086 birr (6812.41 USD) delivered to 1, 037 active members. The members served by the SACCOs comprise farmers' petty business owner, and employees. About 26 percent of the embers of SACCOs were female and the rest were male. The average loan size in Ethiopia is about 1000 Birr (116 USD), which reveals that the microfinance industry in Ethiopia focuses on the active poor. SACCOs in the study area have attained significant outreach in a brief period of time between 2007 and 2010, the number of members, savings and volume of loan portfolio increased by 20.58%, 81.34%, and 61.52%, respectively.

The gross savings as percentage of the loan outstanding, which was about 125.20 percent in 2010, indicates that the experience of the SACCOs in mobilizing savings is encouraging. Another indicator of good performance of the SACCOs is the high repayment rate which varies from 85 to 100 percent. The average repayment rate of the enterprise is 92 percent. There is a reasonable member or loan portfolio to field staff ratio in the sector, however this varies from one SACCOs to another.

Finally, the study identifies the following factors affecting the growth / outreach of saving and credit cooperatives: lack of awareness and poor saving culture, weak organizational arrangement and governance problems, policy and regulatory environment, weak institutional capacity, low capital base, lack of differentiated products, inappropriate loan security requirements, and treats from other financial institutions (MFIs)

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Annex:

Table 1: Number of members in the ten SACCOs

Year SACCO	2007	2008	2009	2010	Growth Rate
Yikaal	70	76	80	119	70%
Maiwieli	40	44	49	55	37.50
Deremeit	83	88	97	104	25.30
Lemlem	170	176	181	188	10.59
Sh/lemle	55	60	64	68	23.64
Fre	54	55	57	65	20.37
Weini	76	80	81	86	13.16
Senay	190	192	196	206	8.42
Hayelom	46	46	54	58	26.09
Teabe	76	78	82	88	15.79
Total	860	895	941	1037	20.58

Table 2: Total Deposits of the sample SACCO (ETB: Ethiopia Birr)

Year SACCO	2007 ETB	2008 ETB	2009 ETB	2010 ETB	Growth Rate ETB	Average ETB
Yikaal	4975	5584	6580	8583	72.52%	6,431.50
Maiwieli	8569	10369	14531	16800	96.06	12,567.25
Deremeit	12673	14758	16930	18830	48.58	15,798.75
lemlem	6945	8248	10175	12176	75.32	9,386.00
Sh/lemle	3568	4000	4073	6554	83.69	4,548.75
Fre	5327	6941	7539	7534	41.43	6,835.25
Weini	2387	2569	2583	4450	86.43	2,997.25
Senay	3597	3647	3745	5302	47.40	4,072.75
Hayelom	5126	6841	7840	14650	185.80	8,614.25
Teabe	3681	4269	5918	8207	122.96	5,518.75
Total	56848	67226	79914	103086	81.34	

ETB: Ethiopia Birr

Table 3: Amount of credit disbursed by various SACCO

Year SACCO	2007 ETB	2008 ETB	2009 ETB	2010 ETB	Growth Rate	Average ETB
Yikaal	3900	4100	5400	6500	66.67%	4,975
Maiwieli	7952	9400	11050	11250	41.47	9,913
Deremeit	11590	12000	12046	14560	25.63	12,549
Lemlem	6530	7452	9630	11580	77.34	8,798
Sh/lemle	2860	3500	3950	5460	90.91	3,942.5
Fre	4630	5740	6920	6850	47.95	6,035
Weini	2100	2000	2500	3620	72.38	2,555
Senay	3240	3460	3200	4760	46.91	3,665
Hayelom	4963	5842	7280	10395	109.45	7,120
Teabe	3210	3250	4630	7360	129.28	4,612.5
Total	50975	56744	66606	82335	61.52	

Figure 1: Value of loan portfolio and savings of the 10 SACCO

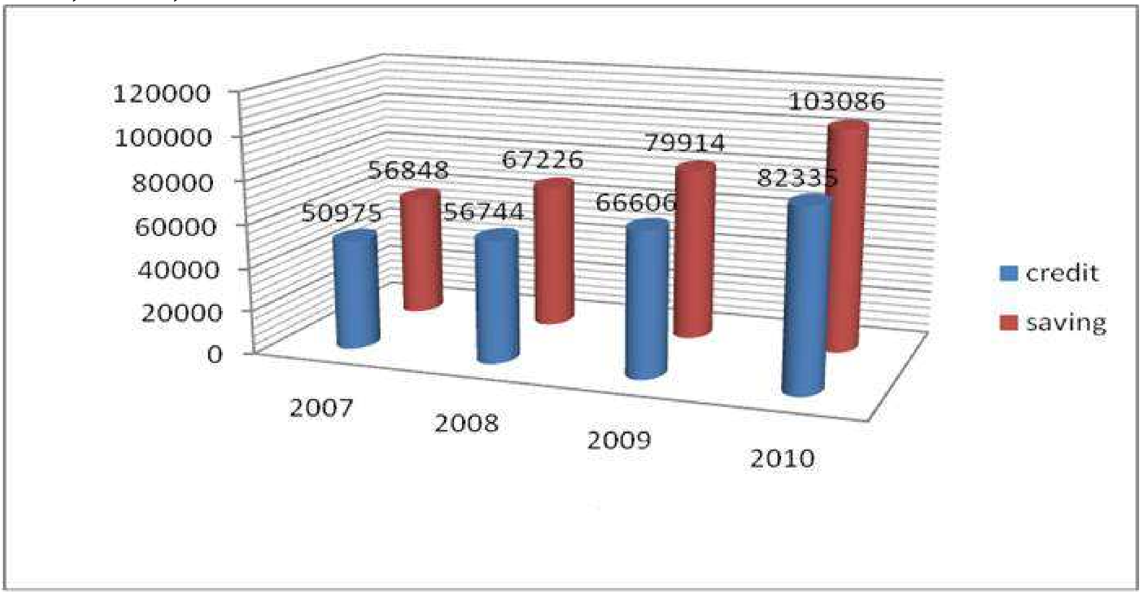

Table 4: Relationship between Outreach and Sustainability

SACCO	% Change in Outreach			% Sustainability
	Number of Active Borrowers	Gross Loan Portfolio	Savings Balance	Operational Self-Sufficiency
Yikaal	70%	66.67%	72.52%	-8.17%
Maiwieli	38	41.47	96.06	520.59
Deremeit	25	25.63	48.58	-9.25
Lemlem	11	77.34	75.32	80.11
Sh/lemle	24	90.91	83.69	-49.95
Fre	20	47.95	41.43	-13.79
Weini	13	72.38	86.43	28.04
Senay	8	46.91	47.40	-10.42
Hayelom	26	109.45	185.80	38.49
Teabe	16	129.28	122.96	29.55

Table 5: Return On Equity of the sample SACCO (ROE)

Year SACCO	2007	2008	2009	2010	Average
Yikaal	99%	101%	99%	99%	100%
Maiwieli	23	23	26	98	42.5
Deremeit	38	31	29	26	31
Lemlem	19	19	19	20	19.25
Sh/lemle	127	118	84	60	97.25
Fre	49	46	42	41	44.5
Weini	57	79	70	43	62.25
Senay	117	129	94	108	112
Hayelom	23	35	41	96	48.75
Teabe	176	162	155	121	153.5

Table 6: Return on Assets of the Sample SACCO (ROA)

Year SACCO	2007	2008	2009	2010	Average
Yikaal	7%	7%	7%	7%	7%
Maiwieli	5	5	6	30	11.5
Deremeit	4	4	3	3	3.5
Lemlem	38	35	35	17	31.25
Sh/lemle	6	6	5	2	4.75
Fre	10	10	8	10	9.5
Weini	4	6	7	8	6.25
Senay	12	11	11	5	9.75
Hayelom	17	16	15	9	14.25
Teabe	48	44	30	8	32.5