

# Saccos: loan and cooperative financial institutions



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THE STATUS OF RUSACCOs IN ETHIOPIA Presented to EACRAT Workshop held on 22 – 24 July 2008 Addis Ababa, Ethiopia Presented by Berhane Kidanu Federal Cooperative Agency Background A comprehensive and structured assessment or study is not made to know the clear picture of RUSACCOs in the country. But as a practitioner and being engaged in the promotion of RUSACCOs, ideas, which help as a point of discussion can be forwarded based on the available data's (not inclusive and complete).

In spite of the importance of the sector (RUSACCOs) to create financial access to reach deep the rural poor and participate all sections of the society members, attention was denied during the previous times. It is recently that the promotion of RUSACCOs has been started on a pilot basis by VOCA-Ethiopia in collaboration with RCPBs. This program was confined to agricultural high potential areas covering a limited geographical area in four major regions. Accordingly they have successes to establish around 50 RUSACCOs in these regions with a limited (very few) membership size not exceeding 40-50 members in each RUSACCO.

It is with the launching of RUFIP that the promotion of RUSACCOs has been considered as the integral part of the cooperative promotion activity by RCPBs in developing cooperative financial institutions in the rural areas. Consequently RUSACCOs has flourished in all corners of the country with hopes to build member owned sustainable financial institutions and create financial access to rural poor by contributing towards poverty alleviation. Currently (based on the PY4 report) there are 1961 RUSACCOs and 20 RUSACCO Unions operating in the country. These RUSACCOs have a

membership size of 142, 697 out of which 73, 581 are male and 69116 female.

These RUSACCOs has managed to mobilize savings amounting ETB 21. 3 million and with a total capital of ETB 18. 5 million. The RUSACCOs has disbursed a loan to their members amounting ETB 20. 9 million during PY4. As regards RUSACCO Unions 20 have been established up to the end of PY4 having 322 member cooperatives. These Unions have mobilized ETB 6. 9 from their members, share capital of ETB 2. 8 million and a grant/reserve ETB 1. 7 million with a total asset of 11. 4 million. They have a disbursed a loan to their members amounting ETB 10. 12 million and borrowed ETB 4. 3 million from government and non-government institutions.

In total ETB 31. 02 million loan has been disbursed to members both by RUSACCOs and their Unions. Pertaining to women based RUSACCOs; 464 have been established having a membership size of 16530, mobilized ETB 556, 109 savings, ETB 571, 561 capital (including shares) and ETB 827, 808 grant/reserve. It is envisaged that at the end of the program period each RUSACCO will have 150 members at average. Up to know the average membership size is 75, which is half way compared with the proposed. Pertaining to saving mobilized it is approximately ETB 11, 000. 00 per RUSACCO and ETB 150 per person.

This is attributed to the low saving culture and suspicious character of the farmers. Besides most farmers income is below 1 USD and the poverty is sever in the rural areas that is why the amount of saving being mobilized remains very low visa a via the expected ones. However, the tasks done in

the establishment of these rural institutions is a tremendous achievement as a first step towards creating cooperative financial institutions to promote an inclusive finance. It is believed that the creation of RUSACCO Unions will resolve the problem of managerial inefficiency and technical deficiency of the RUSACCOs.

Besides these Unions will access loan to their members and minimize shortage of capital of RUSACCOs. But the Unions were confronted with financial constraints and unable to operate as envisaged. First of all the Unions are established by poor RUSACCOs who are not able to generate enough capital as a surplus to be used by the Union. Besides the Unions are not in a position to cover the salary of their managers let alone meet the eligibility criteria set to qualify for loan-able fund from the program. Actually the eligibility criteria set in the document is similar to that of MFI's who are operating or the last 10 & above years, while that of RUSACCOs are established and become operational from 2 to 3 years. Besides unlike MFI's no support is given from the government or the NGO's to close the gap of shortages in loan-able fund. As regards women based RUSACCOs their number has gone beyond the envisaged in the program period. It was planned to establish 337 women based RUSACCOs during the program period. But these have been surpassed and manage to establish 464 until PY4. But they are established with a low number of members even below the total average, i. . , approximately 40 per RUSACCO. Sharing the problem of RUSACCOs women have deprived of economic possessions and exposed to cultural hindrances. This adds up on to the low saving amount and membership size. OPERATION OF RUSACCOs Following the above data's &

information RUSACCOs are operated and managed by elected committee members. Most committee members are illiterate, even who attend elementary school and high school lack the capacity to operate and manage efficiently. They lack basic knowledge and skill to perform the day- to day activities of SACCOs.

Hence, it is difficult to assume an efficient performance, which meets the required standard in such condition. There is poor recording and book keeping. Dalliance is a common feature of committee leadership which contributes to the in-efficiency of the organization and have an impact on the over all performance. PERFORMANCE OF RUSACCOs The performance of RUSACCOs depends on their operational efficiency. We could not expect good performance where there is no capacity to operate & manage their activities. On the top of this there is no standardized performance measurement tools to evaluate the status of SACCOs.

As part of the world credit union movement WOCCU'S PEARLS are appropriate to close this gap. But this has not been practiced /implemented due to lack of coordination & the necessary arrangements with the required facilities. However, even the absence of this standard and systematized recording, we can evaluate their performance using the available data and information. In spite of their low transaction (due to shortage of capital and other factors) RUSACCOs are performing well if we measure using certain indicators, such as profitability, asset quality, signs of growth and rates of return and costs.

However, the small size of RUSACCOs (low capital & loan able fund) had made them to diminish their share & contribution in the financial market. But, their low operational cost and easy access to members have given them a good opportunity for better performance. FINANCIAL PERFORMANCE This section looks at key ratios of the WOCCU PEARLS monitoring system to assess the consolidated financial performance of the primary societies in all Regional states, even though the system is not introduced yet. The PEARLS system examines protection, Effective financial structure, Asset quality, Rates of return and costs, Liquidity and Signs of growth.

However, due to the absence of data and system development we are not able to touch and explain them deeply as required. Protection: The important financial discipline of making allowances for loan losses was not practiced by all primary societies until now. Hence, RUSACCOs had not implemented the discipline for the loan loss provisions. It is similar to that of URSACCOs also. Effective Financial Structure: Savings finance the lending portfolio of the primary societies. There is no as such borrowing from any of the financial institutions for commercial purposes.

But ETB 5million was received as a grant from NGO's used for lending purposes to members. If we substitute this grant money for external credit it holds 9. 82% of the total assets which is above the accepted standard of external credit to total assets, i. e. , maximum 5%. Since there is no linkage with commercial banks (in regard to loan) RUSACCOs did not obtain & have external borrowings for on lending purpose to their members. As regards the savings in relation to the total assets the accepted standard is 70-80%. The

actual figure for these primary societies shows 55.4%, which falls below the given standard.

Likewise, the figure of members share over the total assets shows 28.57%, which is above WOCCU's standard, i. e. , 10-20%. ASSET QUALITY: The report considers total delinquency. The most worrisome aspect of RUSACCO financial performance is delinquency (portfolio at risk calculated on outstanding balance at 30 days). From the obtained RUSACCO data there has been any delinquency revealed so far. However, this does not mean that they are free from delinquency. As per to their lending rules and procedures if a member fails to pay his loan on time the RUSACCOs will replenish it from the accounts of the Guarantors.

Hence, it is not a usual practice to record such type of maladjustment or failures created in repaying their loans. Therefore. This culture should be changed to know the real situation as to what extent delinquency prevails in each RUSACCO. RATES OF RETURN AND COSTS: The report looks at member dividends, operating expenses and return on assets. Even though, the cooperative promotion bureau support RUSACCOs to pay dividend to their members, due to limitations in manpower (Auditors) to provide auditing service annually only who get the chance to be audited pay dividend to their members.

Compared to other micro finance institutions, RUSACCOs have extraordinarily low operating expense ratios- the primary ratio to determine efficiency. It is expected that the operating expenses of RUSACCOs is between 4-4.5% of average assets. This level of operating efficiency is

unmatched by other small size micro-finance institutions in case of RUSACCOs, which is lower than WOCCU's standard, i. e. , 5%. RUSACCOs are not for profit, member owned financial institutions; however, not for profit does not mean operating at loss.

The RUSACCOs have low levels of institutional capital; they are not generating sufficient profit to maintain a strong capital position. This is explained also by their low level of saving mobilization due to their members are poor sections of the society and limited capacity of members to utilize loan able funds plus deterring lending procedures even to utilize the available fund effectively. Data is not available pertaining to earned profit/loss obtained by RUSACCOs. This is due to shortage of auditors to provide the required service as per the proclamation and produce reports for the consumption of the leadership and regulatory body.

However the statutory reserve is 30%, which will be allocated as a reserve or institutional capital and 70% of for member's dividend according to cooperative proclamations. LOAN DEMAND AND TYPE OF LOANS It is undeniable fact that member's loan demand is very high & incompatible compared with the availability of loan able funds. Some studies indicate that only 20% of the loan-demand of the rural area is being satisfied currently. Hence, 80% of the loan demand is still un-met. Since the problem of the poor (especially farmers or rural dwellers) is multifaceted and diverse, the demand for loans will be very high also.

Like wise, the loan types are also numerous correspondingly. In regard to the prevailing loan demand RUSACCOs remain far behind to shoulder this needs.



The role of especially RUSACCOs is negligible in comparison with the actual demand. On the other hand URSACCOs (employee based) are in a good position to respond to their members demands. But, we could not conclude that all URSACCOs are fully self sufficient to meet member's loan demands. We observe both over & under liquid SACCOs in urban areas. Lack of integration has hindered them to flow their finance to SACCOs where scarcity prevails.

As regards to loans limitation due to diversity in type and number is observed for the following reasons: 1. Scarcity of capital (finance) to finance numerous ventures 2. Lack of entrepreneurial skills or know how to utilize the available fund even. Hence, the loan types are limited and similar in almost all RUSACCOs. They lack diversity and peculiarity in character.

**IMPACT ON INCOME AND ASSET POSITION** In spite of their small size and capital shortage RUSACCOs are generating income and also increased their assets. But this could not be felt in the coverage and over all share of the financial market.

From the available data RUSACCOs, we have seen a tremendous change in their assets and income. However, most of the progress is obtained from increase in number of RUSACCOs and with that membership size. But, this does not mean that RUSACCOs have not shown developments in their income level and asset positions. The condition from where they begin & small ness of their size make their progress to be concealed & unrecognized. Besides, lack of proper un-structured recording and data handling inhibits them from explaining their real picture. **REPAYMENT PERFORMANCE**

As we have seen from the data RUSACCOs, the repayment performance of almost all RUSACCOs is encouraging and satisfactory. The figure reveals that member's (urban & rural SACCOs) repay their loans promptly with out any delay. Various reasons can be sighted for this: 1. In case of URSACCOs since, members are mostly government employees their debts are deducted from payroll. So there is no room for defaulting; 2. Risk free lending rules and procedures. That member's borrowing amount depends up on his own savings plus his guarantor's savings.

Hence, if he fails to repay on time the SACCO transfers from the account of his guarantors; 3. Member's sense of ownership and receive from its benefits (dividend & interest) contributes for the timely repayment of their loans. 4. This does not mean that SACCOs are totally free from defaults. There are rare occasions where member's fail to repay their loans as scheduled. As mentioned earlier this can be solved by executing the hard rules directly and made certain arrangements. But, mostly data's are not available due to recording problems and indifferent reasons.

**PROBLEM IN LOAN UTILIZATION** The effective utilization of loan depends upon the knowledge and skill the borrower owns on that particular area and other necessary conditions. The borrower should know the appropriate timing, planning, budgeting and its proper implementation. Besides, the availability of market & marketing facilities with its proper manipulation is vital. From the available data's & information so far poor repayment conditions are revealed where borrowers fail to utilize the loans taken properly. That is why we observe limitation in the number & type of loans taken.

They lack entrepreneurial skills and business development services to utilize their loans to generate more income. It should be clear good repayment condition does not show proper utilization of loans. Hence, members require demand driven & tailor made trainings to utilize their loans properly and efficiently in addition to other conditions. ATTITUDE OF THE BENEFICIARIES

Member's attitude towards their cooperatives (SACCOs) and disbursed loans is expressed positively in most cases. Members praise this condition for the following reasons: 1. Timely approval and disbursement of loans .

Accessesibility and found within the easy reach to members 3. Limited & short procedures 4. Flexibility in the type of loans 5. Meets their social needs 6.

Ownership benefits, etc. For this members have strong attachment and show satisfactory participation in the affairs of RUSACCOs unlike to other type of cooperatives. However, some complaints are observed especially as regard to lending rules, which deters them from taking loans as per to demand.

Hence, they need a mechanism or out let as how this can be resolved for increased loan utilization and its benefits.

**MONITORING AND EVALUATION** An appropriate Monitoring and Evaluation system should be developed and in place in order to investigate the performance level of RUSACCOs. RUSACCOs should be properly monitored & evaluated if they are delivering their services to members as planned or not. The proper & efficient utilization of their resource with the given time frame should be assed. Besides, M & E system assists to take corrective measures if deviations and opt for new/other potions. It helps to identify the strong side of the RUSACCO and work for its sustainability.

However, RUSACCOs are not properly monitored & evaluated due to some of the following reasons: a) Lack of structured & systematized M & E system; b) Lack of trained manpower and the required facilities; c) Poor recording and handling of data's; d) Lack of knowledge and skill on M & E STRATEGIES TO IMPROVE PERFORMANCES AND EFFICIENCY A strategy should be designed as how to improve the performance and efficiency of SACCOs for improved & reliable financial access especially to rural poor. This should emanate from the prevailing problems & conditions of RUSACCOs and SACCOs in general. The following strategies can be considered: 1.

Develop a demand driven and tailor made training strategy to meet the training needs of support structure organizations and SACCOs. Hence, a detail training need assessment should be conducted to identify the training need and gap targeting for improved performance and efficiency. Focus should be given in knowledge & skill development especially in case of RUSACCOs (SACCOs). This is partially attained with RUFIP, even though there are delays in implementation. 2. Develop and set a structured and organized Monitoring and Evaluation system. The timely arrangement of M&E system enables to conduct continuous supervision and follow up.

Standard formats should be used to prepare business plans and conduct up to date monitoring & evaluation to see the progresses made so far. Besides, appropriate recording should be in place to examine the performances of SACCOs. 3. Develop standards for measuring performance. Ethiopian SACCOs being part and parcel of the world credit movement, they should put into practice WOCCU's PEARALS in order to measure the performance of

SACCOs. This encourages and helps SACCOs to compete as financial institutions and provide the required service on a sustainable basis.

Recently a training on WOCCU's PEARLS software has been provided to different stakeholders (RCPBs, Universities and Unions) by bringing a specialist from WOCCU branch office Nairobi with the assistance of AEMFI. So it is a first step and the effort to make the system sustainable should be worked out by FCA in collaboration with RCPBs. 4. Make available soft loans to meet the credit demand of RuSACCO members and close the gap of financial scarcity of RUSACCOs. It is undisputable that self-financing of SACCOs from mobilized savings is compulsory for their healthy operation.

However, the demand for loans cannot be solved from their internal source only especially during their initial stage of development. Therefore, an external credit is required to meet the loan demand and development needs. 5. Develop and make available different manuals which assists RUSACCOs to operate based on structured & organized rules & systems. Manuals like savings, loans, training, accounting, auditing and operations are some of them to mention. Recently such manuals have been developed in the mentioned areas and TOT provided to FCA & RCPBs staff. 6.

Establish permanent publications. The availability of timely publications focused on status reports of SACCOs, research findings on the sub-sector, best practices of SACCOs, etc. is important in disseminating information & knowledge/skills. 7. Institutional building & strengthening of SACCOs and their Unions. This can be explained partly by providing office facilities and equipments such as computers, printers, photocopiers, etc. The

establishment of Unions should be seen from the professional & financial support to be provided to primary societies (SACCOs).

Therefore, the professionalization of their management appears to be mandatory in order to compete in the financial market. Hence, managers and accountants should be recruited to operate & manage the day -to day activities. For this support should be given to cover their salary budgets (managers & accountants only) at least for four years, i. e. ,

- First year 100% of their salary
- Second year 75% of their salary
- Third year 50% of their salary
- Fourth year 50% of their salary.

Since the problem of office is a chronic problem of SACCO (mainly RUSACCOs) support is required in sharing some of the costs.

For this NGO's can contribute their part through a cost sharing system. 8. SACCOs need to find ways to increase member funding, since this provides the lowest cost, lowest risk form of capital for operations & investment. As government & donor support continues to decline, increasingly this also becomes the only practical source of funding for cooperative. Even where outside support is still available, the advantage of increased reliance on member funding is that it gives greater autonomy to the SACCO& lowers the risk of eventual withdrawal of outside funding Among the strategies to be considered are:

Improving member services Consider use of outside funding Improving operating efficiency Giving priority to mobilizing member funds

SUGGESTIONS AND RECOMMENDATIONS I. The availability of trained staff and organization of relevant training programs in the fields of Banking and

Financing. That the staff of FCA & RCPBs should be acquainted with banking & finance knowledge & skill in order to provide the necessary support in the sub-sector; II. To install or develop appropriate risk mechanisms or system. This protects and guarantees SACCOs fund from being misused & misutilized.

It enables them to disburse loans as per the demand of members to increase their income & improved their livelihood; III. Emphasis in supervision of credit. An appropriate & timely technical support is required for effective utilization of loans by borrower. Hence, loans should be supervised regularly for increased out come and proper utilization of resources; IV. Loan products diversification Loan products should be diversified in order to meet members demand. That different opportunities should be opened and provided for the effective utilization of resources and generate enough income; V.

Keeping up to date records of books and accounts; VI. Education of members needs attention for improved participation and performance; VII. Emphasis on repayment. Even though, the repayment condition of RUSACCOs is encouraging, this should be strengthened with changing conditions to meet the required standard. VIII. Create linkage with food security program fund. In this regard Multi-purpose cooperatives have participated for the last 3-5 years. But, recently a shift was made based the recent developments observed at the grass root level.

Following this Tigray, Amhara and SNNP regions have already started to channel through SACCOs. Since the fund is to be disbursed for members and non- members a manual on how to manage the fund should be developed

not to disrupt the basic objective of RUSACCOs. IX. Develop appropriate regulatory and supervisory environment. Up to know RUSACCOs have been regulated based on the general cooperative proclamation without recognizing the unique character as a financial institutions. Hence, the general cooperative law can- not Accommodate the specific nature and operation of SACCOs in general and RUSACCOs in particular.

A blanket type of regulatory framework was not suitable to create competent and viable financial institutions on a sustainable basis. Therefore, a separate regulatory framework for cooperative financial institutions in which RUSACCOs are a part by recognizing the general financial institutions and aligning the specific nature of the cooperative should be in place (promulgated). Besides the placement of an appropriate supervisory body separate from that of other type of cooperatives but part of the cooperative movement is mandatory.