

Practices and Challenges of Rural Saving and Credit Cooperatives in Adwa Woreda

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Abstract: *Saving and Credit Cooperatives (SACCOs) are the main financial solution of the people who have low income level. Rural Savings and Credit Cooperative are a form of a cooperative society aimed to provide financial services to its member's. It is owned by its members through payment of share capital and membership fees to the institution. Despite the services provided by these cooperatives, they are facing challenges as well. To study the practices and the challenges faced by such cooperatives a descriptive research design was employed. Seven sample RUSACCOs were taken as a sample and 115 respondents were surveyed proportionally. In addition, cooperative committees, woreda cooperative officials and agents were taken as key informants. Descriptive analysis techniques were also employed to analyze the data. Results of the study shows that there is a tremendous growth in the cooperatives and variety services are provided to members. Even though there is a sign of growth, RUSACCOs are facing many challenges in their management. The main challenges are RUSACCO are not audited in time, limited training opportunities are available to the RUSACCO members, lack of proper saving, lack of knowledge in line of income generating activities, lack of professional man power, lack of awareness on saving habits, low participation of membership in RUSACCO activities, and lack of information in line of income generating activities.*

Keywords: Challenges, saving, credit, and cooperatives

1. Introduction

Savings and Credit Co-operatives (SACCOs) are community membership based financial institutions that are formed and owned by their members in promotion of their economic interests (Nuwagaba, 2012). SACCOs offer a much broader range of services to broader clientele. Deposit services offered typically include business accounts, savings accounts, and fixed deposits. SACCOs also offer both non-financial and financial services to its members. Its non-financial services are critical to the sector. These services include representation, advocacy, education and training, and business plan development and consultancy services. Its financial services include savings, credit and insurance products. (Owen, 2007)

According to Huppi and Feder, 1989, when small farmers who have limited access to commercial bank deposit and credit, other private banks and the high interest rates charged by non institutional lenders were important factors that lead governments and donors to promote alternative rural saving and credit institutions (cooperatives) in developing countries.

Rural Savings and Credit Cooperative are a form of a cooperative society whose business is to provide financial services to its member's. It is owned by their members through payment of share capital and membership fees to the institution. In recent years the potential of member owned saving and credit cooperatives as a tool for poverty alleviation has been increasing 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.

Savings and Credit Cooperative in Ethiopia got emphasis as it is one of the policy instruments used to enable rural and

urban households to increase their output and productivity, induce technology adoption, increase income thereby helping them reduce their poverty and attain food security Welday (2002).

2. Statement of the problem

Savings and Credit Cooperative allow and encourage members to develop formal business and investment, facilitate them with sustainable loan loss, encourage members to buy shares in the appropriate amounts by leveraging with their savings at the appropriate times; using these shares guarantee the saving and loans of the members, by providing the correct amount of liquidity in the SACCO society to manage risk of withdrawal or late repayment; rating some profit from interest earned on the lending operation to pay dividend to the members on the basis of the shares owned; redistributed to the profits to the members as dividend basis of share owned. Savings and Credit Cooperative are playing a great role in the economic development of Ethiopia through providing access to finance and improving members managerial and other related skills. Despite these benefits, Savings and Credit Cooperative are facing many challenges that can affect their performances. The study tried to assess the practices and challenges that hinder their performance of Rural saving and Credit cooperatives particularly found in Adwa Woreda.

3. Objectives of the Study

The study has tried ;

- 1) To assess the practice of rural saving and credit cooperatives in Adwa Woreda
- 2) To identify the challenges that can affect the performance of RUSACCOs.

4. Research design and methodology

The study is basically descriptive method of survey. This is because the descriptive method is appropriate in answering for the questions like who, what, where and sometimes How. This descriptive method is popular in business research because of its versatility across disciplines and it particularly fits with the objectives of this research. Among the eighteen RUSACCOs operating in the woreda seven RUSACCOs have been randomly selected using a lottery method for the study. To select target respondents from the sample of seven RUSACCOs, simple random method a: Yamane (1967:886) set simplified formula for Proportions to calculate sample size as cited by Ataklti.Kebede (2010)

$$n = \frac{N}{1+N(e)^2}$$

Where n is sample size, N= total population, e sampling error at 95% of Level of confidence.

$$\text{Then } n = \frac{1702}{1+1702(0.09)^2} = 115$$

Table 1: Sample size of the study

No.	RUSACCO	Population size			Sample Size
		Male	Female	Total	
1	Edijeganu	98	19	117	8
2	Mayshigurti	169	57	226	15
3	Wereruba	330	139	469	32
4	Adiberak	163	89	252	17
5	Biruhtesfa	167	71	238	16
6	Mahiberselm	185	62	247	17
7	Tintawityeha	91	62	153	10
	Total	1203	499	1702	115

Source: Survey result

In addition, 30 officials from seven RUSACCOs executive committees, Woreda cooperative desk officials and cooperative agents were used as key informants.

5. Data Collection and Analysis

Both primary and secondary sources were used to collect quantitative and qualitative data. The primary data were collected from RUSACCO members, RUSACCO management committee and Woreda officials through the structured interview. Secondary data were collected from reports, financial records, magazines and manuals of selected RUSACCO in wereda Adwa.

Once the data have been collected both quantitative and qualitative data analysis methods were employed. Descriptive analytical tools like simple averages, proportions, percentages were used to analyze the data collected through structured interview.

6. Analysis and findings

Growth of membership size and composition

The survey result shows that there is a tremendous growth of membership on average by 41.3 per cent in all Sample RUSACCOs. Women membership was 29 per cent from the total members for the last two years 2004to 2005 E.C.

Table 2: Promotional activities of RUSACCOs

Response	Frequency	Percent
Promotional activities are sufficient to promote RUSACCO? Yes	51	44.10
No	64	55.90
Total	115	100.0

The survey result shows that 55.9 per cent of sample members believe that Woreda cooperative office and RUSACCOs promotion efforts are insufficient and the rest 44.10 percent of the respondents believe those RUSACCOs and Woreda cooperative promotion efforts are sufficient to enlarge size of their membership by targeting potential members through networking of one member for three relatives, neighbors' and friends.

Governance of RUSACCOs

The survey result shows that all sample RUSACCOs have well developed by-law approved by general assembly and assure the ultimate power of the society.

All sample RUSACCOs scheduled their general meeting to be held every six Months to approve the audit report, to discuss on proportion of dividends, to amend by-law, to elect officials, confirm next 6 months physical and financial plan, and other related issues. And above 72% sample RUSACCOs held their general meeting on schedule whereas 28% were not.

90 per cent of respondents knew about the agendas to be discussed in the general meeting. 65 per cent believed that any member has equal right to represent in all aspects of their cooperatives. The other 35 per cent believed that representatives were appointed from some particular group. Commonly, in all sample RUSACCOs absenteeism in general assembly meeting was observed

The size and composition of committee members have similarity among the sample RUSACCOs. Size committee members are 5 management committees and other committees such loan, control and education committee are consists 3 committee members it makes 14 sizes of the committees and all committees members was presented. Women have been represented by 24 % in leadership.

Majority of the respondents above 84% knew about the constitution of their cooperatives but, the remaining 15 per cent did not know the constitutions.

85 per cent of respondents were assuming that RUSACCOs management committee was facilitating service according to the need of members but 15 percent of respondents believe the reverse.

93 per cent of respondents assume that representatives of their RUSACCOs encouraged them to discussion and deliberation during meetings. 6.7 per cent the reverse.

Above 97.5 per cent believe that elected representatives have harmony relationship among themselves and 91 percent respondents give their response elected representatives keep ethical values and principles. 9 per cent

of respondents assumed that there was no smooth relationship among board members.

Service Delivery of the RUSACCOS

The study result shows that two essential services offered are savings and loan. The types of saving products offered by all sample RUSACCOS were shares, compulsory savings, voluntary and time deposited only.

42 per cent of the sample RUSACCOS has offered annual interest rate of 5 % to deposit accounts, similar to commercial banks and MFIs operating in the same area. 28.57 per cent and 28.57 per cent of sample RUSACCOS have offered 4 per cent and 3 per cent of annual interest rate respectively, which is less than the current market interest rate for deposit account.

Members are expected to save for at least 12 months before demanding loan. A member may obtain 3.5 times his/her saving balance. Basically, collaterals for loan are his/her savings; but additional guarantors are required to secure for loans beyond the available saving. This system makes the collateral provided by guarantors cannot be withdrawn until the completion of loan repayment. Loans are disbursed to members according to their interests and given criteria's which are stated in the by-law and additional loan policies of the RUSACCOS.

Majority of sample RUSACCOS are using two types of collateral system to give loan for members. Respondents from loan users 55 % of the sample household used collateral from their individual savings (compulsory savings) and 53.3 % of the sample household used the second type of collateral which is other members' voluntary saving account (personal guarantee). Due to lack of other collateral systems members cannot get as per their demands the study result shows only 60 per cent of the respondents have loan at least once from their RUSACCOS. According to by-law, if a member have loan from others resources the RUSACCOS cannot provide additional loan to members. The loans size that provided by RUSACCOS were between Birr 500.00 and birr 60,000.00 with the time limit from 12 months up to 36 months.

The sample RUSACCOS provide loans to their members mainly for purchasing of bee colony agricultural inputs (seeds and fertilizers), animal fattening, animal rearing, for dairy, off-farm activities such as small business; tea, local drinks, food, house construction, and for an expected urgent expenses. From loan users, 97.2 per cent of them believe that loan change their living standard. The main changes were showed on respondent's capacity of generating additional income, asset building or creation, and resolving their housing problems.

Above 83 per cent loan users assured that they were not face problem to get loan from their RUSACCOS, 13.7 per cent loan users blame their RUSACCOS for unfair loan provision service, because of the management committees were not serving all members equally.

The loan repayment period of 57 per cent sample RUSACCOS 2 years, 28.5 percent in sample RUSACCOS, 3

year and the other 14 28. Per cent of sample RUSACCOS were 1 year respectively. Loan repayment performance of the sample RUSACCOS survey result shows that 98.6 percent of from loan users were paid on time their loan only 1 respondent (1.4 percent) delays for one month. The survey result indicated that loans extended by RUSACCOS are 100 percent collaterally secured

The lending interest rate of sample RUSACCOS in the range of between 9 % and 15 %, most of the loan users of respondents assumed that RUSACCOS interest rate is fare because of it is less than 18 % of other MFIs found in the study area. And also all sample RUSACCOS charge the same interest rate on short and medium-term loans.

The survey indicated that 87.5 per cent of sample respondents believe that services offered by their RUSACCOS available on time, 90 per cent of respondents also they think that better service offered by their societies than other Institutions (MFIs, and commercial banks.

Recently in the study area RUSACCOS started to manage funds that found from World Bank to distribute to rural poor food in secured the aim of this donors fund to provide for the poor that cannot get any loan access and earned income by giving services to community members behind local development team now disbursed loan to beneficiaries birr 1,108,809.00 as revolving funds with 15 % annually service charge.

Challenges that affect performance of RUSACCO

<i>Challenges faced by RUSACCO</i>	<i>N</i>	<i>Mean</i>	<i>Std. Deviation</i>
Weak management capacity	115	2.33	.780
Lack of knowledge in line of income generating activities	115	4.01	.913
Lack of professional man power	115	4.00	.918
Lack of information in line of income generating activities	115	3.59	.926
Irregular general body meetings	115	2.08	.947
The RUSACCO are not audited in time	115	4.12	.860
wastage of money for unnecessary ceremonies	115	1.47	.717
Low participation of membership in RUSACCO activities	115	3.60	.989
Lack of guarantor/ collateral	115	2.60	.759
Liquid assets are not considered as guarantee	115	2.60	.759
Government intervention to provide load in time	115	2.33	.780
Lack of proper saving	115	4.08	.947
Limited loan amount available from RUSACCO	115	1.92	.966
Lack f awareness on saving habits	115	3.97	.991
There is no RUSACCO office in the tabya	115	2.17	.809
Distance to the RUSACCO office	115	2.30	.973
Scattered settlement/ No social villagization	115	2.52	.799
Lack of road access	115	2.59	.990
Limited training opportunities are available to the RUSACCO members	115	4.11	.989
Valid N (listwise)	115		

** N.B (1=Strongly disagree, 2=Disagree, 3=neither agree nor disagree,4=Agree, 5=Strongly agree

As it is clearly shown in the table, respondents were asked to rate their responses for the main challenges the RUSACCOs are facing with based on five likert scale questions. Accordingly, the main challenges are, The RUSACCO are not audited in time (4.12), Limited training opportunities are available to the RUSACCO members(4.11), Lack of proper saving (4.08), Lack of knowledge in line of income generating activities(4.01), Lack of professional man power(4.00), Lack of awareness on saving habits (3.97), Low participation of membership in RUSACCO activities(3.60), and Lack of information in line of income generating activities (3.59)

7. Conclusions

The study revealed that RUSACCOs shown tremendous growth in membership and all sample RUSACCOs membership growth is greater than the strategic plan of regional and woreda cooperative promotion agency. RUSACCOs have good Governance: some of the elements which contribute to good governance are well developed by-laws, functional management committees except control committee; conducting general meetings as per the by-law. However, limitations were also observed in member's participation, members' absenteeism in general meetings, lack of awareness on constitution and delays in general assembly.

Service delivery of diversified saving products such as compulsory, voluntary, time deposit and children savings were good; and growth of saving amount mobilized and deposit per RUSACCOs and member also promising.

Most of the challenges that RUSACCOs are facing highly relies to the management related issues as cooperatives are not audited on time, limited training opportunities are available to the RUSACCO members, lack of proper saving, lack of knowledge in line of income generating activities, lack of professional man power and, lack of awareness on saving habits.

8. Recommendations

Based on the findings of the study and the conclusions drawn from the study the following recommendations;

RUSACCOs as an autonomous institution, should strength their performance capability to become self help institutions to finance their own affairs. When they continue as it depend on external supports they would potentially compromise their autonomy. Therefore, RUSACCOs must give more attention from the beginning to enable get stronger to hire audit (accountant) and financial management from the market. This also made possible by developing their capital from within the inside. Members need to motivate to buy more shares and turn dividend to savings and shares. A lot should be done to strengthen the capital of RUSACCOs.

The provision of adequate education and training, it is critical for effective performance of RUSACCOs. But the current method of giving training by the government cooperative agency and NGOs has limitations. Therefore,

the Adequate training should be provided based on the RUSACCOs gap (need assessments), focus on knowledge and skill development of RUSACCOs, mainly on basic record management, accounting principle and practice, business management, financial management, cooperative governance and entrepreneurial skills, saving and, internal control and management information.

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