



St. Mary's University ጳውሎስ ማርያም ዩኒቨርሲቲ

**School of Graduate Studies**

**ST. MARY'S UNIVERSITY**

**SCHOOL OF GRADUATE STUDIES**

**CHALLENGES FACING SAVINGS AND CREDIT  
COOPERATIVES SOCIETIES IN ADDIS ABABA**

**BY**

**YIBELTAL FELEKE**

**JUNE 2016**

**ADDIS ABABA, ETHIOPIA**

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**YIBELTAL FELEKE**

**A THESIS SUBMITTED TO ST.MARY'S UNIVERSITY SCHOOL  
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AND FINANCE**

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**APPROVED BY BOARD OF EXAMINERS**

\_\_\_\_\_  
**Dean, Graduate Studies**

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**Signature**

\_\_\_\_\_  
**Advisor**

\_\_\_\_\_  
**Signature**

\_\_\_\_\_  
**External Examiner**

\_\_\_\_\_  
**Signature**

\_\_\_\_\_  
**Internal Examiner**

\_\_\_\_\_  
**Signature**

## **DECLARATION**

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of Asmamaw Getie (Ass. Professor). All sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

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Name

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Signature & Date

## **ENDORSEMENT**

This thesis has been submitted to St. Mary's University College, School of Graduate Studies for examination with my approval as a university advisor.

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Advisor

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Signature & Date

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## **LIST OF ABBREVIATION**

<b>AA</b>	Addis Ababa
<b>AASCCU</b>	Addis Ababa Saving and Credit Cooperative Union
<b>AABoFED</b>	Addis Ababa Bureau of Finance and Economic Development
<b>ACSI</b>	Amhara Credit and Saving Institution
<b>ADCSI</b>	Addis Credit and Saving Institution
<b>ADLI</b>	Agricultural Development led Industrialization
<b>AIB</b>	Addis International Bank
<b>Coop</b>	Cooperative
<b>CPDS</b>	Cooperative Promotion and Development Sector
<b>CSA</b>	Central Statistics Authority
<b>DECSI</b>	Dedebit Credit and Saving Institution
<b>FCA</b>	Federal Cooperative Agency
<b>FDRE</b>	Federal Democratic Republic of Ethiopia
<b>GDP</b>	Gross Domestic Product
<b>ICA</b>	International Cooperative Alliance
<b>Kshs</b>	Kenyan Shillings
<b>MFIs</b>	Micro Finance Institutions
<b>MOFED</b>	Ministry of Economic Development and Cooperation
<b>MSEs</b>	Micro Service Enterprises
<b>MUSCCO</b>	Malawi Union of Savings and Credit Cooperative
<b>NBE</b>	National Bank of Ethiopia
<b>OCSSCo</b>	Oromia Credit and Saving Share Company
<b>RUFIP</b>	Rural Financial Intermediation Program
<b>RuSACCOs</b>	Rural Saving and Credit Cooperative Societies
<b>SACCOL</b>	South Africa Saving and Credit Cooperatives League
<b>SACCOs</b>	Saving and Credit Cooperative Societies
<b>SNNPR</b>	South Nation and Nationalities People Representation
<b>UN</b>	United Nations
<b>WISE</b>	Women In Self Empowerment
<b>WOCCU</b>	World Counsel of Credit Union

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## ABSTRACT

*The main purpose of this study was to identify the challenges of Savings and credit cooperatives (SACCOs) in Addis Ababa. The study followed qualitative research approach and exploratory research design. Purposive quota sampling methods were employed to select the sample respondents. Primary and secondary sources of data were used. A review of relevant documents, interview schedule and focus group discussion were prepared and administered with purposely selected SACCO members, various committee members and cooperative officials and auditors at Addis Ababa city, sub-city and federal level. The collected data were analyzed by content analysis. Poor governance and leadership, lack of skilled manpower, lack of office and materials, poor educational status of committees and poor members' participation, lack of audit service, lack of appropriate support from cooperative promoters and NGOs, regulatory limitation and non awareness of the existing opportunities by the members are the main findings. Based on the above findings, the following recommendations were proposed: SACCOs should provide member driven services, diversified financial product, hire qualified manpower in the right position, strengthening the governance and internal control system. Cooperative promotion and development sector at city and federal level, donors and other stakeholders should assist SACCOs to undertake awareness creation program, training, education, and information about SACCOs' operations, credit, shares and investment, providing regular audit and inspection service, technical and material assistance. In addition, the government should revise the current cooperative promotion and development structure, restructuring and producing appropriate regulatory environment for SACCOs. Finally, Universities should undertake research studies on financial cooperative are the possible recommendations.*

**Key words:** challenges, savings, credit, and cooperatives, Addis Ababa.

# CHAPTER ONE

## INTRODUCTION

This is the first chapter of the paper that intends to give the general clue about the study by providing general background for the study. This chapter consisted of background of the study, statements of the problem, basic research question, objective of the study, delimitation of the study, significance of the study, and organization of the study are dealt in detail. It begins with more general issues and tries to get the point.

### **1.1 Background of the study**

Access to finance by poor households in Ethiopia is primarily through informal systems, including money lenders, traders, friends, relatives, Edirs and Ekubs (informal, group based savings and credit associations). Poor households have almost no access to formal commercial banking institutions or savings and credit cooperatives (Endalew, Endrias and Jema, 2010).

Financial cooperatives have a dual capacity in that they provide platforms for social interaction and are economic vehicles for communities, groups and individuals. Latest development resulting from the financial crisis have shown that financial cooperatives are one of the fastest growing financial institutions in some locations due to their ability to adopt to any condition (Alexopoulos & Goglio, 2011). Financial cooperatives are often loosely organized entities which have some formal and informal characteristics. They are typically started informally when a group of people with a common bond (e.g work place, religion, location, community, profession) decide to save their money together for a commonly agreed purpose (Adekunle, 2011). The pool of saving is then used to provide financing to the members according to how much each member has saved; the amount to be borrowed is often a multiple of the members' current savings. The members of cooperatives determine the policies of the cooperative such as the amount to be saved monthly, the interest to be charged on borrowings and the dividend sharing formula

(Kibuuka, 2007). The operational policies may or may not be documented, and the cooperative relies heavily on the social ties that create trust among members (Morrow, Hansen, & Pearson, 2004). Financial cooperatives are common throughout the world, with 101 countries which have active financial cooperatives (WOCCU, 2014).

It is also widely recognized that economic progress relies largely on access to financial services such as savings, insurance, and credit. Where formal financial institutions fail to serve the large majority of the poor population, there is evidence to support the proposition that credit unions can fill some of the gap (Hussain *et al.*, 2002). The emergence of member based financial institutions such as saving and credit cooperatives (SACCOs) has also been recognized for the provision of banking services in Ethiopia. SACCOs, which were only 495 in 1992, (Kifle and Hailemichael, 2012) their number has increased from 5,437 in 2006 to 14,453 in May 2014 showing a compound growth rate of 28% per year. The aggregate number of membership during the same period increased from 0.38 million to 1.7 million and their capital increased from one billion birr to 5.2 billion birr showing a compound growth rate of 28% per year (Kifle, 2015) and currently, as of July 2015, the number of SACCOs reached to 17,765 with aggregate member of 12,799,500 and their saving amount more than 6.6 billion Birr (Federal Cooperative Agency, 2015). SACCOs constitute the highest type of cooperatives in the country in terms of number and the second highest membership next to multi-purpose cooperatives.

Cooperatives in Ethiopia are governed by the comprehensive and multi-sectoral cooperatives societies' proclamation No. 147/1998. This Proclamation was based on internationally accepted cooperative principles. It laid the ground for the development of all kinds of cooperative societies at different levels, and is comprehensive in its coverage. As per the proclamation No. 147/1998, SACCOs were expected to play active role in bringing about broad-based development and poverty alleviation as they were permitted to take deposit from and grant loan to members. However, this proclamation failed to recognize SACCOs as formal financial institutions even though they were allowed to

accept deposits and grant loans. As a matter of this fact, SACCOs are not subjected to the regulation and supervision by National Banks of Ethiopia (NBE) that other formal financial intermediaries are subjected to. The cooperative proclamation allows SACCOs to operate as self-regulated entities with a few restrictions such as the allocation of profits and the maximum shareholding to a single member. Internal monitoring and controlling generally provides the checks and balances of the operation of the cooperatives (Zerfeshewa, 2010).

Under the study area, Addis Ababa city, there are 10 sub-cities and 116 woreda (AABoFED, 2013). Cooperative promotion and development sector (CPDS) existed in city administration level, sub-city and woreda/district level under trade bureau. CPDS are responsible government body to promote, organize, capacity building, licensing, inspection, audit and legal services cooperatives under the city (AACPDS, 2015). Employee-based SACCOs take the initial point in establishing SACCOs in Addis Ababa. The first SACCOs established in the mid of 1960<sup>th</sup> by employee of Ethiopian Air Lines. At the same time, the employee of Ethiopian road authority and Ethiopian Telecommunication established SACCO. SACCOs operated in Addis Ababa city were strong in capital and saving amount compared to other region. According to Addis Ababa cooperative promotion and development sector (CPDS) report, 2015 indicated that SACCOs in Addis Ababa were 1,016 with total number of membership of 175,072 (89,804 male (51.29%) and 85,268 female (48.71%)). They have highest capital with 1.1 billion Birr (which accounted 51.9% of the total capital of SACCOs in Ethiopia) and saving amount of 4.55 billion Birr (69% of the total saving accumulated by SACCOs in Ethiopia). SACCOs are the largest both in membership and capital with compare to other kind of cooperatives existed in the city. The types of SACCOs existed in the city were employee-based and Community-based. The members are a collection of private and government employees, small scale business traders, artisan, women, different professionals, etc.

The financial cooperatives (SACCOs) 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 operation. Like other business organization, SACCOs faced in different challenges which hinder their development. Therefore to assist poverty eradication program of the country, to assure national development at macro level, and to mobilize more savings through strengthen the city's financial cooperatives, it is necessary to give much attention for Savings and Credit Cooperatives' expansion at a grass root level. Thus, the study aims to identify the challenge facing SACCOs in Addis Ababa.

## **1.2 Statement of the problem**

Saving and Credit Cooperatives (SACCOs) are likely to be the most viable and sustainable institutions to provide accessible and affordable financial services to the vast majority of urban poor (Aregawi, 2014). They are the main financial solution of the people who have low income level. The SACCOs are considered as semi-formal financial institutions, which are not regulated and supervised by NBE. The informal financial system includes Equib, Eddir, and others, which are not regulated (NBE annual report, 2009).

SACCOs Societies or Credit Unions have been developed to meet the fundamental human need to find a way of saving and borrowing methods without taking risks and without handing over too much power to a moneylender (Getachew, 2006). SACCOs' core business is mobilizing savings from members, and then providing them with credit at affordable interest rates. (Alecia, Elizabeth, Gideo & Dancan, 2012). Despite the ups and downs experienced, SACCOs are now expanding (in terms of number as well as membership) in both rural and urban areas. Many have formed unions (which have reached about 110) and some urban employee-based SACCOs even have taken the initiation to form cooperative banks. The number of founders that took the responsibility of organizing Addis cooperative bank was 21 and out of this 67% came from AASCCU. Addis International bank (AIB) formerly known as Addis cooperative bank an estimated 63.34% of bank's paid up capital was owned by cooperatives and their members, includes Ethiopian Air Lines SACCO, Ethiopian Road Authority SACCO, Ethiopian

Telecommunication Corporation SACCO, Ethiopian Electric power Authority SACCO, Addis Ababa University SACCO, etc. At present, the contribution of cooperatives in the bank's capital reduced (according to AASCCU manager). In addition to that, urban community-based SACCOs in Addis Ababa (example: Rased/WISE SACCO Union, Awach SACCO, etc) plays a major role for urban poor especially low-income women, small scale traders, weavers, etc. through enabling to initiate or expand their preferred lines of micro-enterprises operation through mobilizing savings and distributing loans to members. They create employment opportunity, developed transformational women leader, ensured to achieve self-reliance, improve the quality of their lives through the provision of a range of services both financial and non-financial to their members.

Like in other business organization, financial cooperatives are currently facing a number of challenges. These challenges comes from the internally and external to the organization. In Africa, they have faced the challenge of growing Savings and Credit Cooperatives (SACCOs) as a strong tool to meet our financial needs. SACCOs in Ethiopia have their own challenges that retard their financial solution to their members and the economical contribution to a country. Limited number of studies has been carried out in SACCOs in Ethiopia especially in Rural Savings and Credit Cooperatives (RuSACCOs). The researcher tries to indicate the main challenges of RuSACCOs in their study. Govindaran Veerakumaran (2007), Yared (2008), Dr. Sambasivan & Biruk (2009), Zerfeshewa (2010), Kifle (2011), Dejene (2011), Aregawi and Kifle (2011), Kifle and Hailemichael (2012), Biruk (2012), Aregawi (2014), Kifle (2014), and Ergetew (2014) found out the problems of SACCOs in Ethiopia on their research findings could be listed as follows: lack of awareness and poor saving culture, lack of infrastructure like office buildings and equipments, weak governance, policy and regulatory environment, weak institutional capacity, low capital base, inappropriate loan security requirements, lack of trained manpower, lack of external funding for the SACCOs, small size of membership, lack of members' participation, Low population density of the rural members creates high transactions costs, limited technological advancement, difficulties in assessing the creditworthiness of a member and the limited possibility to ask for collateral add to the

high transaction costs, the financial system in place including accounting and audit works are very weak. Most of the primary SACCOs are not maintain proper financial records and produce reports timely. Similarly, the accounts of the societies are not timely audited with three to four years lag in the case of certain primary societies. Kifle (2014) and Federal Cooperative Agency (2014) revealed that financial cooperatives (SACCOs) are promoted and guided by proclamation No. 147/98 that treats all types of cooperatives uniformly, but does not address critical issues facing financial cooperatives such as the lack of clear policy and strategy, lacks financial standards and benchmarks required to protect savings, and direct the development of this financial cooperatives in the area of saving mobilization, establishment of insurance scheme to depository members and borrowers, guide on prudential financial ratios, reporting requirements etc. Moreover, there is no separate regulatory policy framework for Financial Cooperatives (Cooperative banks, Cooperative based insurance companies, and SACCO). As a result the initiative to establish Addis Ababa Cooperative Bank ended up in establishing conventional commercial bank.

According to Spielman (2008) and UN (2011) the challenges that SACCOs face in their development are immense such as tension exists between the growing roles & responsibilities of cooperatives in Ethiopia's economy, weak exploitation of the existing human resource, general changes in Ethiopia's wider socio-economic conditions, the efforts to promote cooperatives as an inclusive solution to realizing financial opportunities, and the limits on inclusiveness posed by the actual design and function of cooperatives. Internally, SACCOs face poor members' participation and the severe shortage of capital misuse by selected committees, misappropriation by leaders, poor administrative skills, and irresponsible lending to members, and limited access to banking services too long periods between audits.

The data compiled from FCA, 2015 indicate that at present there are 17,765 SACCOs active in the country with the total membership of 2,794,624 and a saving amount of 6.6 Billion Birr. However, according to Kifle, 2012 the sector provides less than one percent of

the country's total financing, and many struggle with low-capacity management and governance. This in turn, requires investigation of the status and challenges of these financial institutions for appropriate intervention.

Based on the above research findings, the extent and the specification internal and external challenges of urban SACCOs and rural SACCOs are not identified. Most of the above researchers listed out the challenges of SACCOs in general (country level) and most of them were focus in the case of Rural SACCOs. Basically the challenge existed in rural areas could be different from urban areas. Most of urban SACCOs like operated in Addis Ababa city are strong in capital and saving amount against rural SACCOs, but there are challenges faced SACCOs existed in the city. Most researchers were not identified challenges of urban SACCOs.

However, there is little understanding of what the contemporary challenges of SACCOs in Addis Ababa; whatever the SACCOs do should be analyzed in terms of its contribution on the socio-economic development. The driving force for initiating this study is that very little is known about the current status and challenges of SACCOs for its growth and sustainability in Addis Ababa city Administration.

Therefore, assessing the existing research gap, I have motivated to identify the internal and external challenges of saving and credit cooperatives in Addis Ababa.

### **1.3 Basic Research Question**

1. What are the challenges of Savings and Credit Cooperatives (SACCOs) in Addis Ababa?
2. What are the reasons behind those challenges of SACCOs in Addis Ababa?



## **1.4 Objective of the Study**

### **1.4.1 General Objective**

The overall objective of this study is to investigate the challenges that faced Savings and Credit Cooperatives in Addis Ababa.

### **1.4.2 Specific objectives**

1. To understand the factors that determinant the challenges of SACCOs and in Addis Ababa,
2. To recommend possible solutions for the challenges of SACCOs in Addis Ababa.

## **1.5 Delimitation of the study**

This study is geographically limited to specific SACCOs that are fourteen saving and credit cooperative societies in Addis Ababa and also only covers saving and credit cooperatives challenging factors to become operationally effective and their future prospects for development. Because our study limited to sample selected SACCOs in the city, 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.

## **1.6 Significance of the study**

SACCOs are identified as one of the vehicle that is important in mobilizing savings and consequently an important source of affordable credit for majority of low income earners and micro as well as small entrepreneurs in Addis Ababa. Therefore any study which seeks to understand the challenge of SACCOs is welcome as it will aid the stakeholders within and without the SACCOs arena.

This study has a supreme importance through providing adequate information for policy makers, for saving and credit cooperative societies, cooperative promoters', development

workers and other stakeholders about the challenge of SACCOs in Addis Ababa city. 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, this study will furnish a current information regarding challenges faced by SACCOs in Addis Ababa which enables the St. Mary's University students and researcher to go further study in the area of SACCOs.

### **1.7 Organization of the study**

This study paper organized in five chapters. The first chapter deals with an introductory part, which consists of background of the study, statement of the problem, basic and specific research question, objectives of the study, scope/limitation of the study and significance of the study. Chapter two discusses the theoretical and empirical literatures related to the research. The third chapter presents methodology used in the research. Chapter four presents the result and discussion part of the study. Finally, the conclusion and recommendation of the study are presented in chapter five.

## **CHAPTER TWO**

### **REVIEW OF RELATED LITERATURE**

#### **2.1 Introduction**

This chapter presents what other researchers and writers have written about Savings and Credit Cooperatives (SACCOs) and their challenges. The detail descriptions about the financial cooperatives (SACCOs) and their challenges, and other related concepts reviews were the concern on this chapter.

#### **2.2 Theoretical review**

##### **2.2.1 The meaning and role of Cooperative Society**

The International Cooperative Alliance (ICA), which is the apex organization founded in 1895 to coordinate the cooperative movement worldwide defines a cooperative as ‘an autonomous associations of persons united voluntarily to meet their common economic, social and cultural needs and aspiration through a jointly owned and democratically controlled enterprises’ (ICA, 2014). Cooperatives have the advantages of identifying economic opportunities for the poor; empowering the disadvantaged to defend their interests; and providing security to the poor by allowing them to convert individual risks into collective risks (Wanyama, 2008). By integrating the poor and the relatively well-off in the same income generating opportunities, cooperatives are also contributing to the reduction of exclusion and inequality (Birchall, 2004; 2003; ILO/ICA, 2003). The cooperative form of organizing a business enterprise assures any group of individuals an effective means to combine their resources and permits a larger resource mobilization than that within the capacity of most individuals and small enterprises. It is a catalyst for local entrepreneurial growth; cooperatives retain within the communities in which they operate the capital that they mobilize there, as well as surplus derived from outside transactions, both accumulating for further entrepreneurial development (UN, 1996). Accordingly, cooperative societies are practical vehicles for cooperation and collective action as well as

build and reinforce community, which are crucial to sustainable development. Uma (1981) wrote that traditionally cooperatives were expected to serve a broad set of socio-political and economic objectives ranging from self-help and grassroots participation to welfare and distribution'. Cooperatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity (UN, 2011). Cooperatives have been successful in not only increasing social participation of women but also in developing drives, initiatives and leadership qualities (USAID, 2005). Women Associations at the Grass root level have facilitated access for the urban poor, particularly women, to available services and inputs for business development.

Moreover, as ICA (1997), state the role of cooperative is to provide greater benefit to the members such as: increasing individual income or enhancing a member's way of living by providing important needed services. The cooperative may be a vehicle to obtain improved market or providing source of supply or other services, otherwise unavailable if members act alone.

### **2.2.2 Financial Cooperatives (SACCOs)**

A SACCO is an acronym for Savings and Credit Co-operative Societies. This is an autonomous association of persons united voluntarily to meet their common economic and social needs through a jointly owned democratically controlled enterprise or business. Savings and Credit Cooperatives are member owned financial institutions with the core objective of mobilizing savings for on lending to members. They are quasi-social institutions aimed at improving the welfare of its members through access to affordable credit facilities. Members of these financial institutions can be both net savers and net borrowers (Johnson and Nino-Zarazua, 2011).

WOCCU (2004) defines saving and credit cooperatives as: " ... user-owned microfinance institutions that offer savings and credit services to their members ... Saving and credit co-

operatives are financial institutions that are owned, controlled and capitalized by their members. Membership in a credit union is based on a common bond, a linkage shared by savers and borrowers that can be based on a community, organizational, religious or employee affiliation. SACCOs perform a critical function in financial intermediation. They offer savings and credit services to their members.

SACCOs are forms of cooperative societies whose core business is to encourage thrift and easy access to credit to their members. Savings and Credit Co-operatives play an important role in the socioeconomic development of the people, they provide avenues for members to save regularly and then borrow for productive and welfare purposes. Like any other cooperative organizations are guided by the practices, philosophy, fundamental principles and values of the cooperative movement world over (Ahimbisibwe, 2007).

SACCOS can be formed by any group of people who either has common bond (like in the case of one employer), or people with similar objectives. Examples of such people are Government employees, employees of government parastatals, teachers, nurses, doctors, traders, mall workers, municipal workers, tax workers, employees of private commercial companies, parliamentarians, hawkers and domestic workers. A SACCO is one of a cooperative society whose business is to provide financial services to its members. SACCOs are legal institutions registered under the cooperative proclamation 147/98 and cooperative regulations. SACCOs are owned by their members through payment of share capital and membership fees to the institution. It is also a democratic, unique member driven, self-help, not for profit financial cooperative. It is owned and governed by members who have the same common bond. A SACCO membership is open to all that belong to a group, regardless of race, religion, colour, creed, and gender or job status. These members agree to save their money together in the SACCO and to make loans to one another at reasonable rates of interest (Kabuga and Batarinyebwa, 1995).

In general SACCO Society 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 (Getachew, 2006). The key role of financial cooperatives in building better communities by enhancing financial inclusion, broadening and cementing a culture of saving, financial literacy and smart loans/excessive lending/credit (Auma, 2010).

What makes SACCOs different from other cooperatives and financial institutions is that SACCO's operations are concentrated within their own membership and a person must be a member in order to save, borrow or receive other services from the SACCO. In developing SACCOs, working funds are comprised mostly of member shares; in mature SACCOs, working funds are mainly deposits. SACCOs' make loans to members, emphasizing primarily the character and ability to repay. SACCOs' rely to a significant extent upon the volunteer efforts of the members; the key element in the development of SACCOs' is volunteerism. The difference between a SACCO and other forms of co-operatives is that the SACCO can accept deposits from its members as savings and also issue out loans to qualifying members of the SACCO (Henama, 2012).

SACCOs, according to WOCCU (2013) are different from other financial institutions by:

**Structure:** They are not for profit, members owned financial cooperatives, funded largely by voluntary member deposits.

**Clients:** Members share a common bond, such as where they live, work or worship.

**Governance:** SACCO members elect a volunteer management team from their membership.

**Earnings:** Net income is applied to lower interest on loans, higher interest on savings.

Getachew Mergia (2006) defines the terms and concepts in the following way:

**Savings:** means the accumulation of money regularly or irregularly by the members of saving and credit cooperative societies to secure or to gain interest rate or both. Saving can be defined simply as holding something back from today's consumption for future use. In the SACCO society, saving is an asset to members, and a liability to the SACCO society. In the SACCO society, saving is collected from member to on lend to members. Saving is sources of income to the SACCO society because it lends to members with interest. In SACCO societies we have three kinds of Savings: 1) Compulsory Savings 2) Voluntary Savings, 3) Contract Savings (Time Deposits).

**Compulsory savings:** 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. This compulsory saving is collected to on 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. If a member wants to with draw from the SACCO society, he has the right to take this compulsory saving with one-mouth priors notes to the Board of Directors. The society will provide interest for this savings.

**Voluntary savings:** Voluntary savings are deposited and withdrawn as the member sees fit. This maintains the fundamental function of the SACCO and allows individuals with seasonal incomes to be members. Technically speaking, this is referred to as saving up. This ensures regular flow of cash to the SACCO society and promotes members participation. This kind of saving can be withdrawn at any time when the owner needs it. 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. This kind of saving 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.

**Credit:** means the taking of money from SACCOS for consumption or investment based on the saving amount of the saver to repay after a long period of time or after a short period of time. Loan duration under SACCOs includes:

- Short-term loan: a loan that is provided for different activities up to one year only.
- Medium-term loan: a loan that is extended for different purpose and lies between one year and five year.
- Long-term loan: a loan that is given for a period of ten years and above.

**Cooperatives:** are the cooperative societies who are eligible and be organized in saving and credit form of cooperative societies to achieve their common objectives under the federal cooperative society's proclamation No. 147/1998.

**Management committees:** are the committees who are elected by the members from the members' financial institution: is an institution that provides financial services for SACCOs members.

**Challenges:** Challenge is not just a trouble but it has wider meanings. We generally label only those complexities a challenge which are noteworthy and from which we can overcome. A challenge is a difficulty that bears within it an opportunity for development. Once we triumph over a challenge we rise up to a higher level than before (Kluss, 2016). Challenges are the hindrance factors that limit the expected services of SACCOs Prospects: the opportunities, chances, expectations etc. that are helping success of SACCOs (Ergetew, 2014).

### **2.2.2.1 Historical Background of SACCOs**

SACCOs have existed for more than a century and it is providing services to more than hundred and twenty million members throughout the world. The following is a brief history of how the concept originated in some of the countries around the world:



Germany was the first country in the world to apply the principle of cooperation in the field of saving and credit. The cooperative saving and credit movement was started in Germany in the middle of the 19<sup>th</sup> century. At that time, the economic condition of German was extremely deplorable and peasant and artisans felt crushed under the heavy weight of indebtedness. Jews rule over the market and the poor laborers and farmers had no way out to buy articles of their requirement from them and sell their product to them. Hence, German laborers and peasants were passing such bad time. Fredrich Wilhelm Raiffeisen, a city mayor of Heddesdorf, tries to reduce the suffering of the people who are living in rural areas (John, 1986).

In 1849, he formed the first credit union. This was a time of famine where people especially in the rural areas barely had enough to eat as a result of drought and crop failure for two successive years people found themselves near starvation and had to pledge all their worldly possessions, stock, machinery, land, even homesteads to usurers (loan sharks), to get enough to eat to keep body and soul together. It was in these dire circumstances that the credit union idea was conceived. While Raiffeisen was busy promoting the credit union concept among farmers in rural communities, Schulze-Delitzsch had become interested in the promotion of credit unions in the urban areas among workers, shopkeepers and other professional groups to enable them gradually raise enough capital in order to survive in a highly competitive capitalistic society which had developed after the industrial revolution. Both of them were very successful (MUSCCO, 2011).

In Italy, the idea of Raiffeisen and Schulze began to spread to other European countries. In 1864, Luigi Luzzati, a twenty three (23) year old Italian scholar, visited Germany to study cooperation. He was greatly attracted to the credit union concept and on his return organized the first credit society in 1866 in Milan, Italy. Austria and France, The first Raiffeisen society was founded in 1886, with the number increasing to almost 8,000, by 1912. The idea was also extended to France within the same period. In Canada Alphonus Desjardin, who became interested in the problem of usury as a result of the frequent

mention of this problem in parliament where he was assigned as a reporter, founded it. This occurred in 1900 in his native town Levi. In USA, EDWARD Filene was commonly known as the Father of United States SACCO Movement. Filene was a wealthy Boston merchant and was first introduced to SACCOs in India in 1907, it was through his support and participation that helped to the secure passage of the first State SACCOs Act by the Massachusetts legislation in 1909 and that was the year the first SACCO was organized. In Ireland Nora Herlihy organized the first SACCO in 1958. After studying SACCO operations in great detail with the SACCO Federation (CUNA) in America, she was convinced that the possibility of setting up SACCOs in Ireland was worth pursuing. Nora's private home was the campaign office for the promoting of SACCOs. The island of Ireland has a population of four million people of which 1.5 million are SACCO union members.

Savings and credit co-operatives are not foreign to Africa. There existed indigenous savings associations known by different names (“ekub” in Ethiopia, “sanduki” in Sudan, “enusi in Nigeria, “chilimba” in Zambia and so on) but all of them consisted of simple organizations in which savings and credit were administered on rotating basis by the members. Examples of such organizations in Kenya include the women’s “mabati” or “makuti” groups. These groups meet at intervals (weekly, monthly and so on) and each of the members contribute a fixed amount (Alecia et.al, 2012). In Africa a missionary in Jirapa, the Northern part of Ghana in 1955, founded the SACCO. Father Mac Nulty as a missionary found that one couldn’t make people spiritually strong without assisting them to solve their social needs. He became very successful in organizing SACCOs among the entire Catholic diocese in the region. The SACCO was intended to assist villagers improve their economic conditions (Ng’ombe & Mikwamba, 2004). Since then, the credit union idea has spread too many countries in Africa. English speaking nations were the first to adopt SACCOs. The first entrants in to SACCO community include Ghana, Uganda, Tanzania and Kenya. Most influx into SACCO community in 1970s (Mwakajumilo, 2011).

Presently there are 28 African countries operating SACCOs union. The number of saving and credit co-operatives (SACCOs) continues to increase in Kenya, which recently received an award for leading the growth of SACCOs in Africa. Kenya has a population of 43 million people. Of this, 2.7 million are members of deposit taking SACCOs. Saving and credit co-operatives in Kenya employ over 250, 000 people and over 60% of the population depends on SACCO related activities. They also contribute 45% of Kenya's GDP. The asset base of these societies has grown from Kshs 294 billion in 2012 to Kshs 335 billion in 2013. Deposits have also increased from Kshs 213 billion in 2012 to Kshs 241 billion in 2013 (ICA, 2015).

In 1958, World council of credit Union (WOCCU) established while the African counterpart established as African Confederation of cooperative saving and credit Association (SCAs) in 1968. Now, there are over 37,000 saving and credit Association with over 89 million members in over 86 countries (ICA, 2006).

#### **2.2.2.2 Brief History of SACCOs 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, *Eddir*/focuses on funeral celebration/, *Ekuib* /which helps for saving money and self help to the members/, and *Debo* /which is focused on the cooperation on labor peak times like in the time of harvest, wedding , etc. which were the basis of modern cooperatives. Although these cultural co-operatives still exist now, new forms are emerging in the country. The newly introduced Saving & Credit Co-operative is one of them, complementing the already existing associations in a community.

The development and promotion of modern savings and credit cooperatives (SACCOs) in Ethiopia is not different from that of general cooperative promotion and development in the

country. It was in 1964 for the first time in Ethiopia, during the imperial regime (Kifle, 2014), the first savings and credit co-operative in Ethiopia was established in 1964 by employees of Ethiopian Airlines. During the same period, saving and credit co-operatives were established by employees of the Ethiopian Road Authority and the Telecommunication Agency (Desalew, 2009). From 1964-1973, there were 28 SACCOs and these societies formed their own national apex body known as Ethiopia Thrift and Cooperative Societies Ltd (ENTACCS). At that time the apex had 28 SACCO with 6,247 members and savings amounting to USD 627,752 and was also a member of the Africa Confederation of Cooperative Savings and Credit Association (ACCOSCA) (Bazabih, 2012). The promotion, regulation and supervision of SACCOs were based on the Proclamation No.241/1958. The basis of this proclamation is associated with the then five year development plans to serve as a tool in the transformation of the smallholding agriculture. Furthermore, in 1966, cooperative promotion No. 241/1966 was proclaimed to give basis for the promotion cooperatives and it was only after this proclamation that cooperatives began to emerge in the county (Kifle, 2014).

It is interesting to note that these organizations are among the most modern and relatively efficient enterprises in the country. The oldest ones were established in the late 1960s, and they grew very slowly until 1978. One reason behind such slow growth was the political and social instability which followed the 1974 uprising. SACCOs have been growing fast since 1978. However; the rate of growth is not the same for all co-operatives. Some of them are growing at very fast rates. A thrift and credit co-operative is a free association of people with a common bond who save and lend money to one another at low interest rate for productive and provident purposes (Desalew, 2009).

The SACCO which was under the National Bank of Ethiopia during the Dergue regime unlike the other type of cooperative were not very much affected but continued to mushroom except the national apex ENTACCS which was abolished. By 1990/91 when the Dergue regime was abolished there were 495 SACCO in the country with the total

membership of 119,799 and total savings amounting to 79 million birr, assets totaling of 102 million birr, and outstanding loans of 80 million birr (Kifle, 2014).

Following the overthrow of the military government (1991) with the adoption of economic reform program helped the organization, promotion and development of cooperative societies within the framework of the free market economy. The government provided a legal framework which is both comprehensive in many respects (including its ability to accommodate coops in various sectors/sub-sectors) and incorporates universally accepted principles of cooperatives including voluntary membership (Proclamation No. 147/1998 and amendment 402/2004). As a result some improvements have been seen in that cooperatives started to distribute inputs, provide loan to their members, marketing their products in the domestic and foreign market, unions (secondary cooperatives) were formed, dividend payments were made by the unions as well as primary cooperatives (ibid, 2014).

The proclamation defines cooperatives as organizations “formed by individuals on voluntary basis,” and states that they “participate in the free market economic system.” This indicates the different nature of the new cooperatives from the system of the previous regime. Proclamation No. 147/1998 outlines the layered organizational structure of the cooperatives, which was not permitted by the previous regime. An organization can have four layers, i.e., primary cooperatives, unions, federations, and cooperative leagues (Dorsey & Tesfaye, 2005). According to FCA (2015) primary cooperatives, union levels, and federation have been formed to date. Cooperative league has not been formed to date. Another unique feature of the proclamation is that it defines the ratio of dividends between a cooperative organization and its members. Article 33 of No. 148/1998 regulates that the cooperative “society shall deduct 30% of the net profit” and “the remaining net profit shall be divided among members.” Therefore, the unions provide 70% of their net profit to the primary cooperatives and the primary cooperatives in turn provide 70% of their net profit, including the dividends from the union, to cooperative members.

According to this proclamation No. 147/1998, a minimum of ten individuals can form a primary cooperative society. Individuals are eligible for membership at age fourteen. A member is allowed to hold a maximum of 10 percent of the total paid up share capital of the society. The Proclamation stipulates that cooperative societies can borrow from members based on their bylaws and at rates not exceeding the prevailing interest rate of the commercial banks. Cooperative lending is restricted to members only. However, the law permits a cooperative to lend to another society. While lending, cooperatives are not restricted with regard to the interest rate they charge.

In 2002, the Federal Cooperative Agency of Ethiopia was created to organize and promote cooperatives at the national level. Its ambitious five-year development plan (2006–2010) aims to provide cooperative services to 70 percent of the population through the presence of at least one such organization in each kebele by 2010 (Eleni & Almayehu, 2007).

SACCOs in Ethiopia are semi-formal financial institutions in the sense that they are registered entities and subject to all general rules, but are not subject to the same prudential standards applicable to formal financial institutions. Unlike the commercial banks and MFIs, savings and credit cooperatives are not subjected to the rigorous supervision and regulatory rule of the NBE. The cooperative proclamation allows SACCOs to operate as self-regulated entities with a few restrictions such as the allocation of profits and the maximum shareholding to a single member. Internal monitoring and controlling generally provides the checks and balances of the operation of the cooperatives (ibid, 2007).

According to FCA, 2015, out of various types of primary cooperatives, as of July 2015, 17,765 (24.9% of total number of cooperatives) are primary SACCOs with membership of 2.8 million and saving amount of 6.6 billion Birr. Currently, SACCOs constituting the second most common type of cooperatives (next to multipurpose cooperatives) in the country in terms of both number, membership and capital.

The distribution of SACCOs among the regional states also presents sharp difference with Oromia and SNNP representing the highest numbers of SACCOs. Oromia represents the largest number of SACCOs with 7,248 (40.8%), followed by SNNP with 4,238 (23.8%), Amhara with 2,825 (15.9%), Addis Ababa 1,016 (5.72%), and Tigray with 965 (5.4%) SACCOs. The aggregate numbers of SACCOs in the rest of regional states constitutes the difference. In terms of number of membership, Oromia constitutes the largest number of members, followed by SNNPR, Amhara, and Addis Ababa in the order given. Regarding capital and saving, SACCOs in Addis Ababa were the highest with 1.1 billion Birr capital (which accounted 51.9% of the total capital of SACCOs in Ethiopia) and 4.55 billion Birr saving (which accounted 69% of the total saving accumulated by SACCOs in Ethiopia).

Though the performance trend of SACCOs in Ethiopia has shown increasing trends in terms of their numbers, membership sizes and amount of contribution and saving, many experts on the areas underscored that the performance in terms of penetration rate, average membership and saving ratio is still very low as compared with Sub-Saharan African countries such as Kenya, Rwanda, Uganda, etc. The information obtained from WOCCU database also revealed this fact. The penetration rate of cooperatives in Ethiopia is found to be 2% which is below the average penetration rate of cooperatives in Africa (7.7%). Hence, this figure implies that much work is needed in order to utilize SACCOs as an opportunity to mobilize savings and address the saving-investment gaps in the country (Tezeta & Deribe, 2012).

### **2.2.2.3 Types of SACCOs**

According to Bwana and Mwakujonga (2013), various types of SACCOs exist, depending on the membership profile and the products extended to the SACCO members differ accordingly. In essence, there are three broad categories of SACCOs:

- 1. Community-based SACCOs:** These SACCOs can be found in urban areas or regional towns, but are most frequently encountered on village level. A variety of group and individual loans can be found, including women solidarity loans, business loans for individual members, or loans for small and micro enterprises;

2. **Employee-based SACCOs.** These represent SACCOs where all the members are drawn from one employer and these SACCOs are generally located in urban areas or regional level. Specific salary-based loans are extended which are often guaranteed by the employer.
3. **Agricultural SACCOs.** To date these represent primarily small-scale cane growers in areas such as the rural region. Both individual farmers and farmers' associations can be clients of the SACCO. Loans are extended for various purposes, including agricultural production loans.

SACCOs also classified in to two based on the area of operation/location as **urban SACCOs** and **Rural SACCOs (RuSACCOs)** (FCA, 2013). Urban SACCOs' operational location is in urban area or city and sub-city, whereas RuSACCOs located in the rural areas.

### **2.3 Description of the study area**

Addis Ababa, the capital city of Ethiopia, was founded in 1886 by Menelik II. The city is only 130 years old. Addis Ababa is the largest as well as the dominant political, economic, cultural and historical city of the country. It has the status of both a city and a state. Addis Ababa is located almost in the centre of Ethiopia and it is in an altitude of about 2,400 metres above sea level. It had a built up area of 290 square km in 2004 and has an estimated population of 4 million. The live expectancy is at 62.8 for males and at 66.5 for females (UN-Habitat, 2007). It is the capital of federal government and a chartered city. It is where the African Union and its predecessor, the OAU are based. It also hosts the headquarters of the United Nations Economic Commission for Africa (UNECA) and numerous other continental and international organizations. It is the largest city in Ethiopia (AABoFED, 2013).

The city is divided in to ten sub-cities which are the second administrative units next to city administration. In terms of area coverage Bole is the largest sub-city followed by Akaki-Kality and Yeka. Addis ketema is the smallest and followed by Lideta and Arada Sub-



cities. The sub-cities are also divided into weredas, which are the smallest administrative unit in the city. There are 116 weredas in the city administration. The number of weredas varies based on their size (ibid, 2013).

According to CSA (2012) the total population of Addis Ababa was estimated to 3,048,631 of whom 1,595,968 were females and the rest 1,452,663 were males. This is 3.71 percent of Ethiopian population of 84.3 million and 22.42 percent of urban population (14 million). The population size of sub-cities varies in space. As a result Kolfe Keranyo (15.66%), Yeka (12.65%), Nefas Silk (11.55%) and Bole (11.28%) have the largest share of population of the city respectively. On the other hand, Lideta (7.36) Sub-city has the smallest share of the city's population. When we compare unemployment status at country level which was 24.1, in Addis Ababa the situation was more serious. This implies that in Addis Ababa, compared to the country total, unemployment rate was very high. The rate of unemployment of females was much greater than males.

Addis Ababa is the main economic financial and communication centre and gate way to external market. In Addis Ababa City administration there is a wide sex and wealth gap disparities in economic activity. According to the 2007 census, men were found to be more economically active than women (71.9% against 55.9%). The economic base of early 20th century Addis Ababa was typical of a consumer city, i.e., one where taxes, tributes and tithes were the principal source of income. Addis Ababa today has a diversified economy, being the main centre of public administration, commerce, manufacturing, finance, real estate and insurance (AABoFED, 2013).

However, most residents are still very poor or on moderate incomes. A 2002 study by the Association of Ethiopian Microfinance Institutions shows that the informal sector employs about 51 percent of the economically active labor force. As the 1994 census of the Central Statistical Agency affirms, unemployment is a big problem in the city (34.7%) and it is even worse than in other urban areas of the country (22%). And overall, the poverty in Addis Ababa is still one of the major problems and it seems to have been increasing in the

last years. Some authors claim that today, about 70 to 80% of the Addis Ababa population is living at or below subsistence level (UN-Habitat, 2007).

Figure 2.3: Geographical location of Addis Ababa

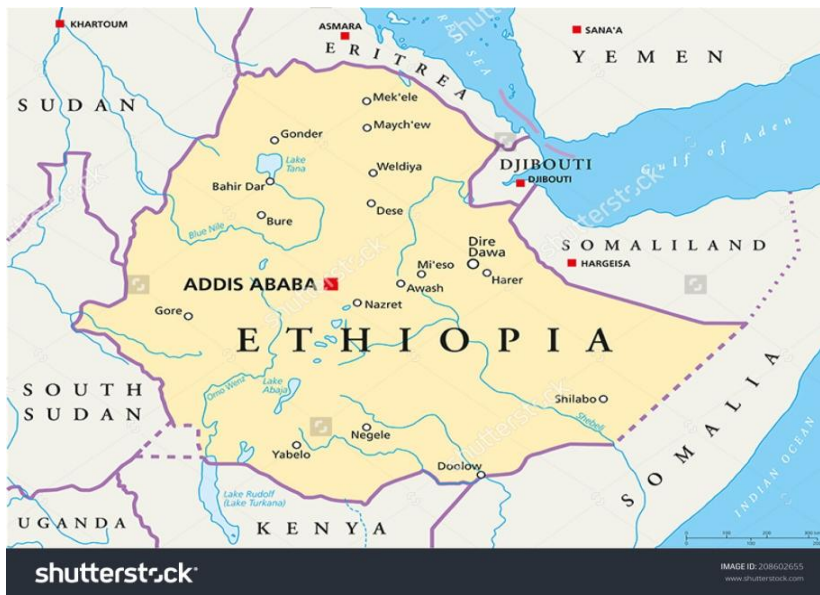
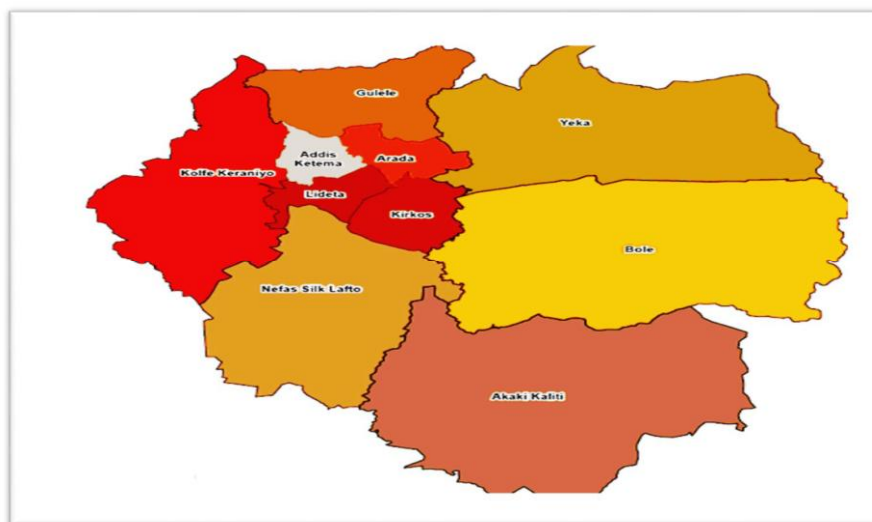


Figure 2.4: Administrative Map of Addis Ababa



Source: [http://en.wikipedia.org/wiki/Addis\\_Ababa](http://en.wikipedia.org/wiki/Addis_Ababa)

### **2.3.1 SACCOs in Addis Ababa**

The history of cooperatives in Addis Ababa started in the mid of 1960. Employee based SACCOs have laid the foundation in the development of SACCOs in Addis Ababa. According to Desalew (2009), the first savings and credit co-operative in Addis Ababa was established in 1964 by employees of Ethiopian Airlines. During the same period, saving and credit co-operatives were established by employees of the Ethiopian Road Authority and the Telecommunication Agency. SACCOs have shown a noticeable increase in number size diversity of membership post the over through of the command economy. Currently there are 1,106 SACCOs registered and operated in the city. The membership has increased from 110,929 during establishment period to 175,072 at present. The growth rate of membership is 36.64 percent which is slow. Only 5.35% of the total population in Addis Ababa was registered as a member of SACCO from the vast population size (near to 3.3 million). The average membership per SACCO was 158 at the end of June 2015. Women share of membership was 46.1 percent. The types of SACCOs operated were employee-based and community-based. Community-based SACCOs have rapidly expanded in their type of membership base to include poor population such as: small traders and women traders working in the city.

FCA, 2015 report indicated that up to July 2015, there are 12,183 cooperatives registered and active in Addis Ababa city with total membership of 713,267 (21.8% of total population of A.A) within which, female accounted 384,182 (53.9%) and 329,085 (46.1%) were male. They have total capital of 1,559,612,212 Birr and 4,555,102,303 saving mobilized from members. Five types of cooperatives are existed in the city such as: housing, consumer, SACCOs, condominium resident and others. Housing cooperatives have registered the highest number of cooperatives. The number of SACCOs are the third place next to others type of cooperatives. Due to the existence of clear and accommodating governmental policy and all-inclusive structures and the government's commitment to transform the subsistence economy and to placate the market of consumer goods of the urban community have created conducive environment for the development of voluntary based primary and secondary cooperative unions in the city. Currently, in Addis Ababa,

there are 14 unions (10 consumer cooperative, 2 SACCO, and 2 different types) with 452 primary cooperative members and a capital amounting to 14,676,590 Birr.

Most of urban SACCOs like Addis Ababa city are strong in capital base and saving amount against RuSACCOs. Addis Ababa cooperative promotion and development sector report, July 2015 revealed that SACCOs in Addis Ababa were 1,016 with total member of 175,072 (89,804 male (51.29%) and 85,268 female (48.71%)). They have the highest in capital with 1.1 billion Birr (which accounted 51.9% of the total capital of SACCOs in Ethiopia) and saving amount of 4.55 billion Birr (69% of the total saving accumulated by SACCOs in Ethiopia). SACCOs are the largest both in membership and capital with compare to other kind of cooperatives existed in the city (FCA, 2015).

Group of Saving and Credit Cooperatives in the City of Addis, organized under Addis Saving & Credit Cooperatives (AASCCU) initiated the process of establishing a cooperative bank known by the name Addis International Bank S.C. The number of founders that took the responsibility of organizing the bank was 21 and out of this 67% came from AASCCU. 63.34% of bank's paid up capital is owned by Cooperatives and their members. However, due to the absence of separate regulatory policy framework for the cooperative banks the initiative to establish Addis Cooperative Bank end up in establishing conventional commercial bank ([www.addisbanksc.com](http://www.addisbanksc.com)).

## **2.4 Empirical study on the challenges of SACCOs**

Saving and Credit Cooperatives (SACCOs) are the main financial solution of the people who have low income level. But they have their own challenges that retard their financial solution to their members and the economical contribution to a country. 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 (Zvighalor, 2006).

SACCOs, like in other many business entities operated in Africa, are faced with challenges in their quest towards survival and growth. These challenges can be categorized into internal and external challenges. Internal challenges include deficiency in contemporary skills, leadership and governance problems, inadequacy of resources, insufficient technological development, quality service demand, HIV/AIDS pandemic, and ethics and integrity. External challenges are: competition (economic liberalization and regulation of business, price decontrol, competition for scarce resources, and competition from commercial banks), political government (changes in co-operative legislation, changes in investment policies, and new lobbying systems/approaches), technological (need to keep pace with information technology), social (changing employee values and expectations, and greater cultural diversity among employees), global (increasing and complex market demands, and sophistication in ways of doing business), economy (non-performance of the economy), common bond (non-remittance of dues to the SACCOs, and restructuring and reorganization of firms in line with global trends (Carilus, 2011).

In Tanzania, SACCOs face a number of challenges that need to be addressed to enable them improve on governance, outreach, product diversity and portfolio management, some of the challenges are: Low capital base leading to limited development of SACCOS due to increasing Capital inadequacy, Inadequate knowledge of banking Services and investment opportunities resulting to inappropriate investment of financial resources, Limited range

and variety of financial products and services, Political interference and uninformed members and Leaders, Weak and inadequate internal controls and financial systems which has led to mismanagement of resources, Inability to maintain adequate liquidity to meet savings withdrawals (ACCOSCA, 2011).

Malawi Union of Savings and Credit Cooperative Union (MUSCCO) is a national democratically controlled apex body for Savings and Credit Cooperatives (SACCOs) in Malawi. Currently Malawi has a total 54 affiliated SACCOs with membership totaling 119,219 and total assets at MK. 363,183,035. With increased competition in the financial services market some of the challenges faced by SACCOs in Malawi are lack of: Technologically driven services, financial viability, good governance, and products diversification (ACCOSCA, 2011).

Challenges of SACCOs in Rwanda are: lack of managerial capacity in SACCOs' committees and staff; inadequate management information systems (MIS); low capacity of maintaining enough liquidity in some SACCOs (shortage of liquidity and mismatch between long term loans and existing short term resources) (ACCOSCA, 2011). Collins (2013) carried out study on the challenges of change management practice at Posta SACCOs. His findings were that SACCO was faced with resource inadequacy, high resistance to change among the staff, existing staff were not competent enough to deliver on the required results, and also the SACCO did not have ICT capability to improve the delivery on its mandate.

Limited number of studies has been carried out which identifies the challenges of saving and credit cooperatives in Ethiopia especially in Rural SACCOs. Govindaran (2007), Yared (2008), Sambasivan & Biruk (2009), Zerfeshewa (2010), Kifle (2011), Dejene (2011), Aregawi and Kifle (2011), Kifle and Hailemichael (2012), Biruk (2012), Tezeta & Deribe (2012), Aregawi (2014), Kifle (2014), and Ergetew (2014) found out on their

research findings the problems of SACCOs in Ethiopia could be listed as follows: Lack of awareness and poor saving culture, lack of infrastructure like office buildings and equipments, weak governance, policy and regulatory environment, weak institutional capacity, low capital base, inappropriate loan security requirements, lack of trained manpower, lack of external funding for the SACCOs, Small size of membership, lack of members' participation, Low population density of the rural members creates high transactions costs, limited technological advancement, difficulties in assessing the creditworthiness of a member and the limited possibility to ask for collateral add to the high transaction costs, the financial system in place including accounting and audit works are very weak. Most of the primary SACCOs are not maintain proper financial records and produce reports timely. Similarly, the accounts of the societies are not timely audited with three to four years lag in the case of certain primary societies. Kifle (2014) and Federal Cooperative Agency (2014) revealed that financial cooperatives (SACCOs) are promoted and guided by proclamation No. 147/98 that treats all types of cooperatives uniformly, but does not address critical issues facing financial cooperatives such as the lack of clear policy and strategy, lacks financial standards and benchmarks required to protect savings, and direct the development of this financial cooperatives in the area of saving mobilization, establishment of insurance scheme to depository members and borrowers, guide on prudential financial ratios, reporting requirements.

According to Spielman (2008) and UN (2011) the challenges that SACCOs face in their development are immense such as tension exists between the growing roles & responsibilities of cooperatives in Ethiopia's economy, weak exploitation of the existing human resource, general changes in Ethiopia's wider socio-economic conditions, the efforts to promote cooperatives as an inclusive solution to realizing financial opportunities, and the limits on inclusiveness posed by the actual design and function of cooperatives. Internally, SACCOs face poor members' participation and the severe shortage of capital misuse by selected committees, misappropriation by leaders, poor administrative skills, and irresponsible lending to members, and limited access to banking services too long periods between audits.

Wolday (2015) revealed the challenges related with the rural primary SACCOs and unions in Ethiopia include: huge demand for loan and limited capacity to meet the demand, limited capacity SACCOs to mobilize saving, limited membership, lack of financial education, lack of linkages among primary and secondary SACCOs, lack of linkages between SACCOs and formal financial institutions, lack of tailored funding products of commercial banks for the development of cooperatives, limited financial products, limited managerial and technical capacity of SACCO management committees and weak financial reporting, and high dependency on government promoters

Research finding in Tigray region showed that most of the SACCOs were inefficient with a very low overall efficiency score of 0.213. Only 5.5% of the rural saving and credit cooperatives were found to be working at technically efficient level, while the rest are found to be inefficient. The average efficiency was 21.3% which indicates that there is substantial amount of inefficiency among rural saving and credit cooperatives in the study area (Kifle and Hailemichael, 2012).

Aregawi & Kifle (2011) identified the problems of SACCOs on their study were that there is only a single cooperative legislation rule governs all saving and credit cooperatives (SACCOs) in Ethiopia. This legislation lacks the needed and specialized legislatives as well as regulatory and supervisory frameworks which are vital to meet the financial needs of cooperative members. Consequently, the cooperatives find themselves limited in growth, in mobilizing savings and in making loans to the lower-income groups whom they generally serve. Further, they are unable to participate fully in national financial markets, where their services could contribute to greater economic efficiency and expanded development opportunities for current and potential members. 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. The existing Cooperative Bank of Oromia is also challenged by the National Bank to operate as conventional commercial bank.

It is clearly stated in the proclamation that the appropriate authority shall audit or causes to be audited by the person assigned by the agency, the account of any cooperatives at least once in a year. But the agency faced a critical shortage of auditors to do the task. The recent report of the agency (2010) has revealed that only 30% of the existing cooperatives have received auditing services. Here, we can see how the problem is serious and it hinders to investigate whether cooperatives are operating efficiently and provide the required services to members according to given standards (Aregawi and Kifle, 2011).

The SACCO movement has only registered about 2.9 million members until June 2015 despite the huge potential to enlarge membership (FCA, 2015). They continue to play significant economic and social roles in their communities. Here is a brief overview showing just how important SACCOs are to the economies of most countries. In Colombia, co-operatives provide 87.5% of short term loan provision in 2007. In Kenya, co-operatives are responsible for 31% of national savings and deposits. In France, co-operatives are responsible for 60% of bank deposits. Limited outreach is thus, a challenge to the SACCO movement in Ethiopia. Therefore, a lot has to be done in expanding the outreach of members in the SACCO movement; as this will enable the societies mobilized more savings to finance loan portfolios and ensure sustained growth of the societies (Aregawi and Kifle, 2011).

Apart from the above stated problems, cooperatives have not yet provided demand driven products that could address the needs of their members in spite of their older age and better outreach to the grass roots level and unbanked community. In general, there are no planned and structured ways of developing new products or revising the existing.

## **CHAPTER THREE**

### **REASERCH DESIGN AND METHODOLOGY**

#### **3.1 Introduction**

It is believed that the research methodology is the philosophy of general principles which guide the entire research. In this section of the paper, the researcher would like to provide a brief description of the methodology adopted to carry out the research.

#### **3.2 Research design**

To achieve the objective of the study a qualitative exploratory approach was followed. A qualitative exploratory approach appropriate to understand the perspectives of participants; or explore the meaning they give to phenomena; or observe a process in depth. This type of research usually includes gathering of qualitative data through the search of literature and interviewing experts in the field (Saunders & Lewis, 2012). As reality has multiple views, through the qualitative exploratory approach, the researcher got an opportunity to interact with different experts in the financial cooperatives field and understood the multiple views in the field (Robbins and Judge, 2013). They did not only provide the researcher with valuable new information but also enhanced the critical skills in scientific research which require that the researcher be open minded. Both primary and secondary data were collected. Primary data was collected from the chosen population sample. This approach is particularly appropriate because the aims of the study seek to get new insights on the key phenomena that derive the financial cooperatives challenges in Addis Ababa. On the other hand, to collect secondary data, a review of relevant policy and regulatory documents, SACCOs record, financial and audit reports, data from federal cooperative agency and cooperative promotion and development sector of Addis Ababa city administration as well as other reliable resource were gathered in order to examine the challenges, current status of SACCOs in Addis Ababa, with specific emphasis to sampled saving and credit cooperatives were undertaken.

### **3.3 Population**

The research population will define in 5 levels which reflect the structural hierarchy of Savings and Credit Cooperatives (SACCOs) in Addis Ababa. At the base level, this study selected, the population consisted of 65 members of the 14 SACCOs operated in 10 sub-city (Nifas-silk Lafto, Akaki kality, Kirkos, Kolfe, Yeka, Gulele, Addis ketema, Bole, Arada and Lideta). The next level of the population consisted of 3 board members of the Rased SACCO union and 39 members of the management committee of 13 SACCOs. These committee members were chosen upon because of their key role in operation at the SACCO. The next level is cooperative promotion and development section in the sub-city of Addis Ababa which is the sub-city higher body that promotes, registers, coordinates, inspect and audit all cooperatives in their boundary of sub-city. From 10 sub-cities, we have chosen 5 sub-cities' cooperative officials and auditors at a higher position. The fourth level is the Addis Ababa Trade and Industry bureau, cooperation promotion and development department; it is the city apex body that coordinates all cooperatives in Addis Ababa. Cooperative official and auditors at higher position interviewed. At the highest level, the federal cooperative agency, this is the national apex body for all cooperatives in the country. One SACCO expert used as to collect appropriate data.

### **3.4 Sampling**

Since the natures and type of products SACCOs in Addis Ababa provided to their members are homogeneous, we believed that the sample size represents the target population. Homogeneity in a population means that the members of the population are similar on the characteristic under study. For qualitative research method, the sample size may not be larger as quantitative research. The researcher believed that our sample represent the population of the study.

A purposive quota sample was taken from the population. This sampling method is preferred for this study because it provided for the researcher to make a personal judgment on the most appropriate sample composition to meet the needs of the research question. Since this study is a qualitative study, where the researcher have aimed to understand the

challenges of SACCOs from the participants' point of view, it is therefore important to purposively select a sample where the most learning could be found.

A purposive sample across the five different stakeholder representatives of the SACCO is chosen in the following way of 65 SACCO members from 13 SACCOs in operation in Addis Ababa. Subsequently 3 board members were chosen as part of the sample. The board members were chosen from the already identified Rased SACCO union. 39 management and committee members (3 committee from each SACCO: 1 manager, 1 credit committee & 1 control committee) chosen from the already identified 13 SACCOs. Five cooperative promotion official and Five cooperative auditors were selected from 5 sub-city (Kofe-keraniyo, Kirkos, Arada, Yeka and Nifas silk-lafto,) cooperative promotion and development sector. This sub-cities were selected based on the highest number of SACCOs located under their area. One cooperative coordinator and one cooperatives audit and inspection coordinator from Addis Ababa city trade bureau, cooperative promotion and development department were also chosen to form part of the sample. One financial cooperatives expert from the federal cooperative agency also chosen as part of the sample.

The total purposive sample size was 120 respondents from the structural hierarchy of SACCOs in Addis Ababa were selected with varying roles with in the SACCOs movement.

### **3.5 Unit of analysis**

The unit of analysis is the opinion of each representative of the five different stakeholder groups that have been chosen in the sample of research.

### **3.6 Data collection method**

The primary data collection consisted of face-to-face interviews and focus-group discussion (FGD). In all instances, structured interviews were used to collect the data. This is the preferred method of data collection because it ensures consistency in the data collection as all participants are asked the same questions in a similar format and the respondents' body language were observed to gain a deeper understanding of the issues and

gain better insight. Each interviews lasted for a one hour, discussion made within one and half hour and observation was made in not more than in ten minutes. Discussion was conducted with SACCOs' management committees. According to Saunders & Lewis (2012), qualitative research gives the researcher a rich description of the phenomena that is being sought to be understood, it is therefore important to collect data in a manner that best captures context. Hence, after seeking permission from the participants, the interviews were recorded and handwritten notes simultaneously take in order to accurately record participants' quote which is used to support the findings of the research. Electronic and hard copies of interview record securely stored. The interview guideline consisted of a set of open-ended questions which allowed participants flexibility to give meaning to their responses to the questions. This type of questions is exploratory in nature. Fluid survey team (2013) revealed that questions that are open-ended provide rich qualitative data. In essence, they provide the researcher with an opportunity to gain insight on all the opinions on a topic they are not familiar with. However, being qualitative in nature makes these types of questions lack the statistical significance needed for conclusive research. Nevertheless, open-ended questions are incredibly useful in several different ways: expert interview, small population studies, preliminary research, and a respondent outlet. Though respondent answers are almost always richer in quality, the amount of effort it takes to digest the information provided can sometimes be overwhelming. That is why open-ended questions work best in studies with smaller populations. Both Interview schedule and FGD checklist are prepared both in Amharic and English language for 120 sample respondents in order to make more easy and understandable for all levels of interviewee.

### **3.7 Data analysis**

Qualitative research has three main sources of data: interviews, observation and documents (ibid, 2012). The data that collected during the interview process were systematically analyzed to uncover emerging themes. The manuscripts from the participants' interview were systematically analyzed using a replicable valid method for making acceptable inferences.

The process of analysis that is used is content analysis, which is a research method that uses a set of techniques to assist researcher to make valid inferences from text, by counting and sequencing particular words and phrases. Content analysis of the data conducted simultaneously as the data collected, which allowed gathering, enrich subsequent interviews. Unit of data in the form of key words or phrases were identified and coded as the content is analyzed. This allowed for the data to be broken down in to relevant themes.

Each response to the question in the interview guideline were recorded and transcribed. Interview responses that are driven from similar interview guidelines were analyzed together. Each manuscript is codifying in to the different themes that emerge per question. Similar phrases identified and grouped together in the codification process, to identify key constructs. The frequency of each construct is then counted and a rank ordered table was developed for each similar question, with the construct appearing in descending order of frequency. Each content analysis process took an average of two hours and a half interview transcript.

### **3.8 Research ethical consideration**

The researcher considered the ethics of research in preparation of this study. The data including interview and written documents were stored securely for the appropriate period of time according to the requirements of the ethics. While the success of the study depends upon the willingness of individuals to participate, if at any time such participation places an individual at risk or causes undue stress, participation will not be pursued. Protecting the privacy of informants was a paramount concern, as non-exploitation of any informant. At all times, the provision of any information collected and/or analyzed and communicated to informants as is reasonably practicable and especially prior to any publication of the study. Data collectors' ethical responsibility was considered.

## **CHAPTER FOUR**

### **DATA ANALYSIS, INTERPRETATION AND DISCUSSION**

#### **4.1 Introduction**

This chapter covered the findings of the study. The findings were presented in form of tables and qualitative description. It also compares the findings of the study to existing body knowledge on the area of study.

#### **4.2 Background information of respondents**

The study collected primary data from the sample of 14 SACCOs' members, board and management committees, cooperative officials and auditors, and other stakeholders of SACCOs in Addis Ababa. Majority of the respondents were members and management committees of the SACCOs with work experience of between 5-20 years. Cooperative officials and auditors from cooperative promotion and development sector at city and sub-city of Addis Ababa as well as federal cooperative agency level were other respondent with 5-20 years of experience in cooperatives. This is an indicator that they had enough information about the challenges faced by the savings and credit cooperatives societies in Addis Ababa.

##### **4.2.1 Socio-economic profile of respondents**

The plan was to collect primary data from thirteen SACCOs and cooperative officials with a sample size of 80 SACCO members and committees, and 40 cooperative officials and auditors. To get 120 response, 126 interviews was conducted but 6 member respondents did not be gave their response properly. This indicates that the response rate was 96%.

Therefore, the analysis was based on the response of 120 respondents such as: 107 SACCOs (3 board, 39 committees and 65 members), 13 cooperative officials and auditors from 5 sub-city, AACPDS and FCA. The collected data found usable for analysis. The response rate is acceptable for the study. The majority of the respondents were female, who were 79 out of 120 while the male were 41 between the ages 24-60 (Survey data, 2016).

#### 4.2.1.1 Age and sex of the respondents

The age of the respondents who participated in the study ranged from 24 to 60 years old. Table 4.1 below depicts that 7.5 percent of the respondents fall in the age group of 21 to 30 years, showing that the participation of this age group is low; while 48.33 lie in the age group of 31 to 40 years, showing that the participation of this age group is highest. 35 percent of respondents fall in 41 to 50 years age group. The rest were above 51 years old. The result indicated that majority of respondents were adult age group.

Table 4.1: Age and sex of the respondents

Age group	Male	Female	Total	Percent
21-30	3	6	9	7.5
31-40	20	38	58	48.33
41-50	14	28	42	35
51-60	4	7	11	9.17
Total	41	79	120	100

Source: Survey result, 2016

The composition of respondents was female 79 (65.83 %) and male 41 (34.17%) and for cooperative official respondents female 2 (15.38 %) and male 11 (84.62%) was used to describe the nature and the way how their SACCOs operate efficiently in terms of saving, loan provision and repayment, collateral system, institutional and governance arena, and challenges faced SACCO to maximize their service and extending as a successful financial institute.



#### 4.2.1.2 Educational status of the respondents

Regarding educational status, 4.17 percent of the respondents were found to be illiterate while 2.5 percent could read and write; 5.83 percent attended primary school; and 20.83 percent junior secondary school while 26.68 percent were found to have an educational level of secondary school. 15.83 percent of respondents were diploma level. The rest 24.16 percent of respondent completed BA degree. The survey result shows that the majority (26.68 Percent of the respondents have secondary education while significant number of respondents were also between primary to secondary school levels. The respondents those have Diploma and above diploma educational level were 39.99 percent, majority of them included cooperative officials and auditors, and employee-based SACCO members. All respondents of community-based SACCOs their educational status is below Diploma levels (see table 4.2).

Table 4.2: Educational status of the respondents

Educational status	Male	Female	Total	Percent
Illiterate	-	5	5	4.17
Read and write	-	3	3	2.5
Primary school completed (1-4)	3	4	7	5.83
Junior sec. school (5-8)	4	21	25	20.83
Secondary school (9-12)	1	31	32	26.68
Diploma	7	12	19	15.83
BA Degree	25	3	28	23.33
MBA	1	0	1	0.83
Total	41	79	120	100

Source: Survey result, 2016

#### 4.2.1.3 Membership duration

As indicated in the following table 4.3, members have a range of 1-20 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. 45.79% of members have 1-5 years,

the rest members have 6-10 years, 11-15 years, 16-20 years with a proportion of 27.10%, 20.57%, and 6.54% respectively. 54.21 percent of respondents have more than five years of SACCOs' membership experience. It is enough period of time to provide the required information for our study.

Table 4.3: Total years of membership in SACCO

Year of Membership	Frequency	Percent
1 – 5	49	45.79
6 – 10	29	27.10
11 – 15	22	20.57
16 – 20	7	6.54
Total	107	100

Source: Survey result, 2016

#### 4.2.1.4 Total years of experience in cooperatives (Coop officials)

To get adequate and reliable information from Cooperative Promotion and Development Sector (CPDS), experienced employee in SACCOs is required for our study. The following table 4.4 noted that the respondents experience level ranges between 3 to 20 years. 70 percent of respondents have above 5 years of experience. It showed that we have selected experienced employee to get the required information for the study.

Table 4.4: Total years of experience in cooperatives

Year of Membership	Frequency	Percent
1 – 5	4	30.77
6 – 10	6	46.16
11 – 15	2	15.38
16 – 20	1	7.69
Total	13	100

Source: Survey result, 2016

#### 4.2.1.5 Marital status

As indicated in table 4.5, of the sample SACCO members, 70% are married and the other 30% are single or divorced or widowed.

Table 4.5: Marital status

Marital Status	Frequency	Percent
Single	26	21.67
Married	84	70
Divorced	6	5
Widowed	4	3.33
Total	120	100

Source: Survey result, 2016

#### 4.2.1.6 Monthly saving amount

The study indicates the entire sample SACCO members are small scale traders and permanent employee of public and private institutions, which have got their income from monthly salary. As per the interviewee, majority of members at employee based SACCOs have an average salary of less than 2500.00 Birr, and the rest have got monthly income of above 2500.00 Birr. The monthly compulsory savings amount is at a minimum of 5% of monthly salary. Thus a minimum saving amount is Birr 125. A member, who wants to save more, can deposit more than the minimum saving rate. Whereas in the community based SACCOs, compulsory saving amount is fixed in Birr. According to the interview result, a minimum monthly saving amount is 20 Birr. It can vary from SACCOs to SACCOs.

Accordingly SACCO members save monthly within a range of 20 to 300 Birr in the community-based, and in the employee-based SACCOs, members save from 125 to 500 Birr monthly.

### 4.3 Background information of the SACCOs

#### 4.3.1 Asset Size of the Savings and Credit Cooperatives

The population was analyzed for its size based on its asset base as it is an indicator of the level of operation and is directly linked to the levels of activities. The findings of the study in view of the size are presented in table 4.6 below.

Table 4.6: Asset size of the SACCOs

Asset size in Birr	Frequency	Percentage
Below 250, 000	3	21.42
250,000 – 500,000	1	7.14
>500,000 < 1 million	1	7.14
>1 million < 5 million	7	50
Above 5 million	2	14.3
Total	14	100

Source: Survey result, 2016

The results indicate that out of 14 SACCOs, five SACCOs asset size was less than 1 million Birr. Seven SACCOs lies between more than 1 million to 5 million Birr. Only two SACCOs have more than 5 million Birr in asset size an indication that most of the SACCOs are small in asset size. Majority of the SACCOs are community-based represented by 76 percent of the population. Having 67 members SACCOs, the current asset size of Rased SACCO union is 9.06 million Birr.

#### 4.3.2. Age of SACCO

The population was analyzed to determine the age of the SACCO so as to establish the level of experience in the industry. The findings of the study in view of age are presented in table 4.7 below.

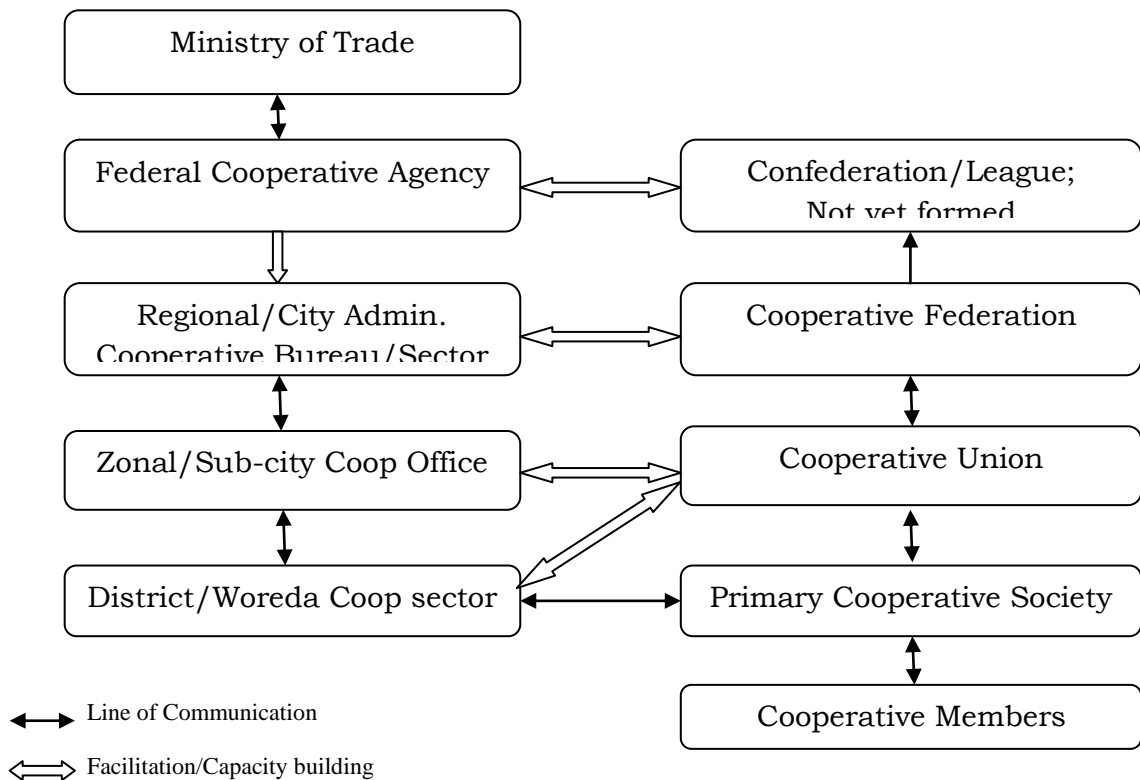
Table 4.7: Age of SACCOs

Age	Frequency	Percentage
Below 5 years	1	7.14
6 years – 10 years	5	35.71
11 years – 15 years	6	42.86
16 years – 20 years	2	14.29
Above 20 years	0	0
Total	14	100

Source: Survey result, 2016

It was noted that majority of the SACCOs that is 92.86% of the population had between 6 years and 20 years of experience in the SACCO industry.

Figure 4.1: Current Cooperative Sector Structure



Source: Bezabih (2011)

Currently Cooperatives in Ethiopia are governed by the comprehensive and multi-sectoral cooperative promotion Proclamation No. 147/1998. This Proclamation was based on

internationally accepted cooperative principles. It laid the ground for the development of all kinds of cooperative societies at different levels, and is comprehensive in its coverage.

The Government has set-up cooperative promotion bodies at Federal, Regional, City administrations, Zonal and Woreda (district) levels. At the Federal level, the Federal Cooperative Agency (FCA) is responsible, among others, for cooperative promotion, institutional capacity building and human resource development, and registration and supervision of societies organized at the national level. It is headed by a Director General assisted by a deputy. There are also cooperative promotion bureaus/departments in each of the nine national regional states and in Addis Ababa and Dire Dawa city administrations. In addition, there are Woreda cooperative promotion desks and in some regions zonal cooperatives promotion desks. Promotion, organization, licensing, capacity building, free audit, legal and inspection service, and other technical services to coops are the main duties of CPDS. Such an extensive structure is intended to ensure that cooperatives societies are widely promoted and properly supervised.

In Addis Ababa city, cooperative promotion and development sector (AACPDS) is responsible for A.A city trade bureau. In the city there are 10 sub-cities and 116 woreda. (CPDS) located in each sub-city and woreda at sector level under sub-cities' trade office.

#### 4.4 Description of SACCOs in Addis Ababa

Table 4.8: SACCO Union in Addis Ababa

Si. No	Name of SACCO Union	Members SACCO	Year Established (E.C)	Capital	
				During Establishment	Current
1	Rased/WISE SACCO Union	67	Sep. 1998	100,000	7,945,937.47
2	Addis Ababa SACCO Union	235	Aug. 1995	200,000	37,750,000
<b>Total</b>		<b>302</b>		<b>300,000</b>	<b>45,695,937.47</b>

Source: Addis Ababa City Cooperative Promotion and Development Department, 2016

According to the above table 4.8, two SACCO unions operated in the city with 302 member cooperatives and a total capital of Birr 45,695,937. Within 1106 SACCO existed in the city, only 302 (27.3%) SACCO registered under a membership of this two SACCO unions. This indicated that majority of SACCO (72.69%) are not affiliated in membership.

Table: 4.9: Membership and number of SACCOs in Addis Ababa

SI. No	Name of Sub City	Total Population (CSA, 2015)	No. of SACCO	Membership during Establishment			Current Membership			Percent of members Population in SACCO
				Male	Female	Total	Male	Female	Total	
1	Gulele	319,712	98	5028	7151	12179	6064	10385	16449	5.14
2	Addis ketama	305,058	87	5356	5386	10742	2302	6322	8624	2.83
3	Yeka	414,212	98	2425	4228	6653	2200	5574	7774	1.87
4	Bole	369,189	57	4001	3346	7347	10619	5493	16112	4.36
5	Akaki	216,538	81	3799	3404	7203	5467	4896	10363	4.78
6	Nifas silk-Lafto	377,892	63	3864	3359	7223	4086	5501	9587	2.54
7	Arada	252,705	116	7863	8816	16679	21220	13643	34863	13.79
8	Kirkos	264,337	149	11822	8131	19953	15041	12887	27928	10.56
9	Lideta	240,989	78	5424	4807	10231	18698	14896	33594	13.94
10	Kolfe-keranyo	512,369	189	5916	6803	12719	4107	5671	9778	1.91
<b>Total</b>		<b>3,273,001</b>	<b>1016</b>	<b>55498</b>	<b>55431</b>	<b>110929</b>	<b>89804</b>	<b>85268</b>	<b>175072</b>	<b>5.35</b>

Source: Addis Ababa Cooperative Promotion and Development Department & CSA, 2015

At national level the SACCO penetration rate within the house head potential population of the four major Regions on average is 9% (Tigray 18%, Amhara 9%, SNNP 5% and Oromia 3%) (Getachew, 2013). From the table 4.9, we can understand that in Addis Ababa city administration, there are 1016 SACCOs, and it accounted 5.72% of existed SACCOs in Ethiopia. Compared to each sub-city, Kolfe-keranyo sub-city registered the highest number of SACCO (18.6%) but low in membership. Kirkos sub-city is the second in number of SACCO (14.66%) and the third in membership next to Arada and Lideta sub-city. Arada sub-city accounted 34,863 memberships (19.91% of total members in SACCO) the highest number of membership under 116 SACCOs (11.41%) which is the third highest number of SACCO operated in Addis Ababa. Membership in SACCO accounted 5.58% which is low

compared to other sub cities. Eshete, 2015, support the above finding in his study made in the case of Ethiopian Electric Power Corporation SACCO. The number of members decreased from establishment to July 2015 from 12,719 to 9778 respectively (table 4.9). The reason behind these low membership and reduction in members according to sub-city's cooperative promotion and development sector leader indicated that during the past 10 years more than 250 SACCOs established and registered in sub-cities but sector office did not receive current information regarding the SACCOs' operation and address. SACCOs were stopping their operation and wind up without informing appropriate office. Lack of permanent address of SACCOs and weakness in information relationship, and inadequate regular follow up, inspection and audit were the major challenges. The current SACCOs information was collected by survey undertaken with higher cooperative promotion and development department.

From the results shown in table 4.9, it was noted that the number of membership in SACCOs is too low compared to the total population of Addis Ababa. It accounts 5.35% the population in Addis Ababa. With Compared to each sub-city of A.A, Lideta sub-city (13.94%), Arada sub-city (13.79%), and Kirkos sub-city (10.56%) have high in number of membership in SACCOs where as Yeka sub-city, Kolfe-keranyo sub-city and Nifas silk-Lafto sub-city accounted as the smallest in membership outreach compared to the highest number of population in these sub-cities. Nigusie (2015) conducted a study on determinant of SACCO outreach in Addis Ababa. According to his findings most SACCO's members join SACCOS to save and get some amount of profit in terms of interest rate. In addition it is also easy to save because since most SACCOS are employ based, individuals do not need to go anywhere to save their money simply their employers discounted from their salary and deposit in to their saving account.

According to CSA, 2015 census report, in A.A, there are high population size nears to 3.3 million to increase membership size of the already established SACCOs and to establish new SACCOs, but in accordance with results from interviewees and observation showed



that due to low awareness of population about SACCOs, weak saving habits of the population, weak promotion, high competition with private and public banks, and micro finance institutions with better service and technology were the challenging factors to establish new SACCOs and increase the number of membership.

Table 4.10: Assets size of SACCOs in Addis Ababa

SI No	Name of Sub City	No. of SACCO	Asset					
			During Establishment			Current (July 2015)		
			Current	Fixed	Total	Current	Fixed	Total
1	Gulele	98	2067479	12133	2079611	122052635	3201739	125254374
2	Addis ketama	87	2000090	398222	2398312	54736817	3304539	58041357
3	Yeka	98	4467394	782873	5250267	32016277	1496028	33512305
4	Bole	57	8574776	491172	9065949	125500349	15353709	140854058
5	Akaki	81	1332799	171747	1504547	43413207	961982	44375189
6	Nifas silk-Lafto	63	3417858	359056	3776914	59455136	4560254	64015390
7	Arada	116	18242434	65875	18308309	349600022	100536517	450136538
8	Kirkos	149	9431569	18070	9449639	119128789	46355751	165484541
9	Lideta	78	8310461	49412	8359873	180678063	5906852	186584915
10	Kolfe-keranyo	189	1854367	1315990	3170357	17583927	10894735	28478662
<b>Total</b>		<b>1016</b>	<b>59699229</b>	<b>3664550</b>	<b>63363779</b>	<b>1104165223</b>	<b>192572107</b>	<b>1296737330</b>

Source: Addis Ababa Cooperative Promotion and Development Department, 2016

The above table mentioned the asset size of SACCOs in Addis Ababa during establishment period to present (July, 2015). From ten sub cities, Arada sub-city SACCOs accumulated Birr 450,136,538.60 (34.71%) total assets. Lideta sub-city and Kirkos sub-city accounted the second and the third in assets size of existed SACCOs compared to other sub-cities of Addis Ababa city administration with 186,584,915.20 (14.39%) and 165,484,541 (12.76%) respectively.

As per the above table 4.10, the growth of SACCOs' capital is high compared to membership. It was 63,363,779 Birr during establishment period, and reached 1,296,737,330 Birr as of July 2015. SACCOs in Addis Ababa accumulated the highest

capital base of the country. It doesn't mean that all SACCOs operated in Addis Ababa have high capital base. The variation is large from poor to strong SACCOs. There are some strong SACCOs with large capital base like the Long-established SACCOs such as Ethiopian Air Lines, Ethio-telecom, Addis Ababa University, Ethiopian road authority, etc. whereas the majority of SACCOs are weak in capital base.

#### 4.5 Nature of SACCO and feature of their members

Table 4.11: Sampled SACCO Profile

SI. No.	Name of SACCOs	Types of SACCOs	Sub-city	Year Established In EC	Current (July 2015)		
					Male	Female	Total
1	A.A City Admn. Employee	Employee-based	Arada	1989	833	1151	1984
2	St.Mary's Univ. Employee	Employee	Lideta	1996	95	70	165
3	Yemane birhan primary school	Employee	Kolfe – keranyo	1997	19	50	69
4	Siket	Community-based	Yeka	1998	0	298	298
5	Netsanet	Community-based	Kirkos	1997	0	295	295
6	Raey	Community-based	Akaki – kality	1999	0	283	283
7	Albash	Community-based	Gulele	2002	0	160	160
8	Alegnta	Community-based	Nifassilk – lafto	1990	0	526	526
9	Tsina Kirkos	Community-based	Kirkos	1997	0	301	301
10	Yetigil Fire	Community-based	Addis ketema	1997	3	304	307
11	Tesfa Alen	Community-based	Addis ketema	1996	0	234	234
12	Sira lelewit	Community-based	Kolfe – keranyo	2002	0	347	347
13	Timret	Community-based	Bole	2005	0	147	147
	<b>Subtotal (primary SACCOs)</b>				<b>950</b>	<b>4166</b>	<b>5116</b>
14	Rased/WISE SACCO Union	Both	Nifassilk – lafto	1998	333	2667	3000
	<b>Total</b>		<b>10</b>		<b>1283</b>	<b>6833</b>	<b>8116</b>

Source: Audit report and provisional financial statements of SACCOs, 2016

The study result from the above table 4.11 showed that the members size for 13 SACCOs were 5,116. Majority of members were female. Most community-based SACCOs membership indicated that the number of female more than male.

#### 4.5.1 Financial Status of sampled SACCOs

The financial status of sample primary SACCOs, as shown in Table 4.12, indicates that most primary SACCO's total assets size/financial position is ranges between 126,309 Birr to 7,585,715 Birr from lowest to highest respectively. The average asset size of each cooperative is 1,666,913.10 Birr. It is small in amount for deposit making financial institution. Incapability in financial position leads to poor provision of loan products. Thus, it is difficult to offer the different loan products as per members needs. Poor services provision dissatisfies members and can be the reason for members' withdrawal and small membership.

Table 4.12: Financial Status of sampled SACCOs (As of 2015)

No	Name of SACCOs	Liability (Birr)	Capital (Birr)	Asset (Birr)
1	A.A City Admn. Employee	7,274,900	307,814	7,582,715
2	St.Mary's Univ. Employee	2,193,972.24	19,877.12	2,198,414.31
3	Yemane birhan primary school	173,790	6,210	180,000
4	Siket	364,579.16	16,467.12	381,046.28
5	Netsanet	1,022,466.81	-4,349.78	1,018,117.03
6	Raey	819,034.01	26,167.54	845,201.55
7	Albash	126,126.68	12,359.01	138,485.69
8	Alegnta	4,663,471.12	168,084.37	4,831,555.48
9	Tsina Kirkos	1,013,113.08	17,880.56	1,030,993.64
10	Yetigil Fire	904,202.31	29,965.68	934,167.99
11	Tesfa Alen	1,074,124.27	179,847.05	1,253,971.32
12	Sira lelwit	1,075,580.72	73,312.07	1,148,892.79
13	Timret	120,085.60	6,223.69	126,309.29
<b>Sub total</b>		<b>20,825,446</b>	<b>859,858.43</b>	<b>21,669,870.37</b>
14	Rased SACCO union	6,274,979.50	2,793,480.70	9,068,460.20
<b>Grand Total</b>		<b>27,100,425.54</b>	<b>3,653,339.13</b>	<b>30738,330.57</b>

Source: Audit report and SACCO's record, 2016

#### **4.5.2 Financial Services**

The SACCOs provide credit facilities which include Short term, Long term and Emergency. The findings from the interview we have conducted from respondents indicated that most of the SACCO members do take both short and long term loans. The long-term loans were purposely granted for business purpose, condominium fee, higher education fee, marriage, house construction/maintenance, and the short-term loans were granted for the purpose of children's school fees, household consumption, emergency case, and medical fee. From the findings all sampled SACCOs provided credit facilities to members, a voluntary saving is mandatory and taken as the requirement for loan provision. In most of SACCOs, at least 6 - 12 month regular saving is required to receive a loan. It is one type of collateral in providing loans. A borrower required to pay both loan and savings monthly.

#### **4.5.3 Menu of financial products**

The study found that SACCOs offer limited range of products to meet the needs of their members and ranked them as savings product at first, loan product at second, shares at third, and other services at fourth respectively. SACCOs as any financial institution have not capacity to provide diversified financial products to become sustainable and competent in the financial market. This is agreed as indicated by the works of Wright et al. (2000) and WOCCU (2001), with respect to product diversification and innovation strategies of SACCOs, though the saving mobilization and culture has been improved, SACCOs have had no product diversification, and innovation strategies and mechanisms yet. As obtained from focus group discussion, the most common and possibly the sole saving product offered by SACCOs is saving deposit/accounts. This situation may not attract and satisfy the interests of the clients. There must be a shift from such single saving product to the use of a mix of saving products. This is because of the SACCOs service product depends on the capacity of members. Members have an access of getting only compulsory saving, shares and loan service. The first types of the saving products offered by all SACCOs under the present survey are limited to compulsory savings and voluntary savings. Some

SACCOs as per table 4.13 started voluntary savings, retirement savings and medical savings. The second line of product, like in other financial institution, all SACCOs provide loans to members. Loan products included short-term, medium-term and long-term with less than and equal to 1 year, 1 to 3 year and above 5 year respectively. According to the research finding, members borrowed for the purpose included business purpose, condominium fee, higher education fee, construction/maintenance for dwellings, children's school fee, medical fee, household consumption and other personal purpose. The third menu of product is offering shares to their members. Purchasing at least one share is a mandatory to be a member of SACCOs. According to SACCO regulation, it is possible to sale shares and collect deposits from non-members based on general assembly special decision. Our findings showed that all sampled financial cooperatives do not offer such line of products to non-members.

Table 4.13: Menu of financial products

SI. No	Name of SACCO	Savings Products										Loan Product					
		Compulsory savings		Voluntary savings		Medical Savings		Children Savings		Retirement Savings		Short-term Loan		Medium-term Loan		Long-term Loan	
		Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No
1	A.A City Administration Employee	√		√			√		√		√			√		√	
2	St.Mary's Univ. Employee	√			√		√		√		√			√			√
3	Yemane birhan primary School	√			√		√		√		√			√		√	
4	Siket	√			√		√		√		√			√			√
5	Netsanet	√			√	√		√	√		√			√			√
6	Raey	√			√		√		√		√			√			√
7	Albash	√			√		√		√		√			√			√
8	Alegnta	√		√			√		√		√			√			√
9	Tsina Kirkos	√		√		√		√		√				√			√
10	Yetigil Fire	√			√		√		√		√			√			√
11	Tesfa Alen	√			√		√		√		√			√			√
12	Sira lelewit	√		√			√		√		√			√			√
13	Timret	√			√		√		√		√				√		√
14	Rased SACCO union	√		√					√		√			√		√	
Total		14		5		2		0		1		14		13		3	

Source: Survey result, 2016

#### **4.5.4 Training**

According to cooperative principle set by ICA (2014), training of members by SACCOs was mandatory because it made members aware of the need to save and how to save. It was established that member training improved the socio-economic well being of members and improved and developed the country's economy like Ethiopia which is a developing country. This study found that the majority of respondents agreed that training is not adequately given by their own cooperatives. Member awareness in cooperative value, principle and operation is very low. Getachew (2013) noted this challenge as a threat to SACCOs. The study result showed that from majority of sample respondents were not aware about cooperatives meaning, values, norms, and principles.

The finding also indicated that government through Cooperative promotion and development Sector (CPDS) and NGOs do assist SACCOs in providing capacity building training. It implies that the majority SACCOs' capacity to train their member is weak. They expect the external body for technical assistance and capacity building training program.

### **4.6 Challenges facing SACCOs in Addis Ababa**

#### **4.6.1 Introduction**

To achieve the objective of the study, this topic covered the main findings of the study. Our study methodology was qualitative and exploratory research as this method best enabled us to quantify responses for some mathematical representations whilst express themselves and describe their unique circumstances as and when the question required them to do so. Based on the respondents view, the findings were presented in form of tables and qualitative description. It also compares the findings of the study to existing body knowledge on the area of study.

To assess the challenges of the SACCOs, Face-to-face interview, Focus Group Discussion (FGD) and observations were employed. To this end, one Focus Group Discussions were conducted with 30 selected individuals from ten sampled SACCOs at Rased/WISE SACCO union meeting room. Key informant interview was also conducted with concerned bodies as mentioned so far in the methodology part. The discussion came out with a wide range of information about the challenges facing saving and credit cooperatives societies under study area.

According to the study results, there are many challenges constraining the development of the SACCOs and adversely affect its performance. It is briefly described in the following:

#### **4.6.2 Challenges faced by SACCOs – Members’ view**

The objective of the study was to investigate the challenges that faced by Savings and Credit Cooperatives (SACCOs) in Addis Ababa. Respondents were asked to indicate the detail description about the challenges of their SACCOs. The response was coded in ranks based on the number of response (higher to lower). Content analysis used to describe the findings. The findings are presented in the table 4.14 below.

Table 4.14: Challenge faced by SACCO - Members’ view

Ranking	Response	Frequency	Percent
1	Lack of awareness and information	41	20.5
2	Poor leadership and management/low commitment	28	14
3	Small loan size	14	7
3	Small line of product	14	7
4	Poor repayment of loan	13	6.5
5	Lack of regular audit service	12	6
5	Lack of skilled manpower & high employee turnover	12	6
6	Small membership	11	5.5
6	Lack of office	10	5
7	Low attendance in meetings	10	5
8	Lack of regular dividend distribution	8	4
8	Poor book keeping and recording	7	3.5

9	Loan is not available on time	6	3
10	Irregular deposit	5	2.5
10	High competition with banks and MFIs	5	2.5
11	Low government support	4	2
Total		200	100

Source: Survey result, 2016

The members of SACCOs were asked to indicate the challenges that the SACCO encountered. Interviewee respond that SACCOs in Addis Ababa facing several challenges. Poor understanding on the concept of cooperative business (unbalanced concepts on social development and business orientation), is the first one in percentage. This finding is supported by Getachew (2013). 20.5% of interviewees' expression indicated that cooperative members and management committees were low awareness and information about the operation and services of financial cooperatives. The number of membership is too low compared to the total population of Addis Ababa. It is one indicators of the growth of cooperatives. It accounts 5.35% of the population. This challenge seriously affects the efficiency of SACCOs. Majority of population in the city lack awareness about SACCOs. Most SACCOs are established by few members those have knowledge and awareness about cooperatives. In some cases, NGOs do support in establishing community-based SACCOs to encourage a low income group especially women, artisan, and low income traders to improve their capacity and become self help. NGOs and CPDS provide training and technical support in inadequate level. Awareness creation programs are conducted at a low level. Majority of them have unaware members.

The interviewee expressed that the governance problem existed in all SACCOs. Governance is the process through which an organization is directed and controlled to achieve its intended objectives. Poor leadership and controlling is the major problems that most of SACCOs encountered, 14% of respondent agreed. All committee members are elected by general assembly, those serve SACCOs' voluntarily on free time. Voluntary service required committed and responsible person. Otherwise their duties and responsibilities cannot be accomplished properly. These weaknesses suffer the operation of SACCOs. Most of respondents agreed that committee members lack commitment even in



attending the meeting, weak in accomplishment of their duties properly, weak internal control system, and also majority do not have plan, by-laws and minutes of meetings.

The other challenges SACCOs were limited menu of products and inadequate amount of loan for borrowers (table 4.14 noted). Both challenges interrelated with each others. Due to low menu of product, SACCOs' financial capacity was very small. This constraint leads to inadequate amount of loans to offer for members. There are at least three lines of products mandatory in majority of SACCOs such as compulsory savings, shares and loans. Compulsory saving amount can be decided by general assembly in percentage of income or fixed amount of Birr. The main finance in SACCOs comes from compulsory savings. It is mandatory that one member required to purchase at least ones share. According to Addis Ababa city administration SACCOs' organization manual No. 007 article 25.2.5, to increase the capital and to balance loans and capital leverage, any SACCO should purchase 28.5 percent of shares (3.5:1 savings to shares ratio). In many SACCOs, the ratio was below the standards mean that shares/capital amount is very low. It is advisable for other researchers to investigate the reason in this area. There are a number of products offered in other financial institution whereas the fact in SACCO is small. Some of SACCOs started voluntary deposit, retirement deposit, and medical deposit.

The above table 4.14 noted that 6.5% of respondents expressed non-repayment of loan are the problems of financial cooperatives. Like in other financial institution, SACCOs are susceptible to credit risk. It needs a strong system protect the occurrence of such risks. In some SACCOs, loans were provided without adequate collateral. Most respondents agreed that the major reason for non-repayment of loan included home change from one place to other, the poor living standards city, high-priest standards of city and failure of business. This deficiency leads to non-repayments of loans and even default.

Interviewee also indicated that lack of regular audit is the critical constraints. According to the result, due to lack of auditors SACCO does not audited regularly. According to cooperative society's proclamation no 147/1998 Section 36, Audit: 1) the appropriate authority shall audit or causes to be audited by a person assigned by it, the accounts of any society at least once in a year. 2) The audit conducted pursuant to Sub-Article (1) of this Article shall include the examination and verification of overdue debts, if any, and cash balance, securities and assets, and liabilities. 3) The audit report shall be submitted to the general assembly. CPDS officials and auditors expressed that one SACCO may wait 3 to 5 years to get audit service. There are inadequate auditors in each sub-city considering the high numbers of cooperative societies functional in the city. Without audit report it is impossible to distribute dividend to members, difficult to hold general assembly meetings and some other decision will not be made. Audit is essential to assure the SACCOs operation is conducted in accordance with the accepted accounting principles, standards, cooperative rules and regulation. It is also indispensable to recognize the SACCOs current status of operation and position were effective and efficient. In addition to that public confidence and trust cannot be made without audit report. The above table noted that members were complaining on this constraint.

Furthermore, lack of skilled and educated manpower was the other constraints for effectiveness of operation. Most SACCOs managed and controlled by unskilled and uneducated committee members. Even in some SACCO's financial administration and accounting is made without educated accountants. This means most of the existing committees were not competent enough to deliver on the required results. Due to this deficiency, most SACCOs' financial accounting system was not made in proper manner. Most of them do not prepare the required financial statements properly. Financial reports are used to evaluate past operations and are the basis for management and operating decisions on future projects. The higher body of SACCO uses the reports for feedback on the financial status of the cooperative, to evaluate progress and to make informed decisions about future operations. To produce the required financial statement, skilled manpower required. The study result indicated that all sampled SACCOs do not have a manager who

recruited to serve in fulltime. The major reason behind this is, according to the interviewee, lack of finance for employee remuneration. Some of them recruited accountants, but employee (accountant) turnover is high searching for better remuneration in other business organization. For example, the caliber of staff required for the smooth implementation of cooperative accountings and management were not readily available. The new staff did not know much about the SACCO's history and system which limited their ability to provide better professional service. These findings show the important role that human capital plays in the implementation of appropriate function in the SACCO. It hinders the proper account keeping of cooperatives. Our findings showed that most SACCOs faced in incapability to recruit skilled manpower to appoint the right man in the right position.

In cooperatives societies, the membership size is the major source of finance to strengthen the financial capacity of the coops. It means the higher the membership the higher in financial status. The main source of finance in SACCO were savings, shares, borrowing, gift/fund from NGOs, and registration fee. We can refer some financial cooperatives those have higher membership size with better financial status, such as Awach SACCO (community-based), Ethiopian Air Lines Employee SACCO, Ethiopian Electric Power Corporation SACCO, Ethiopian Road Authority SACCO, Addis Ababa university employee SACCO, etc. These SACCOs register more than 1500 members. Our finding from sample SACCOs indicated that only one SACCO (Addis Ababa Administration employee SACCO) registered the highest number of members with 1984 members. The rest 13 SACCOs number of members falls between 69 to 526 members. The average membership size for one SACCO is 393 individual members. Compared to that, 92.85% of SACCOs have a low membership size.

Another challenge included inadequate amount of loan provision. Member's saving is low and loan demand is high. The financial capacity of SACCOs does not allow offering adequate loan for members as per their needs. According to our finding, SACCOs provide loan ranges between 7,000 Birr to 130,000 Birr. The amount varies from SACCO to

SACCO based on their financial capacity. The maximum loan amount is limited by general assembly meeting decision. Most SACCO members were not satisfied on the small amount of loan size.

In addition to this, members preferred big and easily accessible loans without collateral. Our finding revealed that from 14 sample SACCOs, 9 were provide loan to members without collateral in order to make easily accessible without asking high requirements. Compulsory savings were the major collateral for loan in these SACCOs. Some SACCOs deducted a limited percentage of Birr from loan for insurance coverage. In many ways, savings, personal guarantee and asset collateral are the major types of guarantees to be offered for loans. But, provision of loan without collateral is susceptible high credit risk.

Based on our result, some SACCOs have not permanent office. In many community-based SACCOs, office is granted by the near kebele/NGOs. When we come to in employee-based SACCOs, the employer gave a free office for saving and credit cooperative. But, there are some other SACCOs those have not this access. The services are given on around near to their district/kebele place and committees' house. The findings showed that three financial cooperatives did not have their own office. It is challenging that other stakeholder like CPDS difficult to find them. In addition to that documents were not kept properly, easily susceptible to be lost or damaged.

The researcher observed that poor bookkeeping and recording in our study period of time. We have mentioned in the above findings that there were skilled manpower constraints for accounting. Without skilled and educated manpower it is difficult to run the proper books of accounts in accordance with cooperative accounting systems and financial reporting standards. Israel-Cookey (2005) defined the cooperative's accounting system is a method of recording and reporting the financial results of its business transactions. The bookkeeper/accountant records the business transactions of the SACCOs in a daily journal.

These records are then used to generate various financial reports that provide an historical record of the cooperative’s business activity. In any business organization, there are three financial reports commonly used such as: the balance sheet, income statement, and the statement of cash flows. They report the financial position of the cooperative, its performance over a given time period, and its ability to meet cash obligations. These reports are the basis for planning future operations. Each report contains different, but interrelated information that together give a complete picture of the financial operations of the cooperative. Managers, bookkeepers, board members and committee members should be able to understand and interpret these reports so they can make informed business decisions about the future of their SACCO.

Finally, the members’ respondents expressed the challenges faced by SACCOs in Addis Ababa from the frequency rate ranges between 4 to 6 ranked in the bottom lines such as: low commitments of committee members in attending meeting, lack of regular dividend distribution to members, inaccessible to offer loan timely, irregular deposits, low government attention and support, threats from other financial institution like banks and Micro Finance Institutions (see table 4.14).

#### **4.6.3 Challenges faced by SACCOs – Board’ and Committees’ view**

Board of directors and management committees are the elected representative of general assembly. They have the major responsibility in managing and controlling the financial cooperatives systems and functions. To investigate the challenges faced by SACCOs in the city, the research study asked board and management committees the same question to express their points of view. The following table 4.15 noted the major findings of the study.

Table 4.15: Challenge faced by SACCO – Board’ and Committees’ view

Ranking	Response	Frequency	Percent
1	Weak financial capacity	35	13.62
1	Lack of awareness	35	13.62

2	Governance weakness	23	8.95
3	Lack of regular audit service	21	8.17
4	Lack of educational status	20	7.78
5	Lack of skilled manpower	17	6.62
5	Small loan	17	6.62
6	Late repayment of loan and default	16	6.22
7	Lack of office	15	5.84
8	Poor books of account	14	5.45
9	Small membership	12	4.67
10	Limited menu of product	9	3.5
11	Threats from other financial institution	8	3.11
12	Weak technical support from CPDS	7	2.72
13	Inadequate collateral for loans	6	2.33
14	Lack of technological innovation	2	0.78
Total		257	100

Source: Survey result, 2016

The interviewees indicated that the SACCO faced several challenges. Respondents believed that weak financial capacity would be the most likely cause of poor services to members (see table 4.15). A cooperative is financially strong means it is strong in sustainability and competitive to satisfy its members to provide their financial need. Eshete (2015) support this problem under his study paper prepared in the case of Ethiopian Electric Power Corporation (EEPCO) SACCO located in Addis Ababa. It is impossible to provide loans as per the members needs because members' savings were small, but they need high amount of loans. The major problem in SACCO is their weakness in providing financial services for their members because of lack of fund and in turn the problem is their weakness marketing to increase their members. The finding also showed that, majority of respondents complaining about the low amount of loan. This is due to poor financial capacity because they are unable to mobilize more deposit from members and non-members.

Board members and committee's of the various cooperatives speak in one voice regarding lack of awareness about SACCOs in the community even committees and members were

the major constraint. Due to low awareness, membership size is very low where high population available in the city. SACCOs can be established by in every economical level people such as low income group, middle income and low income group. Providing training and education is the guiding principle for cooperatives. The reality here is poor. Most SACCOs are incapable of providing training to their members and committees, but they expect this service from Cooperative Promotion and Development Sector (CPDS), and NGOs.

Interviewees also indicated that the SACCO was faced with governance problems. This is due to the fact that Savings and credit cooperatives are usually governed by a volunteer board of directors/committee members elected by and from the membership. Most of savings and credit cooperatives in Addis Ababa are also often staffed entirely by volunteers. As they grow, more sophisticated and risky financial operations require professional staff. As per our study, we have found that SACCOs face in low commitment of management committee in applying their duties and responsibilities, poor internal control system, failed to prepare plan, poor books of account and unable to prepare financial statements properly, general assembly meeting is not held regularly and the required decision were not made timely, etc.

Lack of regular audit service the critical challenge of SACCOs existed in most sub-cities of Addis Ababa city administration. Audit is important to ascertain the SACCOs operation is run effectively, efficiently and economically as per the required manuals, regulations and standards. Without audit, it is impossible to assure the SACCOs financial position and current status is going good or not. Dividend distribution, reserve allocation, general assembly meetings, and other major decision are made based on audit report. Therefore, if there is no regular audit service, the above mentioned things will in problem. Lack of adequate auditors at CPDS hindered to provide the required service.

Additionally, the respondents noted that SACCO faced lack of skilled manpower for SACCO operation. Poor financial capacity hindered SACCOs to recruit educated and skilled manpower. Like in other financial institution, SACCOs is susceptible to high level of risk. Administration of savings and loans has high level of risk where money is liquid asset. It is very difficult to detect the problems when the operation is run by uneducated and unskilled man power. According to the interview conducted with SACCO board and management committee, more than 67 percent of SACCOs' management committees were high school uncompleted. Experience in administration of financial institution is low. Except for Rased SACCO union, all sample SACCOs do not have a full time managers, even some SACCOs doing their books of account without accountant. The major reason behind this constraint is insufficient capacity/finance/ to recruit the required employee. Some community-based SACCOs get technical and professional assistance from NGOs for accounting, training of committees, and financial support for salary of accountants. But majority SACCOs faced the man power constraint. In some employee-based SACCOs, a skilled accountant is a severe constraints due to the fact that high employee turnover in order to search better salary from other institution.

Another challenge included lack of financial base to provide adequate loan for members. SACCOs are mainly established by poor and low income group of people. These groups of people are incapable to accumulate a large amount of deposits and shares. In other words, SACCOs need a large amount of members to collect more money to strength finance base. Or they may wait a years for accumulation of capital. Otherwise it is impossible to provide the loans for members as per their request. Our findings indicated that majority of SACCO members complaining the small amount of loan for specific borrower. SACCOs are providing small lines of products/services. In addition to that, there is high competition with other financial institutions like banks and Micro Finance Institutions (MFIs). Currently, banks and MFIs are doing their best effort to attract more customers. They have strong capital base in providing high lines of product accessible to community in an easiest way through using technology, whereas majority of SACCOs are a limited line of products such as: compulsory savings, shares and loans. They are the three major lines of products



which is mandatory in many SACCOs. Our finding showed that from sampled financial cooperatives, other lines of products were added in eight SACCOS such as: voluntary deposit, medical deposit and retirement deposit by five, two and one SACCOs respectively. Compared to other financial institutions, SACCOs' lines of products were very low and weak in service. One reason for members' turnover was searching better services from other financial institution. Non-member participation in savings and loans were near to null, unlike commercial banks and MFIs. The SACCOs manual and regulation allow to sale shares, collect deposit and provide loans to non-members with special manner by general assembly approval. But, when we come to in real practice, as per our findings, there is no SACCO who offers these services to non-members. Thus, it is the challenging factor in attracting customer and in mobilization of more deposit from a large number of people.

Finally, the findings also show that the others challenges included lack of office, weak in using technology for better and easiest services for community, unfavorable regulatory environment for financial cooperatives, late repayment of loans and defaults, providing loans without adequate and reliable collateral, low attendance of members and management committees in monthly and general assembly meetings, and inadequate technical and professional support from CPDS were the constraints for development of SACCOs in Addis Ababa.

#### **4.6.4 Challenges faced by SACCOs – Addis Ababa city and sub-cities' cooperative promotion and development sector officials' view**

Cooperative Promotion and Development Sector (CPDS) structure existed at city and sub-city level. The sector duties and responsibilities include promotion and organizing, registration and licensing, capacity building, marketing, inspection, audit, and legal services. It is very important to collect research data from CPDS about the challenges of SACCOs. They have adequate and reliable information about SACCOs. To achieve our objectives, we have interviewed 13 cooperative officials and auditors from the city

administration level and five sub-cities such as: Kolfe-keranyo, Kirkos, Arada, Lideta and Nifas silk-lafto sub city. Under these sub-cities the highest numbers of SACCOs are existed. All interviewee were asked to express the challenges of SACCOs in the city level and each sub-city level. Accordingly, the following table 4.16 noted that the major findings on challenges of SACCOs in Addis Ababa.

Table 4.16: Challenges faced by SACCO – Addis Ababa city & sub city CPDS’s official and auditors view

Ranking	Response	Frequency	Percent
1	Lack of regular audit	13	12.26
1	Lack of permanent office/address	13	12.26
2	Weak governance	12	11.32
3	Lack of skilled, educated and experienced manpower	11	10.38
3	Small menu of product & poor services	11	10.38
4	Weak regulation on financial cooperatives	9	8.49
5	Poor support and communication with CPDS	8	7.55
5	Poor books of account	8	7.55
6	Lack of awareness	6	5.66
7	Threat from other non-traditional financial institution	4	3.77
7	Small membership	4	3.77
8	Lack of technological innovation	3	2.83
8	Unfavorable current cooperative structure	2	1.89
9	Non-repayment of loan	2	1.89
Total		106	100

Source: Survey result, 2016

CPDS official and auditors expressed an array of challenges faced by cooperatives as seen in table 4.16. According to the result shown in the above table, 12.26% of total respondent discussed about SACCOs lack regular audit service. Most financial cooperatives (SACCOs) are unable to access annual Audit service, due to lack of man power in the CPDS and the country auditing law doesn’t allow to practice other alternative means such as (organize and train fresh graduates as accounting & Auditing service provider cooperative) to provide auditing service for the cooperative sector. This constraints is occurred not only in urban SACCOs, but also RuSACCOs, which supported by the finding of Getachew (2013). According to cooperative society’s proclamation no 147/1998 Section

36, Audit: 1) the appropriate authority shall audit or causes to be audited by a person assigned by it, the accounts of any society at least once in a year. 2) The audit conducted pursuant to Sub-Article (1) of this Article shall include the examination and verification of overdue debts, if any, and cash balance, securities and assets, and liabilities. The finding indicated that from 595 SACCOs operated in five sub-cities, only 235 (39.49%) SACCOs were audited during last budget year (July 7, 2015). The rest 360 SACCOs were unaudited due to lack of auditors. We have asked sampled SACCOs relating to the regular audit service. From 13 sample SACCOs, only eight were audited until July, 2015. In addition to this, three SACCOs were get audit service before 4 to 9 years. It is important to note that 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 trust and confidence in the SACCOs thereby enabling them to mobilize more savings. Without audit, SACCOs do not distribute dividend to members. According to the Cooperative principles, members should receive limited return on their equity as dividend and retained a portion of the profit for reserve, expansion, and social fund in the equity of the SACCO. Cooperative proclamation 147/1998 noted, from yearly net income of coops, 70% of net income to be allocated for dividend and 30% for reserve. It can be done only when SACCOs receive regular audit service. But, Interviewees said that many SACCOs complaining about the inaccessible regular audit service. Yet, the authority/cooperative audit sector has not been able to regularly audit the accounts of SACCOs due to shortage of auditors. Recently some SACCOs like Addis Ababa University SACCO, Ethiopian Airlines employee SACCO, etc have opted to hire external audit firms, but it is too expensive for most of them.

As per the above table 4.16, similar to in the above finding, 12.26% of respondents concede that the challenge of SACCOs facing in Addis Ababa was lack of permanent office building and address. The main reason for this constraint, as per respondent response was because most community-based SACCOs organized by poor/low income community, their financial capacity do not allow them to acquire/rent/build office. Due to this reason, most of cooperatives used woreda/kebele's free office around their destiny. In other words,

Employee-based SACCOs also get their office from the employer. Only strong cooperatives those have adequate capital base acquired their own office. Lack permanent address of SACCOs hinders the communication with the cooperative promotion sector and other stakeholders. Many of CPDS official were complaining about this challenge. It is very difficult to create good relationship and communication without having a permanent office/address. Thus, SACCOs get in to the office problems to conduct meetings, cash collection, to keep books, journals, vouchers and other relevant documents at a safe place. Therefore, cooperatives communication with members, management, CPDS and others weakened.

The research findings showed that governance weakness is the another challenge of SACCO encountered. Rwanda Cooperative Agency (2014) defined governance is the process through which an organization is directed and controlled to achieve its intended objectives. Although governance is a collective responsibility of all the organs of an organization, the main responsibility for the good governance in the case of the SACCOs falls mainly on the administrative Committee. The different organs like the control committees and credit committees; management and the members' General Meetings also take responsibility and are accountable for achievement of their respective objectives.

Cooperative officials and auditors in all sub-city of Addis Ababa city administration expressed that poor governance is the second challenges of SACCOs (see table 4.16). This is due to elected members are usually volunteers who are non-professional even high school uncompleted but expected to conduct responsibilities, weak internal control systems, lack of documented clear by-laws, low adoption of information and computer technologies; unable to prepare strategic plan; incompliance with SACCO manual; poor administration leading to high staff turnover. Getachew (2006) revealed that having strong internal controlling committee in SACCO society means: building transparency and trust of members on SACCO society, building sense of ownership among the members, avoiding risk to the elected committees, members and SACCO society savings, giving more benefits and equal service opportunity to members.

SACCOs also lack skilled, experienced and educated manpower on leadership and financial administration. It noted that SACCO faced a skills challenge where most of the existing committee members were not competent enough to deliver on the required results. SACCOs were owned and managed by committee members. They lack the required education status, experience and skills to manage financial cooperatives. SACCOs are unable to recruit full-time managers and accountants due to weak in financial capacity. Committees were served SACCOs on free time. It leads to low commitments and inadequate time of committees to operate their duties and responsibility also the major factors that affect the efficiency of SACCOs. Therefore, SACCOs were faced the challenge of poor financial administration, weak in leadership, improper books of accounts and unable to produce financial statements such as: trial balance, income statement, and balance sheet.

Most of SACCOs' menu of financial products is mainly limited to compulsory savings, shares and loans. These limited lines of products hinders the financial capacity. Most members' savings were small but they need high amount of loans. Others need different lines of loan services such as: for emergency, short-term, medium term, long-term, and other. Savings products' also can be diversified with voluntary deposit, time deposit, medical purpose deposit, retirement deposit, children deposit, etc. But the reality here in sampled SACCOs was a limited menu of product. Most of them limited to a mandatory types of products such as compulsory saving, shares and loans. As per SACCO regulation, the service can be offered to non-members when required and approved by general assembly. Almost all SACCOs were not aware or inaccessible to offer such services to non-members.

The respondents raised the challenges of SACCOs and SACCO union faced due to lack of financial cooperatives proclamation. Cooperatives in Ethiopia were governed by Cooperative Proclamation No. 147/1998. However, this proclamation failed to recognize SACCOs as formal financial institutions even though they were allowed to accept deposits

and grant loans. As a matter of this fact, SACCOs are not subjected to the regulation and supervision by NBE that other formal financial intermediaries are subjected to. There is no rules/regulation which allows establishing cooperative banks in the country. The cooperative proclamation 147/1998 limited to cooperatives as a whole. It lacks specific rules for detail description of financial cooperatives (SACCOs). SACCOs in Ethiopia is a semi-formal financial institution. They are not regulated and supervised by NBE like other financial institution. Many SACCOs and unions are complaining about this limitation.

The interviewees' also noted that the current cooperative structural is not favorable to strengthen cooperatives societies in the city due to the following factors: limitation of annual budget, high employee turnover due to low benefit packages, salary and allowances for cooperative officials, unfavorable working environment, and small in manpower. The cooperative officials are not accessible for more than 12,183 functional cooperatives in the city administration of Addis Ababa. The lesser services provision of CPDS seriously affects SACCOs' performance and hinders their development. According to officials, the government attention for CPDS is inadequate. SACCOs were weak in communicating with CPDS for technical and professional support and poor in providing regular reports regarding the current status of operation.

Poor technical and professional support and weak communication with CPDS was the other problems. Due to inadequate officials and high number of cooperatives societies under CPDS, SACCOs do not get the required services/support regularly. We have understood that the communication is poor. There is weak report relationship between SACCOs and CPDS. We have observed that the data in CPDS and SACCOs varied in some cases where there is no updated information regarding current operation. Some SACCOs do not aware about CPDS.

The cooperative officials and auditors listed out others challenges of SACCO's included high competition with commercial banks and MFIs. Financial business highly competitive in nature and SACCO experience strong competition from many non-informal financial institutions. The key players of financial sector in Ethiopia are banks, insurance, microfinance and financial cooperatives (SACCO), of which the banking sector accounts 82%, microfinance 3.6% of the sector and the financial cooperatives are at their infant stage. SACCO are more numerous in number than other financial service providers, their financial services capacity is very small in size and their market share estimated about 0.1% in the economy. Banks and MFIs are well-established and much larger in capital, skilled man power and technological innovation with compared to SACCOs. They invest high amount of money to attract existing and new customer. SACCOs are now compete with these financial institutions both in deposits and making loans. Weak in capital base and technology usage, unskilled manpower, lack of promotion and advertisement the major constraints of SACCOs to compete with banks and MFIs. It is the serious threats for SACCOs both to increasing new members and retaining existing members.

Others challenges as per the respondents expression includes first, poor book keeping, recording, journalizing, unable to prepare financial statements like trial balance, income statements and balance sheet. The cooperative's accounting system is a method of recording, reporting and analyzing the financial results of cooperative's business transactions. The accounting system is divided into 3Rs: recording, reporting, and ratio analysis. It is raised that low members awareness about SACCOs is the second constraint. Awareness creation programs were not adequately conducted. Due to this, the membership sizes of SACCOs were small. It is important to know that high number of membership improve the financial capacity/capital for SACCOs. Long established and strong SACCOs registered high number of members like Ethiopian Air Lines SACCO, Ethiopian telecommunication SACCO, Ethiopian Electric Power Corporation SACCO, Addis Ababa University SACCO, Awach SACCO, etc. having a minimum membership size not less than 2000. Additionally, the current cooperative promotion structure is not favorable to address all types of cooperative existed in the city. CPDS in Addis Ababa is structurally dependent

and responsible to trade bureau. According to cooperative officials, the current structure is one of the challenging factors for sector's weakness. This is supported by Tezeta & Deribe (2012) study result said Ethiopia does not have cooperative apexes at all. However, the government is currently fulfilling the representative role and it is uncertain when and whether an independent confederation will emerge. There are a number of cooperatives societies those need the technical and professional support from the sector, but the current structure is not create a good working environment due to low budget allocation, high staff turnover searching for better salary and benefit packages, and then leads to lack of experienced and adequate manpower available for all cooperatives size. Finally, the respondents SACCOs are challenged by non-repayment of loan. This problem is common in community-based SACCOs (table 4.16).

#### **4.6.5 Challenges faced by SACCOs – Federal cooperative agency expert' view**

Table 4.17: Challenge faced by SACCO – Federal Cooperative Agency' view

Ranking	Response	Frequency	Percent
1	Lack of trained manpower	1	11.11
2	Lack of regular audit service	1	11.11
3	Lack of awareness about SACCOs	1	11.11
4	Weak assistance from coop sector	1	11.11
5	Weak in governance	1	11.11
6	Threats from commercial banks and MFIs	1	11.11
7	Weak in using technology	1	11.11
8	Weak capital base and line of products	1	11.11
9	Lack permanent office/address	1	11.11
Total		9	100

Source: Survey result, 2016

Federal Democratic Republic of Ethiopia Cooperative Agency is the apex body of cooperatives societies in Ethiopia. We have conducted interview with Agency staff (SACCO financial marketing linkage expert). The interviewee asked to express the challenges facing SACCOs in Addis Ababa. In accordance with the above table 4.17, the



respondents listed out the major challenges of SACCOs. Lack of trained manpower for SACCOs' leadership and finance is the major challenging factors that hinder the growth of SACCOs. Most of SACCOs managed by elected members they serve on free time without payment. They are weak in experience of leadership and management of finance. According to cooperative expert, many SACCOs do not have full time managers, accountants, and cashiers which lead to governance problems. Poor internal control system, incompliance with SACCOs manual and regulations, low commitment of committee members to serve SACCOs properly, poor in book keeping, recording, preparation of financial statements (Majority of SACCOs weak capacity to prepare financial statements).

The cooperative expert also indicated that lack of regular audit service is the serious challenges of SACCOs. CPDS do not have adequate auditors to provide regular audit service for SACCOs. Accordingly, one SACCO may wait 3 to 5 years for audit service. Due to this problem, SACCOs do not distribute dividends to their members for a long period of time. It reduces the public trust and confidence. The one reason for members' withdrawal is this problem. Without audit report, the general assembly meeting is not held. It leads to the core general assembly decision cannot be conducted. It is difficult to assure the financial status of SACCOs. Thus, lack of regular audit service is the major challenge.

Another challenges included were inadequate awareness creation and promotion to community. Population awareness about SACCOs was weak. SACCOs' members were indicated that their awareness about cooperatives values, norms, principle, objective and internal control system were weak. It is true for non-members. Due to this, the membership outreach is in low level. According to CSA, 2015 around 3.3 million population existed in A.A. It is a good opportunity for SACCOs to increase membership. Getachew, 2006 revealed that as an organization, however, a saving and credit cooperative is distinctly different and more complex to start. The main differences compared to other businesses enterprise are found in the saving and credit cooperatives is the purpose (to benefit the members), the ownership (member owned), the control (member-controlled), the decision

(member-resolution), and the distribution of benefits (to users-members). This means that the prospective members jointly have to develop and agree on the idea and plans for setting up a saving and credit cooperatives business with full understanding of the institution. Starting a cooperative therefore is an interactive learning process of the initiators and other stakeholders including potential members, initial leaders, community members and promoters.

Interviewee also agreed that cooperative promotion and development sector (CPDS) was in capable to support SACCOs. They are responsible to conduct awareness creation programs; promotion and registration of cooperatives; training; audit, legal and supervision service to cooperative societies. Due to inadequate staff members, inadequate allocation of budget for CPDS, high turnover of staff created CPDS do not accessible for cooperatives. Financial cooperatives need to be monitored by a dedicated regulatory and supervisory system. We have understood that SACCOs need regular technical and professional support from CPDS. Otherwise the efficiency of SACCOs was in question.

Poor governance is another challenge faced by SACCOs in AA. According to James R., 2006, several concerns about cooperative governance are currently being discussed among cooperatives and those who study cooperatives. These include the quality and training of cooperative directors, the various techniques used to identify and select directors, and perceived defects in the way cooperatives are governed that lead to a decision-making process that is too slow to respond to rapidly-changing conditions. Another subject of interest is directors who are neither members nor patrons of the cooperative. These individuals can either represent the “public interest” as permitted in some cooperative incorporate statutes or who bring expertise to the board of directors. Some of these are perennial issues represented in cooperatives and educational programs since the beginnings of organized cooperatives.

The study finds out the low attendance of members in the general assembly meetings, where the general meeting is normally held, that acts as a barrier to participation. The reason for the low- attendance is high membership size in the meeting. Other reasons of non-participation are the insufficient knowledge of the subjects discussed, or the charge that the board of directors formulates the policy of the cooperative without taking into account the needs of the members. Most SACCOs does not formulate short-term and long term plan. They are failed to design their own by-laws. All sample respondents agreed that control committees ineffective in exercising their responsibility, therefore internal control system is poor. Incompliance with SACCO manual and regulation observed in audit repots. Weak in conducting regular general assembly meetings leads to lack of appropriate decisions and reduce members' confidence on SACCO. Thus, SACCOs faced in governance difficulty.

Competition is a given phenomenon in today's financial service industry environment determining the most effective ways of competing and managing the competition can be a real challenge. As per the study result, currently, SACCOs get the high competition with MFIs and commercial banks. Commercial banks and other financial institutions now target to attract more customers in middle and low income groups those are SACCO members. They are doing strong effort to reach in to the community. They increase their branches rapidly. The service they provide also modernized, high products and accessible for community in an easiest way whereas, SACCOs service is poor compared to other financial institutions. This leads SACCO members' turnover is increasing to get better service from other financial institution. New members those enter in to SACCOs were small. SACCOs, in the process, have had a significant loss of their members to the commercial banks and other financial institutions.

As obtained from interviewee the result noted that limitation of cooperative proclamation. In Ethiopia, there is no separate law for financial cooperative. Financial and non-financial cooperatives regulated by one and same proclamation (Cooperative Proclamation No.

147/98). There is no separate and clear institutional framework, from federal to Woreda, to promote and regulate financial cooperatives. SACCOs were a semi-formal financial institution those were not regulated and supervised by NBE. A collection of SACCOs under Addis Ababa Saving and Credit Cooperative Union (AASCCU) tried to establish cooperative bank named Addis cooperative bank, but their effort is not achieved due to lack of regulation on financial cooperatives. There is no regulatory space to establish cooperative banks and insurance companies.

Moreover, most SACCOs service product limited. They lack capacity for market research and product development to introduce other services that cover time deposit or term deposit, current account and special saving deposits. A study done by Tezeta & Ketema (2012) result showed that Some SACCOs suffer from lack of sufficient funds to provide services especially loans to its members. Whereas waiting period for loans in some institutions could be 14-30 days, members have to wait for between 6-12 months to have access to the loans. Even seemingly organized SACCOs with comprehensive loan policies suffer from lack of enough capital for service provision.

#### 4.6.6 Summary of findings

According to the respondents' views, there are many challenges encountered in financial cooperatives. These challenges were indicated based on each of sample respondents' views in contents analysis bases. Now, the researcher identified and merged the top challenges faced by SACCOs in the following table.

Table 4.18: Summary of findings

Ranking	Top Challenges	Frequency				
		Members	Board and SACCO Committee	Cooperative Promotion & Development Sector	Federal Cooperative Agency	Total
1	Lack of awareness	41	35	6	1	83
2	Poor governance	32	29	12	1	74
3	Lack of skilled/educated manpower	12	37	11	1	61

4	Lack of regular audit service	20	21	13	1	55
5	Weak financial base	11	35	0	1	47
6	Lack of permanent office and equipments	10	17	17	1	45
7	Weak service/Low amount of loan	14	23	0	0	37
8	Small menu of product	14	9	11	1	35
9	Non-repayments of loan	13	16	2	0	31
10	Poor account keeping and Financial performance monitoring system	7	14	8	0	29
11	Small membership	11	12	4	0	27
12	Weak support and communication	4	7	10	1	22
13	Threats from banks and MFIs	5	8	4	1	18
14	Weak regulatory environment on financial cooperatives	0	0	9	1	10

Source: Survey result, 2016

Based on the above table 4.18, for simplicity of analysis the challenges are classified in to two major categories: internal challenges and external challenges. According to the respondents' view and researcher observation, the challenges faced by SACCOs described in the following:

#### **4.8.5.1 Internal Challenges**

##### **Lack of awareness**

As obtain from interviewee and discussion, awareness of community about cooperatives is very poor. Most members and committee members were not aware about cooperatives principle, values, norms, objectives and function. Majority of cooperatives failed in awareness creation for members and non-members. There is huge capacity of population in the city. According to CSA (2015), In Addis Ababa, the population size reached to 3.3 million. This indicated that there is a great opportunity to increase membership and number of financial cooperatives. Due to weak awareness, cooperatives were not accessible to huge number of community in the city. Cooperative Promotion and Development Sector (CPDS) and other responsible body failed to provide adequate promotion and awareness creation programs for members and non-members. Our study finding showed that 10 of SACCOs' awareness creation and capacity building training were offered by Rased

SACCO union. Majority of respondents expressed lack of awareness is the major constraints for the developments of cooperatives.

### **Weak Governance and leadership**

The concept of governance refers to the way of managing, the way of controlling the operations of an organization. Discussions with SACCOs' management committees and members reveal several common characteristics. Unlike many financial institutions, SACCOs' management and committees elected by general assembly on one man one vote cooperative principle (many of them are below the required educational status and their knowledge in management, finance and leadership skill is poor. Their commitment is poor due to lack of incentives and most of them have their own jobs (they serve on part-time). This constraints leads to poor internal control system, incompliance with SACCOs manual and regulations, weak leadership, poor participation of members, weak in transparency and information communication and poor in financial administration. It is agreed that the finding of Tezeta & Deribe (2012) revealed that there are no savings & internal control procedures in place. They lack from internal audit committee, no written audit policy and procedures. This is risky as it may encourage fraud within organization. Reconciliation of cashbook balances and actual cash in the safe is sometimes not done frequently. There is poor documentation of loans and other financial record. They added Some SACCOs lack a clear cut direction of where they are going, what they want to achieve or progress they are making towards their targets. They have no grass root structure to support effective delivery of services and supervision. They also lack in culture of using regular program reports to review direction. There are cases where loan-aging analysis is hardly practiced, there are no provision for loan write offs and losses. No guidelines exist as to what to do in cases where a member defaults in loan repayment. Where they exist they are inadequate to serve the purpose as to why it is intended.

### **Lack of office building and equipments**

In many community-based SACCOs operated in Addis Ababa, lack of permanent office and address is main constraints for poor communication with CPDS and other stakeholders. As per respondent response, most community-based SACCOs organized by poor/low income community. The financial capacity does not allow them to acquire office. Most of SACCO used woreda/kebele's free office around their destiny. In addition, Employee-based SACCOs also get their office from the employer. Only strong SACCOs those having adequate capital base have their own office. Lack permanent address of SACCOs hinders the communication with the cooperative promotion sector and other stakeholders. Many CPDS officials are repeatedly complaining about this challenge. It is very difficult to create good relationship and communication without having a reliable office/address. Thus, SACCOs get in to the office problems to conduct of meetings, cash collection, to keep books, vouchers and other relevant documents in a safe place. Members and management committees' communication weakened.

### **Poor accounting and monitoring**

Israel-Cookey (2005) defined the cooperative's accounting system is a method of recording and reporting the financial results of its business transactions. The bookkeeper/accountant records the business transactions of the SACCOs in a daily journal. These records are then used to generate various financial reports that provide an historical record of the cooperative's business activity. According to model regulation for credit union set by WOCCU, 2008, All credit unions/SACCOs shall produce a balance sheet and income statement no less than once a month detailing all accounting transactions for the month. The financial information shall be as of the close of business on the last day of the month. Financial reports are used to evaluate past operations and are the basis for management and operating decisions on future projects. The board of directors and management use the reports for feedback on the financial status of the cooperative, to evaluate progress and to make informed decisions about future operations. Managers need accurate and timely information to run the day to-day operations. Creditors examine the financial reports when

considering loans to the cooperative and accountants need accurate records to prepare tax documents. Accurate and current records are also important to members of the cooperative. Records should show the net profit, the level of each member's patronage account and the amount of equity members hold in the cooperative. This facilitates distribution of patronage refunds and ensures that the cooperative is operating according to cooperative principles.

This challenge is similar with the finding of Kifle (2014) and Getachew (2013) revealed that the assessment found that across all the visited SACCO there is no monthly cash flow plan and monthly transaction based financial statement report. Lack of proper Accounting and financial management could expose easily to resource misappropriation and detract management staff from managing expenses and from following strategy in minimizing unexpected risk. Proper accounting & financial management has direct impact on ensuring financial sustainability, management effectiveness and financial transparency. Our finding on sampled financial cooperative showed that poor accounting, book keeping, recording, journalizing, and unable to prepare financial statements like trial balance, income statements and balance sheet existed in many financial cooperatives. Financial statements report was not produced periodically. The findings also supported by three SACCOs' audit report.

Furthermore, all sampled SACCOs are not in the position to evaluate their financial performance in accordance with a technical guide to PEARLS a performance monitoring system. World Council of Credit Union (WOCCU) uses PEARLS with all credit unions (SACCOs) participating in its technical assistance programs around the world. PEARLS is a financial performance monitoring system designed to offer management guidance for credit unions and other savings institutions. A 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. This financial



performance monitoring model is not applied in many SACCOs even management committee do not know about this model.

### **Limited menu of financial products and poor capital base**

Most of SACCOs' menu of financial products is mainly limited to compulsory savings, shares and loans. These small lines of products hinder the financial capacity. Most members' savings were small but they need high amount of loans. These types of products are not flexible enough to meet members' diverse credit needs. Many savings and credit cooperatives are introducing a greater variety of savings products, such as voluntary savings, medical savings, retirement savings, and credit product include housing/condominium loans on long-term basis. In many cases, the monthly deposit is not adequate to accumulate finance and for investment purpose. The research finding done by Gebeyehu (2011) revealed that the domestic savings performance observed so far is very low. This trend implies that, deposits mobilization becomes one of the confronting activities of deposit taking financial institutions in Ethiopia to redress the increasing demand for loan. They should design various deposit mobilization strategies considering the existing situation in the country. It is the fact that most of members are low income group and a lesser middle income group. They lack capacity to pay high amounts of Birr for savings and shares. It leads to the weaker financial capacity of SACCOs. Currently financial cooperatives products also limited to members only. Non-members participation is weak. The SACCO regulation allows to sale shares, collect savings and provide loans for non-members in accordance with general assembly special decision.

#### **4.8.5.2 External Challenges**

##### **Lack of regular auditing service**

According to Todd (2012), the financial records for only about 40 percent of cooperatives in Ethiopia are audited each year, even though the FCA, through the RCPAs, has a large staff of auditors at regional, zonal, and woreda- levels to undertake annual audits of

primary cooperatives and cooperative unions at no cost to the cooperatives audited. This audit shortage is due to several factors, including: low productivity of FCA auditors stemming from a poor incentive package – low salary, limited transport and other logistical facilitation, and consequent rapid staff turnover; poor bookkeeping practices of many cooperatives, due to lack of accounting skills within their membership; and limited incentives for cooperatives to have their books audited. This is due to most cooperatives generating only limited profits, with no annual dividends being paid regularly to their membership. The other determinant factor is dividend paid to members. Without audit, it is impossible to distribute dividend to members. Dividend distribution attracts new members. A research study conducted by Nigusie (2015) indicated the regression analysis of the study shows that dividend has a positive relationship with outreach of SACCOs. This implies that as dividend paid to member's increases it attracts people to join SACCOs and MEMB increase as a result at the same time loan size will also increase. In addition, most cooperatives do not engage in contractual commercial relationships for which audited accounts are necessary.

Interviewee from cooperative promotion and development sector officials and auditors showed that providing regular audit service were the major problems in the city. According to the data we have collected from the sector indicated that from 595 SACCOs in 5 sub-city, only 235 (39.49%) SACCOs were gotten audit service. The rest SACCOs were unaudited due to lack of auditors. From 13 sample SACCOs, only 8 were audited until July, 2015. The rest 5 SACCOs were not get audit service. The cooperative audit sector's auditors agreed that the number of cooperatives those need regular audit service are high, but the auditors staff number were very small. They can't address audit service for all cooperatives annually. Lack of auditors was the major reason for the occurrence of this problem. The interviewee from cooperative promotion sector officials and auditors asked to answer the staff adequacy. The result from 12 respondents, 10 respondents agreed that there were inadequate number of cooperative officials and auditors. Accordingly, one cooperative society waits for audit at least 3-5 years. Another challenging factor is high turnover rate of auditors. The major reasons for these were low salary scale, low benefit

package and unfavorable working environment. Thus lack of adequate trained manpower in the finance area to audit, regulate and supervise SACCOs according to cooperative regulations, manuals, and standards of financial principles. Many SACCOs complain about the lack of regular audit service and supervision. Without audit it is difficult to distribute dividend to members. General assembly of SACCOs was not conducted. It leads to the major decision were not decided, like administrative decision, updating loan size, investment aspects, managerial and committee member selection/appointment, etc. 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/cooperative audit sector has not been able to regularly audit the accounts of SACCOs due to shortage of auditors. Recently some SACCOs like Addis Ababa university lecturers and employee SACCO, Ethiopian Airlines employee SACCO, etc have opted to hire external audit firms, but it is too expensive for most of them.

### **Poor 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.

### **Poor technical and professional support**

Cooperative Promotion and Development Sector (CPDS) is the responsible body in promoting, registering, capacity building, licensing, auditing and inspection, and legal

services for cooperatives societies existed under their boundary. Currently, financial cooperatives do not get the required services as per their needs. Poor technical and professional support and weak communication with CPDS was the other problems. It is supported by the research findings of Getachew (2013). Due to inadequate officials and high number of cooperatives societies under CPDS, SACCOs do not get the required services/support regularly. We have understood that the communication is poor. There is weak report relationship between SACCOs and CPDS. We have observed that the data in CPDS and SACCOs varied in some cases where there is no updated information regarding current operation. Some SACCOs do not aware about CPDS.

### **Threats from other Financial Institutions (MFIs and Banks)**

Competition is a given phenomenon in today's financial service industry environment; determining the most effective ways of competing and managing the competition can be a real challenge. Recently there are 19 commercial banks and 35 Micro Finance Institutions (MFIs) in the country. According to Getachew (2013) above 89.6% of bank branches concentrated in Addis Ababa and the major eight regional. They have a number of branches accessible to community in kebele/district level with varied range of banking service. Their service is improved rapidly. Currently most of commercial banks offered several banking services, e.g. mobile banking, internet banking, agent banking, ATM services, salary payment, poor labor saving, women savings, loan provision with lesser/easiest collateral (personal guarantee and notification letter from employer), high promotion even office to office awareness creation has been conducted. They reach to the community in better services. Having different challenging factors, SACCOs were very difficult to compete with banks and MFIs. SACCOs, in the process, have had a significant loss of their members to the commercial banks and other financial institutions. The commercial banks are aggressively campaigning to attract many SACCO members to borrow from them. The performance of SACCOs is dwindling and this has been attributed to competitive pressures.

As obtained from interviews with SACCO members, committee members, and cooperative officials assured that the current SACCOs service is poor compared with other financial institutions. Most SACCOs do not accessible for technological advancement. All SACCOs included under this study do not have website, even most of them did not have computer and trained accountants. It indicates the service is not improved. Most members were not satisfied in the SACCO service. Withdrawal from membership is also increased searching for better service from other financial institution like banks and MFIs. It was also found out that the SACCO members considered a number of factors before borrowing from other financial institutions. Most of them preferred banks when in need of large amounts of money since banks offered more money compared to the SACCO and a longer repayment period.

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. 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.

## **CHAPTER FIVE**

### **CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter is the last one in this study paper. It covered the conclusion and the possible recommendation provided by the researcher based on the findings identified in chapter four.

#### **5.2 Conclusion**

The study presented the qualitative evidence using data on Savings and Credit Cooperatives in Addis Ababa. A qualitative exploratory research design was applied to investigate insight in to the challenges of SACCOs in Addis Ababa. A number of qualitative expressions and secondary data have been supported to get the result of the study.

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). According to Getachew (2006), SACCOs or Credit Unions have been developed to meet the fundamental human need to find a way of saving and borrowing methods without taking risks and without handing over too much power to a moneylender. Some researcher conducted their study on the challenges and opportunity of Rural Savings and Credit Cooperatives Societies (RuSACCOs). There is a research gap in urban SACCOs. So, the researcher have motivated to fill this gap and indicated the main challenges faced by SACCOs in Addis Ababa. The objective of this study is to identify challenges facing SACCOs in Addis Ababa.

On the basis of the interview, focus group discussions and documentary analysis, SACCOs experience a wide range of problems partly owing to the fact that they target low income earners and have to establish a balance between serving them adequately and also meeting their operation costs. The major challenges experienced by SACCOs are discussed in chapter four in order of most recurrent problem. This research findings supported by the findings of Getachew (2013) which showed that all sample SACCOs have the following common challenges across the SACCO industry that detracts from their ability to attain the desired goal of providing inclusive financial services to its members and the community in the area, makes the SACCO less competitive than competitors and need to design strategic solution to change.

The researcher identified challenges in to internal challenges and external challenges. This is supported by carilus (2013). Internal challenges caused by due to the weakness of the saving and credit cooperatives itself such as: poor governance and leadership, lack of skilled and educated manpower, low commitments of committee members, weak financial base, small membership size, limited lines of products, non-repayments of loan, inadequate loan size, lack of office building and equipments, poor accounting and financial performance monitoring system. These findings are similar with the challenges of RuSACCOs which further supports the findings of Kifle T. (2014), Aregawi (2014), Biruk (2012), Kifle & Hailemichael (2012), Aregawi & Kifle (2011), Dejene (2011), Kifle T. (2011), Zerfeshewa (2010), Sambasivan & Biruk (2009), Yared (2008), Govindaran (2007). The second one is external challenges, which is occurred due to external to factors. As per our findings, the external challenges includes: lack of regular audit service, poor technical and professional support, threats from other formal financial institutions, technological advancements, limited policy and regulatory environment for financial cooperatives. These also supported by the findings of Kifle (2014), Kifle (2011) and Aregawi & Kifle (2011).

The findings indicated that the challenges faced by SACCOs in urban and rural areas are almost similar in most cases. However, the challenges of RuSACCOs were very serious compared to urban SACCOs. Most RuSACCOs' members are farmers whose income is seasonal and dependent on agricultural product so their savings made in irregular basis. In addition the majority of management committees were illiteracy level is very low compared to urban SACCOs. In rural areas there is inadequate access to get financial services; RuSACCOs gives financial services for poor farmers whereas in urban areas, there are a number of financial institutions available with better technological advancement. It means that SACCOs faced a threat of high competition with other formal financial institutions. This hinders to increase number of membership and to retain the existed members. In Addis Ababa, the finding indicate there is a community/ settlers home transfer from one place to others, and high employee turnover in governmental organization. This is the major reason for withdrawal of membership from cooperatives. It is the fact that the country's first SACCOs established in Addis Ababa by employees of Ethiopian Air Lines. There are also other long-established employee-based SACCOs were formed by employee of Ethiopian road authority, Ethiopian Telecommunication Corporation, Ethiopian Electric Power Corporation, Addis Ababa University etc. Because they are long-established with high number of membership size and strong financial base thus they have a good experience for others cooperatives. Group of Saving and Credit Cooperatives in the City of Addis, organized under Addis Saving & Credit Cooperatives (AASCCU) initiated the process of establishing a cooperative bank known by the name Addis Cooperative Bank S.C. The number of founders that took the responsibility of organizing the bank was 21 and out of this 67% came from AASCCU. Now, according to AASCCU manager, the contribution of SACCOs decreased and their paid up capital reduced to 39% because SACCOs withdraw from banks membership. Due to weak regulation of financial cooperatives, their effort to establish cooperative bank wind up and now considered as like other commercial banks.

The results indicate a qualitative significant term for which suggests that semi-formal financial institutions have several challenges which have to be addressed for their growth



and developments in Addis Ababa. It is fact that SACCOs contribute a major role in mobilizations of savings and provisions of loans mainly for low and middle income group such as government and private organization employees, community, small scale traders, women, artisans, other low income urban settlers. It means that SACCOs' functions are the perfect substitutes for the formal financial institutions in the urban centers of Ethiopia. In most cases, majority of top challenges of SACCOs, according to the finding that we have seen in chapter four, similar from one cooperative to other. Five leveled respondents were assured these challenges during study period. This study is prepared to provide reliable and adequate information on current status of financial cooperatives in Addis Ababa with possible recommendation for the concerned body and stakeholders to be used an input in decision and solving the problems. Therefore, It is the fact that responsible body

### **5.3 Recommendations**

The following recommendations provided are based on the foregoing result conclusion and can be useful to other related saving and credit cooperatives in Addis Ababa, particularly urban saving and credit cooperatives rendering financial service programs in the study areas:

It is important to design financial cooperatives awareness creation and promotion programs in an organized based. Cooperative Promotion and Development Sector (CPDS) at city level, sub-city level and woreda/district level and Federal Cooperative Agency (FCA) are the responsible and apex body should design appropriate integration for improvements of SACCOs. SACCOS should give high attention in attracting members to increase their source of fund by providing a continuous awareness about the benefit of joining SACCOS by using different awareness creation programs through seminars, meetings, symposiums, bazaar, community associations, printed and online media, etc.

The finding shows that the number of membership too low compared to the total population of Addis Ababa city administration. There are a number of population size near to 3.3 million (CSA, 2015) in Addis Ababa. It is a great opportunity to increase

membership size and a number of SACCOs. SACCOs and other stakeholders should design appropriate strategy to increase SACCOs' membership through establishing new SACCOs, Union and Federation. SACCO union and federation fill the gap that primary SACCOs do not have. In addition to this, strengthening previously established cooperatives should be made in an organized manner.

SACCOs required regular audit service. Cooperative society's proclamation no. 147/1998 article 36 said that the appropriate authority shall audit or causes to be audited by a person assigned by it, the accounts of any society at least once in a year. It is the critical challenges in many SACCOs operated in Addis Ababa. To minimize this problem, adequate auditor required to address the audit service for all cooperative societies functional in the city. Second, CPDS should allow to be audited for financially strong/capable SACCOs by other external auditors through a continuous professional agreements and facilitation.

Government should support CPDS by designing and implementing a favorable structural set up, allocating adequate budget and giving attention for the growth and developments of SACCOs, because they have a major role in the country economy through mobilization of a large number of savings from a high number of populations.

NGOs and other international organization donate SACCOs in finance and capacity building. They have to continue their encouragement. They should support SACCOs by designing and providing savings and credit with education would bring the members and potential members the knowledge to teach about the SACCO's, personal budgeting, importance of savings, loan utilization, and other life changing curriculums. Moreover, government and other stakeholders should support incapable cooperatives to have office and required equipments as per their needs.

SACCOs should hire at least a qualified man power for leadership and financial management function. The main reason for poor governance, leadership, accounting, and controlling were lack of skilled manpower. To solve governance weakness, financial cooperatives should be managed by full time employee in-stead of elected committee members to strengthen the operation this because of elected committees are working in addition to their own personal work and they did not devote sufficient time in their SACCO's activities. The main constraint is poor financial capacity to recruit educated manpower, but there are some options to reduce this challenge. First, before election of management committees, a specific educational requirement has to be screened out from members to appoint the right man in the right position. Second, a limited amount of fee should be collected from members for the remuneration of recruited manpower. Third, there is an option to claim support from NGOs, governments and voluntary professional who serve on part-time.

The SACCOs menu of product should be increase in number and amounts. First, they have to assess the members' capacity to decide which menu of products is affordable for all. There are a number of experiences where different menu of products applied in some SACCOs and other formal financial institutions. They should cultivate experience sharing with these institutions. It is advisable to start additional savings, loans and shares product.

According to Addis Ababa city administration SACCOs' organization manual no. 007 article 25.2.5, any SACCOs should collect 28.5 percent of savings amount for share (3.5:1 savings to capital leverage ratio) to increase capital and balance savings and loan leverage. The services should not be limited only to members only, but non-members also with special rules and regulations and general assembly decisions. It is known that like in other types of cooperatives, the main source of capital for any SACCO is member`s share capital. SACCOs should build up capital base and motivate savers to save more to overcome the problem of loan able funds.

Like in other formal financial institutions, financial cooperatives required a favorable regulatory environment. Currently, long-established and financially strong SACCOs previously claimed to establish cooperative banks. However, due to inadequate regulation and supervision, cooperative bank was not allowed to establish. In Ethiopia, SACCOs are semi-formal financial institution those does not supervised and regulated by National Banks of Ethiopia. Because of this limitation, it is difficult to identify, avoid and resolve many common problems experienced by SACCOs and credit unions. Thus, the country should consider and transform the financial cooperatives guiding rules and regulation like in other country. We can take a good experience included, according to CGAP (2005) 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.

Experience sharing should be arranged from other developed and experience country. In Africa, The number of saving and credit co-operatives (SACCOs) continues to increase in Kenya, which recently received an award for leading the growth of SACCOs in Africa.

Finally, Government and private university researcher should conduct further study in the area of financial cooperatives to provide the possible comments to be the inputs in preparation of government's policy, planning and strategies. This study has conducted by using a qualitative approach so that it is recommended to other researchers to conduct further studies on a quantitative research approach.

The implementation of the above suggestions will lead to strengthening of the SACCO movement, growth and development which will unfold the prosperity to the poor members and empowerment of the women.

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