St. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES

ANALYSIS OF FINANCIAL PERFORMANCE OF SAVING AND CREDIT COOPERATIVES IN ETHIOPIA:
IN THE CASE OF ETHIOPIAN ELECTRIC POWER CORPORATION SAVING AND CRTEDIT COOPERATIV SOCIETIES

BY

ESHETE DERESEH

MARCH, 2015

ADDIS ABABA, ETHIOPIA

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A THESIS SUBMITTED TO SCHOOL OF GRADUATE STUDIES OF St. MARY'S UNIVERSITY IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR DEGREE OF MASTER OF ACCOUNTING AND FINANCE

St. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES
ACCOUNTING AND FINANCE DEPARTMENT

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DECLERATION

I, the undersigned , declare that this thesis is my original work , prepared under the guidance of Zenegnaw Abiy (PhD) . All source of materials used for the thesis have been duly acknowledged. I farther 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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St, Mary's University, Addis Ababa	March, 2015

ENDORSMENT

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

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Advisor	Signature
St, Mary's University, Addis Ababa	March,2015

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List of Tables

List of Figures

Acronyms

AASACCOU:	Addis Ababa Saving and Credit Cooperatives Union
E.C. :	Ethiopian Calendar
EEPCO:	Ethiopian Electric Power Corporation
ENTACCS	National Thrift and Credit Cooperative Society
ETB:	Ethiopian Birr
FCA :	Federal Cooperatives Agency
LGD :	Loan-loss Given Default
MF:	Micro Finance
MFIs:	Micro Finance Institutions
NBE:	National Bank of Ethiopia
PEARLS:	Protection , Effective Financial Structure , Asset quality , Rates of return and Costs, Liquidity, Signs of growth
SACCO:	Saving and Credit Co-operatives
USD :	United States Dollar
WOCCU:	World Council of Credit Unions

Abstract

Saving and Credit Cooperatives are financial institutions that are owned, controlled and capitalized by their members. This study was conducted in EEPCO Saving and Credit Cooperative in Addis Ababa to analyze the financial performance by using the secondary data disclosed in seven years annual audit reports of the financial statements. This paper examines the financial performance of the cooperative check up in the framework of common financial ratios of PEARLS.

The study undertakes to investigate the actual financial performance of saving and credit cooperatives using financial ratios. For this reason quantitative research method was employed with special emphasis on ratio analysis suggested by WOCCU, and secondary data was analyzed by using performance standards of PEARLS.

Findings from the study show that even though Loan loss provision does not meet the standard, the protection level of the cooperative was in a good position and the cooperative does not meet the proposed standard, but financial structure shows it is in a good position that avoids external credit and it satisfies its members need for loan from its saving deposit. The quality of the asset of the cooperative implies that large portion of fund was tied up on non-earning asset that affects the profitability of the cooperative. The result of ROA does not meet the proposed standard because large portion of total asset, saving fund, was keep in non-earning asset. The Liquidity level shows more than the standard that implies funding loans to members was only from members saving deposit and the cooperative does not face any liquidity problem.

Based on the findings the following recommendations are given. Loan loss provision allowances or insurance for each loan granted be designed, facilitate ways for members to contribute for the capital building in the form of share, the cooperative uses their capital productively through extensive marketing, try to use the tied-up fund wisely to generate income such as investing in share companies, time deposit which yields more interest than saving interest, and Government treasury bills.

CHAPTER ONE

INTRODUCTION

This is the first chapter of the paper that intends to analyze the financial performance of saving and credit cooperative (SACCOs) in EEPCO Addis Ababa City. This chapter gives the general clue about the study by providing general background for the study. Additionally, objective of the study, limitation and significance of the study are dealt in detail. It begins with more general issues and tries to get to the point.

1.1. Background of the study

Financial sources can be discussed categorically in many classifications. Some groups classify them institutional and non-institutional. Others classified in the degree of formality of operating within a given financial system (Meron, 2008). But in general the sources of finance are classified as formal, semi-formal and informal.

The financial service sector of Ethiopia is composed of formal (financial institutions such as Commercial Banks and Micro Finance Institutions - MFI that are regulated and licensed by the National Bank of Ethiopia - NBE), Semi formal (mainly Saving and Credit Co-operatives) and Informal (iqub and idir). Woldy (2002) categorized saving and Credit cooperatives as informal financial sector and he also add money lenders as informal financial sector.

In Ethiopia there are three types of saving and credit cooperatives, Institution based SACCOs; Community based SACCOs; and sponsored by NGOs SACCOs. The organization understudy in this paper can be categorized under institution based SACCOs.

Saving and Credit Co-operatives (SACCOs) has been recognized for the provision of banking services in Ethiopia for their members. As per the proclamation No. 147/1998, SACCOs were expected to play active role in bringing about broad-based development and poverty alleviation in Urban and Rural area as they were permitted to take deposit from and grant loan to members.

Saving and credit cooperatives pool their member's savings deposits and shares to finance their own loan portfolios rather than rely on outside capital. Members benefit from higher returns on savings, lower rates on loan and fewer fees on average.

One of the principles of SACCOs is that lending is limited to only members of the cooperatives and the amount of loan depends on the level of individual saving deposits. Saving and credit cooperatives, according to WACCU (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: Saving and credit cooperative members elect a volunteer management team from their membership.

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

SACCOs provide Saving and Credit services to their members. Hence, they provide members the chance to own their own financial institutions, loan for income generating activities, asset purchase, house construction, health, education and consumption.

The status of Saving and Credit cooperatives in terms of numbers of SACCOs membership size and amount of Saving in Ethiopia is shown in Table 1.

Table 1: SACCOs Membership and saving amount in Ethiopia as of 2013

No.	Types of SACCO	No. of SACCOs	Membership size	Saving in birr
1	Urban	3573	381212	994,960,169
2	Rural	6134	529063	211,358,916
Total		9707	910275	1,206,319,085

Source: ***Federal Cooperative Agency, 2013***

The annual statistical report of WOCCU (Dec,2013) revels that there are 57,000 credit unions in 103 countries of 6 continents that serves 208 million people. The report also indicates the Ethiopian case and 7154 credit unions with members of 706,200 and the saving and share of 24,619,689 USD. The loan granted by those unions is 28,057,947 USD. Their reserve was 722,630 USD and the total Asset was estimated 38,826,260 USD.

Mobilizing Savings is a means of providing a service to many low income peoples need. Offering Saving services, however, calls for a level of institutional development to meet safety and soundness requirements that many institutions have not so far reached. Mobilization of saving service has dual objectives: It provides source of funds for lending and also gives others valuable services to depositions. (Berhanu, 2013)

Loan duration under SACCOs are:

- ►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.

Currently, cooperatives are recognized as an important instrument for socio-economic improvement of the community (Bezabih, 2014)

1.2. Statement of the problems

Saving and credit cooperatives have inadequate capital base, restrictive capital structure, inadequate mix of financial products, poor investment decision making, lack of observance of basic principles of banking and financial management. Cost of living in urban area shot up hence the members of Saving and Credit Co-operatives (SACCOs) would not live comfortably, this leads to the high demand for the loan able fund and SACCOs can not meet easily because of supply is limited. In general SACCOs financial performance is very poor.(Aregawi and Kifle .2013)

Though the formal financial sectors (Banks and Micro Finance Institutions) are the major urban finance provider with strict financial laws, regulations, and compulsory of collaterals for loan , it is too hard to get loan for short term demand for finance such as consumption during cash shortage and other emergencies, because such needs ignores productive investments. Saving and credit cooperatives should able to supply these needs.

Aregawi and Kifle (2013) state that performance standards for SACCOs in Ethiopia are characterized by poor performance and operational structure, weak internal control system and inappropriate financial technologies. The financial Cooperatives in Ethiopia are governed by the general proclamation No. 147/1998 and supervised by Federal cooperative Agency (FCA). However provisions are not made with regard to liquidity, solvency, risk management, and financial performance.

The regulatory and supervisory framework clearly does not include performance standards. Recently the Federal Cooperative Agency (FCA) has tried to adopt standards commonly cited on the World Council of Credit Union (WOCCUs) PEARLS system. (Aregawi et. al 2014)

The cooperative proclamation No. 147/1998 identifies clear goals and authorities, which supported a more conducive legal environment for the formation of Ethiopian cooperatives. The goal includes social, economic, and other motives that require joint actions for attaining common target. However, the extent to which the cooperatives in Ethiopia have been able to attain these goals has not been adequately analyzed.

One of the weaknesses reflected in cooperative sector is poor administrative and financial management. On the other hand the government through the FCA is not adequately equipped to monitor and control the cooperative movement and performance.

Even though Saving and Credit Co-operatives help those who have no access to the financial service of formal financial institutions; they also contribute a lot to reduce the negative impact of local money lenders. The major problem faced by saving and credit co-operatives is its failure to initiate for increasing revenues through the use of accumulated savings and acting as a channel for transferring outside sources of finance to its members. This problem hinders the co-operatives to satisfy their member's needs and largely affects their financial performance.

Many studies have been published focusing on formal and semi-formal financial sector of Ethiopia to reveal their economic importance (Toli, 2013). Other studies focusing on management of SACCOs in outreach and sustainability (Sebhatu, 2011) and as per my knowledge , in general study on financial performance of SACCOs, specially in urban area and in EEPCOs Saving and Credit cooperatives are not conducted, but financial performance of SACCOs in Rural area, in Amahara and Tigry region , was conducted by Sambasivam and Biruk in 2013 , and Sebhatu in 2011 and 2012 respectively. This paper therefore attempts to review the existing literature on the saving and credit cooperatives of EEPCOs financial performance.

1.3. Research Questions

The following are questions that this study critically looks and seek answers.

1. How is the level of protection of EEPCO Saving and Credit Cooperatives that provide depositors a safe place to save their money compared with the standards?
2. How effective is the financial structure of the EEPCOs saving and credit cooperatives compared with the standards?
3. What is the quality of the asset of the EEPCO Saving and Credit Cooperatives compared with the standards?
4. How is the operational efficiency of EEPCO Saving and Credit Cooperatives compared with the standards?
5. How is the liquidity status of EEPCO Saving and Credit cooperative compared with the standards?
6. How is the growth of total asset of EEPCO Saving and Credit cooperative compared with the standards?

1.4. Objective of the study

1.4.1. General Objective

The general objective of the study was to analyze the financial performance of EEPCO saving and credit cooperative and to examine the financial health of the cooperative in performing its financial activities in relation with WOCCU proposed standards..

1.4.2. The specific objectives of the study are

1. To evaluate the level of protection of EEPCO saving and credit Cooperative that provides depositors a safe place to save their money against the WOCCUs standard.
2. To assess the financial structure of EEPCO saving and credit Cooperative interns of WOCCUs standard.
3. To examine the quality of the asset of EEPCO saving and credit cooperative based on WACCUs standard.
4. To compare the operation efficiency or the financial performance of EEPCO saving and credit cooperative against WOCCUs standard.
5. To assess the liquidity status of EEPCO saving and credit Cooperative according to WOCCUs standard
6. To check the growth of EEPCO saving and credit Cooperative interns of WOCCUs standard.

1.5. Definition of Terms

1.5.1. Operational Definitions of Terms

Loan Loss Provision: Amount of money that should be set aside in Reserve to cover potential losses on loans (protection of saving).

Financial Structure: Framework of various types of financing by a firm to acquire and support resources necessary for its operations.

Asset Quality: The capability of an asset that were invested or given as loan to generate income above covering the cost.

Rate of Return: The gain or loss on an investment over a specified period, expressed as a percentage increase over the initial Investment cost. Gain on investment are considered to be any income received from the security plus realized capital gain.

Liquidity: Liquidity means how quickly you can get your cash. In simpler terms, liquidity is to get your money whenever you need it or the level of readiness of the financial firm to give the money of depositors at the time of need of withdrawals.

Growth: Increase the number of members, amount of savings and loan granted, and total asset over time.

1.6. Significant of the study

According to Atkinson, et. al. (1997) Performance measurement should help the economic entity to understand and asses the value received from suppliers and employees, the value provided by the stakeholders and the effectiveness of processes implemented in the economic entity and its strategic properties. Therefore, we can say that performance measurement plays the role of coordination, monitoring, and diagnosis of economic entity's activities.

Since this study analyzes the financial performance of EEPCOs Saving and Credit cooperative, it is believed to contribute in identifying the major financial performance problems in the cooperative and it also tries to provide insight to the "management committee" (proclamation No.147/1998) and managers to operate in accordance with the standards proposed by WOCCU.

It was also believed that the study provides to the concerned body of the cooperative and other similar cooperatives regarding to performing and providing internationally standard financial service. Because no benchmark set by FCA, it also used as benchmark.

The finding of this study will be communicated to all interested and involved parties in this research. As a result, the research will have great importance in raising and awaking the cooperatives in providing healthy financial service to their members.

1.7. Scope and limitation of the Study

1.7.1.Scope of the Study

The study was undertaken using key indicators mainly based on the financial statements. The scope of the study was limited to the financial analysis because of the fact that financial performance analysis using standards was limited for seven of financial operations covering the period 1999 through 2005 E.C. The analysis was also based on items that have been captured by conventional accounting practices. Items that have not been captured by conventional accounting practice, which are of qualitative in nature were not dealt in the study. Hence, other non-financial performance measures ware not be addressed.

1.7.2. Limitation of the study

There were constraining factors that limit the conduct of the study. This type of study requires relatively longer time and detailed quantitative and qualitative analysis. Time and capacity are among the constraining factors and the study was forced to limit only quantitative analysis. The knowledge of the management to answer questions about the financial performance of the cooperative was another limitation to use qualitative analysis.

1.8. Organization of the Research Report

The report contains five chapters. Chapter one is all about introduction and states the background of the study, problem statement, objective of the study, definition of terms and significant of the study. The rest of the report is organized as follow: Chapter two provides a conceptual framework and literature review on the topics that are covered on the report, both empirical and theoretical aspects. Chapter three explains the methodology used in the study to achieve the objectives of the study. Chapter four presents the analysis, discussion and interpretation of the results or findings. Finally, chapter five of the report presents conclusion and recommendation that helps the organization under study to take corrective actions.

CHAPTER TWO

REVIEW OF RELATED LITRATURE

This chapter deals with a review of literature relevant to the study duly acknowledging the sources. Savings and credit Co-operative Societies offer financial services to individual members and not groups or companies. As we can see below, the first part provides explanation about the history and origin of SACCOs, followed by the theoretical review. Theoretical review is generally to grasp the general understanding about SACCOs and the empirical review considers previous studies around the area that are related and important to the current study.

2.1. History and Origins of SACCOs

The credit cooperative satisfies the requirements of its members without undue complications. Thus, it provides them with interest on their respective shares and rewards for participating in its operation. The credit cooperative helps to-prevent or over come poverty. It furthers members' education, as well as a spirit of mutual aid and self-reliance. This form of cooperative also encourages productive activity by providing credit required by its members. Zvi Galor (2014)

SACCOs are user owned and managed organizations ranging in size from a handful to several thousand members, organized on the basis of the work place (among formal employees), markets (among vendors) or around a specific product in rural areas (Alfred ,2011)

The first saving and credit cooperative, as Meron (2008) states, were established in the mid-19th century, mainly in Germany. Two men are considered as the founding fathers of credit cooperative.

Herman schultze- Delitsche, who established a credit cooperative for minor artisans and the urban middle class, and Freidrich Reifeisen, the founder of the rural credit cooperative. This establishment of credit cooperatives also supported by Toli (2013) and the idea moved to North America in 1900 with European immigration. Canada, the United States, Australia and Ireland have the most established movements.

On the other hand, Meron (2008), explains the idea of microfinance arose in the mid-1970s when Mohamed Yenus started a pilot scheme lending small amount of money to villagers in Bangladesh who, due to a lack of collateral, had no access to conventional loans.

English speaking nations were the first to adopt SACCOs in Africa. The first entrant into SACCOs' community including Ghana, Uganda, Nigeria, Tanzania, and Kenya (Toli,2013).

Alila and Obado (1990) , explain the idea of saving and credit societies in Africa was first discussed in 1955 in Jirapa, a small town in Ghana which was then the Gold Coast. The idea was brought by a Roman Catholic priest, Father John McNulty from Ireland. Father McNulty decided to assist the Jirapa villagers to form a savings and credit cooperative. The cooperative had a specific aim of assisting the members to address their financial problems which they could hardly do individually.

The table shows number of saving and credit unions, members in the union, their saving and share, loan given , reserve for emergency withdrawal, and their asset in USD. As we can see from the table, number of credit unions in Ethiopia is much greater than other African country credit unions, but members, savings , loans and assets is very small. Benin, only 34 unions but much more members and savings than Ethiopia.

Table 2 : Credit Unions in the African countries

Country	Credit Unions	Members	Savings & Shares (USD)	Loans (USD)	Reserves (USD)	Assets (USD)
Benin	34	1165854	118,296,331	97,066,561		
Burkina Faso	133	1043547	250,045,107	164,823,914	54,300,712	351,076,909
Cameroon	218	411779	239,918,993	194,605,45	18,429,125	316,645,703
Ethiopia.	7154	706200	24,619,689	28,057,947	722,630	38,826,260
Gambia	72	52094	14,333,655	11,302,655	1,896,329	15,338,145
Ghana	450	479890	193,935,265	120,509,245	22,730,584	238,582,149
Guinea-Bisawa	5	9218	444,778	300,016		
Ivory Coast	62	636733	216,936,737	86,546,297	43,881,509	
Kenya	5000	4722127	2,659,761,058	3,732,814,994	323,646,493	4,466,313,096
Lesotho	90	76000				7,300,000
Liberia.	45	3459	726,295	571,596		
Malawi	48	100618	8,676,303	6,568,944	303,287	10,085,233
Mali	70	662075	83,265,847	108,695,835	21,147,948	182,107,326
Mauritius	83	83000	25,359,208	24,564,184	2,377,179	25,993,122
Niger	50	154422	17,365,234	21,198,300	14,897,974	42,348,345
Rwanda.	416	1151800	66,181,869	30,416,688	17,802,613	88,043,710
Senegal	214	1708703	344,767,352	427,362,738	156,409,905	638,428,758
Seychelles	1	13069	13,666,320	11,866,980	1,183,654	15,655,865
South Africa	26	33400				23,000,000
Swaziland	71	39582				91,600,000
Tanzania	5559	1153248	283,000,000	545,000,000		599,500,000
Togo	87	1171046	246,300,151	192,639,339		
Uganda	2414	1280679	85,787,837	90,377,006		
Zambia	11	20767	4,761,899	15,695,323		18,969,316
Zimbabwe	72	153000	4,250,000	1,200,000	1,260,000	5,300,000
TOTAL for Africa	**22,385**	**17,032,310**	**4,897,399,936**	**5,912,184,018**	**592,620,350**	**7,175,113,937**

Source: WOCCU (2013)

As mentioned by MF transparency (2011), a significant portion of Ethiopia's population lives without access to basic, affordable and sustainable financial services. This is largely due to the perception by commercial banks of the unattractive risk-return outlook of serving the low income urban and rural population. This, together with the high demand for bank loans in the mainstream economic sectors of the country, has created a comfort zone for the existing commercial banks, leading Ethiopia to be one of the least banked countries in the world. Data from the National Bank of Ethiopia suggests that the country has a ratio of total population per bank branch of 112 thousand. As a result of these factors, more than two third of the population of Ethiopia has resorted to traditional, informal and expensive financial services such as money lenders, keeping cash at home, funeral funds etc.

The semi-formal sector consists of prudentially unregulated financial institutions including SACCOs, multi-purpose cooperatives and funeral funds. Tied to the growth of the microfinance sector in Ethiopia, the semi-formal sector is experiencing growth in recent years. The informal financial sector in Ethiopia consists of unregistered traditional institutions such as Iqub, Idir and money lenders. (MF Transparency 2011)

Cooperatives as a legal institution first came in to being in Ethiopia in 1960s. (Bezabih 2012). The first savings and credit co-operative in Ethiopia was established in 1964 by employees of Ethiopian Airlines. During the same period, credit co-operatives were established by employees of the Ethiopian Road Authority and the Telecommunication Agency. It is interesting to note that these organizations are among the most modem and relatively efficient enterprises in the country. The Co-operative Societies Proclamation Act No. 241/66 was passed in 1966. Existing co-operative societies were registered under this proclamation with the Ministry of Community Development and Social Affairs. A national promotion committee, known as the Ethiopian Thrift and Credit Co-operative Development, was set up in 1970 in order to promote savings and credit unions in the country. This committee, which was able to host the ninth African Conference on the Mobilization of Local Savings, facilitated Ethiopia's affiliation. In 1972, Ethiopian National Thrift and Credit Cooperative Society Ltd (ENTACCS) were established with six SACCOs.

"Cooperative" is the annual publication of FCA. As per the publication of 2013, there are 14,453 SACCOs in Ethiopia with Male members of 1,059,885, Female 676,237 and total 1, 736,122 members. At the end of 2013, their capital was 5,126,912,681ETB, saving of 1,072,411,770ETB and Loan given were 1,389,884,779ETB.

In Addis Ababa, there are about 1500 SACCOs with 168,000 members and 650,000,000ETB capital. (KUB, annual publication of AASACCOU, 2013, Vol.2, No.1)

The study is about one of the cooperative in Addis Ababa under the name of EEPCOs workers Saving and Credit Cooperatives (EEPCO SACCO). EEPCO SACCOs is a secular, indigenous, nongovernmental organization established before 30 years and legally registered with the Ministry of Justice. Currently EEPCO SACCO has 7781 members with 140,388,922 ETB of Asset.

2.1.1. Characteristics of SACCOs

An SACCO has several unique characteristics which promote the self-help, member-owned and directed principles of co-operativism, service to members, social goals and leadership potential of its members. Some of these unique characteristics are discussed by Dejene (2003). One characteristic is a common bond. Individuals, who have something in common, whether based upon working together, belonging to the same organization or living together in the same geographical areas, know one another. Thus, they have already established a common bond that\ can be built upon to address economic and social needs. The common bond is necessary to develop mutual confidence among the members to help one another and to trust the decisions made on their behalf by their elected leaders. The different types of common bond are:

► Work-place/employee common bond which is based upon individuals who have the same employer;

►Association common bond which is characterized by individuals who belong to a religious, social or educational group;

►Residential common bond which is based upon a geographical or political sub-division such as a sub-location, district, town or one or more villages.

Saving and Credit cooperatives are defined by WOCCU (2013) as:

> SACCOs, called by various names around the world, are members - owned, not - for- profit financial cooperatives that provide savings, credit and other financial services to their members. SACCOs membership is based on a common bond, a linkage shared by savers and borrowers who belongs to a specific community, organization, religion or place of employment.

2.1.2. What makes SACCOs different from other financial Institutions?

What most distinguishes credit unions from other non-bank financial entities offering microfinance services is the ability to mobilize mass numbers of small, voluntary savings account (WOCCU, 2013).

SACCOs are cooperative financial institution that are owned and controlled by members for the purpose of encouraging members for saving and using the pooled fund to give loan to its members for their short and immediate financial need and as start up capital for small business..

SACCOs, called by various names around the world, are member- owned a not-for-profit financial cooperative that provides savings, credit and other financial services to their members. SACCOs membership is based on a common bond, a linkage shared by saved and borrowers who belong to a specific community, organization, religion or place of employment.

According to WOCCU (2013) , SACCOs are different from other financial institutions - Commercial Banks, and MFIs by the following issues. **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:** Saving and credit cooperative members elect a volunteer management team from their membership; **Earnings:** Net income is applied to lower interest on loans, higher interest on savings; Products & services: range of financial service primarily savings, credit and insurance.

2.1.2.1. In terms of saving

What is saving? as Getachew (2006) mentioned:

► Saving can be defined simply as holding something back from today's consumption.

►Saving means with holding some thing valuable to day for future use.

►Saving is not as simple as the word as we talk it. Saving is:

A Discipline

A Sacrifice, and

Planning

Savings are by far the most frequent source of funding for microenterprise startup and expansion. Savings deposits enable households to build for the future and better prepare for unexpected emergencies.

Various studies find that the poor can and do save, although these saving are rarely in liquid financial form. Research also reveals that the large majority of poor savers lack access to safe and sound institutions for depositing their savings (WOCCU, 2013). Savings deposits provide a relatively stable source of funds that could enable an institution to become a sustainable, self-reliant financial intermediary.

Savings in SACCOs are two types: forced saving and willing saving. Forced saving is a saving that each member of SACCO should save monthly in a fixed percentage of his/her salary or income and this type of savings are not withdrawable from the cooperative until the member withdraw from his/her membership, retire or dies. This saving is mandatory to be a member of that SACCO. On the other hand, willing saving is additional saving above the forced saving that SACCOs members are willing to save additional amount that can be used as collateral to get more loan.

All the saving products offered by all the SACCOs under the present survey are limited to compulsory saving and voluntary saving. Compulsory saving are regular savings of fixed amount that is agreed up on by the general assembly while voluntary saving is decided by the individual member and can be withdraw at anytime, at times with an advance notice to the society. Only compulsory savings are those used for loans to members. (Aregawi 2014)

2.1.2.2. In terms of loan

Getachew (2006) defines loan as, loan is having some one's money for productive, for school fee, etc and that will pay back at agreed period with additional interest. It can be expensive because borrower will have to pay the loan it self with additional interest more than or equal to what it produces.

Credit is linked to savings, and in most cases loan sizes are related to the amount each borrower has saved. Saving can play a significant role in increasing levels of institutional sustainability and enhancing levels of outreach. Therefore, MFIs that offer savings facilities have a cheap source of funds for further lending to more sustainable operations. On the other side, voluntary saving builds the equity of poor households and protects them against unforeseen economic and personal crisis (Fikirte 2011)

Members of SACCOs become eligible for loans after making regular time deposits, mostly an average of six months. The amount of loan extended depends on the amount of the saved moneys as well as the borrower’s repayment capacity. In many cases, lending is limited by the size of deposit resources, and maybe delayed until such time the size of deposit reaches a certain level. (Aregawi 2014)

Sebhatu (2011) cited in Toli (2013) stated that the lending interest rates of SACCOs are relatively higher than the interest rates in other financial institutions in Ethiopia. According to his researcher, lending interest rate of SACCOs varies between 14 and 16 percent per year.

2.1.2.3. In terms of Membership

Who may join SACCO society as a member?

SACCO society is founded by cooperation of voluntary people to help each other with voluntary and open to all principals. Based on these principles:

- ►Any one who is ready to accept the bylaws, policies and regulations of that SACCO may join and share its ownership,
- ►Any one who is able and willing to save the minimum of saving adopted by the society may join and share its owner ship,
- ►Any one who is living around and participate actively may join and share its owner ship.
- ►Any one who is able to use the services and willing to accept the responsibilities of membership stated by general Assembly may join and share its ownership.

In Ethiopia common associational bond that defines membership in SACCOs is predominantly employment, where employees from same institutions to cater for their saving and credit needs.(Toli,2013).

2.1.2.4. Function of SACCOs

The two fundamental function of a SACCO Society are financial intermediation and investment. The most basic function of SACCO Society is financial intermediation. That is bringing savers and borrowers together in a system that enables them to pool their money as savings and shares, and after capturing funds transforming into loans by calculating all of the costs of doing this business to make profitable/useful to both parties (the SACCO Society and its members). (Getachew 2006)

Specifically the financial intermediation function of a SACCO Society is:

►Encouraging and promoting members to develop their saving culture, as well as the community by teaching wise use of their money and efficient management of their limited resources,

►Teaching people how to create an asset that helps them to have a guarantee and collateral for future loan access,

► Make members more accessible for finance when they need it,

► Develop a linkage between the rural people and urban banks in order to have sustainable financial flow.

The other essential function of a SACCO Society is investment. That is to allow and encourage members to develop formal business and investment, (the SACCO Society itself) by placing their capital at risk and to receive a return (profit) on that investment. (Getachew 2006)

2.2. Objective of SACCOs

According to Thomas (2012), one of the objectives of SACCOs is to promote a saving culture amongst their members since savings have a close relationship with wealth. Higher rates of saving today, lead to faster accumulation of wealth and, the wealthier a nation is, the higher its standard of living in the future

A SACCO is a member owned financial cooperative whose primary objective is to mobilize savings and afford member access to loans on competitive terms as a way of enhancing their socio-economic well being.

The twin objectives of SACCOs are to create access to finance and enhance members' income. These twin objectives can be attained when SACCO operates towards sustainability, and future sustainability depends on today's financial profitability. (Kelifa, 2011)

Objectives of any SACCO Society as Getachew (2006) mentioned are:

►Encouraging and promoting to develop thrift culture within the members as well as the community by teaching wise use of their money and efficient management of their limited resources.

►Teaching people how to create an asset that helps them to have a guarantee and collateral for future loan access.

►Making finance more accessible for members when they need it.

►Developing a linkage between the rural people and urban banks in order to have broader financial flows into the community and a safe haven for rural peoples' savings.

2.3. History of WOCCU

World Council of Credit Unions (WOCCU), as stated in its web- site (woccu,2013), is the global trade association and development agency for credit unions. World Council promotes the self-sustainable development of credit unions and other financial cooperatives around the world to empower people through access to high quality and affordable financial services. World Council advocates on behalf of the global credit union system before international organizations and works with national governments to improve legislation and regulation. Its technical assistance programs introduce new tools and technologies to strengthen credit unions' financial performance and increase their outreach.

World Council is funded by member dues, government agency and foundation grants and annual gifts to World Council's Worldwide Foundation for Credit Unions. World Council of Credit Unions and its subsidiaries are headquartered in Madison, Wis., USA. World Council also has a permanent office in Washington, D.C., and program offices worldwide.

World Council of Credit Unions was founded on the belief that all people have the right to affordable, reliable and accessible financial services. Its technical assistance programs have provided millions of poor and low-income people access to the array of financial services they need through credit unions, regardless of challenges posed by the operating environment.

World Council works with credit unions, their trade associations and regulators to drive savings mobilization and regulatory development while creating integrated business networks. Its team of financial expert's works with local leaders to develop tailored products and services geared toward microfinance, rural finance and Islamic finance. Unlike many microfinance technical assistance providers that focus exclusively on credit, World Council's approach emphasizes the mobilization of member savings as the primary source of financing. This savings-based approach allows credit unions to reach greater scale in financial service provision and instills a level of financial discipline that ensures long-term sustainability.

Since 1971, World Council has implemented nearly 300 technical assistance programs to build safe and sound financial cooperatives in 71 countries throughout the world.

World Council has created a number of web-based and locally installed financial tools including its flagship PEARLS monitoring system, a set of financial ratios or indicators that help standardize terminology among institutions. The tools offer management guidance for credit unions and other savings institutions and can serve as supervisory tools for regulators.

PEARLS Monitoring System

Protection,

Effective financial structure,

Asset quality,

Rates of return and costs,

Liquidity,

Signs of growth

WOCCU's PEARLS Monitoring System combines a powerful relational database with a proven methodology for measuring financial performance and operational efficiency. PEARLS provide credit union managers, directors and supervisors with concise, easy-to-read reports that reveal institutional trends and identify strengths and weaknesses. It also offers a strategic business planning tool to guide managers in planning for the future and implementing change as necessary.

The PEARLS Monitoring System includes:

- Monitoring tool with PEARLS financial ratios
- Ranking tool for comparing credit unions and primary cooperatives
- Business planning tool to create strategic plans that help improve performance

The PEARLS software assists credit unions with meeting institutional goals and complying with regulatory standards. The software also carries out a business planning function that plans and shows the impact of growth and expense decisions on the credit union's financial condition, as well as on its attempt to achieve international standards.

2.4. Theoretical Review

Credit unions world wide offer members from all walks of life much more than financial services. They provide members the chance to own their own financial institution and help them create opportunities such as starting small businesses, growing farms, building family homes and educating their children. (WOCCU, 2013)

Regardless of account size in the credit cooperatives, each member may run for the volunteer board of directors and cast a vote in elections. According to WOCCU (2013) statistical report, in over103 countries in 6 continents, there are 57,000 credit unions that serves 208 million people with 1.4 trillion USD saving & shares, 1.1 trillion loan, 171 billion reserve, and 1.7 trillion assets.

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)

2. 4.1. The Importance of SACCOs

Cooperatives create the opportunity for people to take responsibility for their own financial organization. The democratic process is an integral part of the cooperatives and encourages people to take control of their own financial affairs. (Toli,2013).

SACCOs worldwide offer members from all walks of life much more than financial services. They provide members a chance to own their own financial institution and help them create opportunities such as starting small businesses, growing farms, building family homes and educating their children (WOCCU, 2013)

Among the many advantage of SACCOs, Toli (2013) indicates the following:-

► SACCOs perform a critical and unique function as financial intermediaries. They mobilize significant volumes of personal savings and channel them into small loans for productive and provident purposes at the community level.

► SACCOs encourage members to save, essential for economic empowerment. Savings are mobilized locally and returned to members in the form of loans. The money stays and works within the members.

► SACCOs pay dividends on shares to their members once that the SACCO is established and profitable. Members therefore take pride in owning their own SACCO.

The credit cooperative satisfies the requirements of its members without undue complications. Thus, it provides them with interest on their respective shares and rewards for participating in its operation. The credit cooperative helps to-prevent or over come poverty. It furthers members' education, as well as a spirit of mutual aid and self-reliance. This form of cooperative also encourages productive activity by providing credit required by its members (Meron, 2008)

Dejene (2003) argues in his study on the economic importance of the informal institutions in Ethiopia that the poor are often marginalized in the formal credit markets. This can be explained partly in terms of: 1) a lack of collateral, which makes lending to the poor a risky venture; 2) transaction cost of lending to and borrowing by the poor is often high; and 3) utility loss from repayment is higher for the poor as compared to the rich.

Dokulilova et al, (2009) cited by Tilahun and Dereje (2011), Microfinance is an effective tool to fight poverty by providing financial services to those who do not have access to or are neglected by the commercial banks and other financial institutions. The poor, having no or very little income, cannot offer any collateral which banks require, have no credit history, banks are too far away to verify and observe their behavior (there is little information) and the loans are generally far too small compared to transaction costs.

According to Befekadu (2007), poverty is the major problem in most developing economies. In these economies, it is argued that among others absence of access to credit is presumed to be the cause for the failure of the poor to come out of poverty. Meeting the gap between demand and supply of credit in the formal financial institutions frontier has been challenging. In fact, the gap is not aroused merely because of shortage of loan-able fund to the poor rather it arises because it is costly for the formal financial institutions to lend to the poor. Lending to the poor involves high transaction cost and risks associated with information asymmetries and moral hazards.

2.5. Empirical Review

The following section presents previous studies that are related with the topic and sub- title. Among the reviewed material, the selected studies are used to draw the literature map of the study.

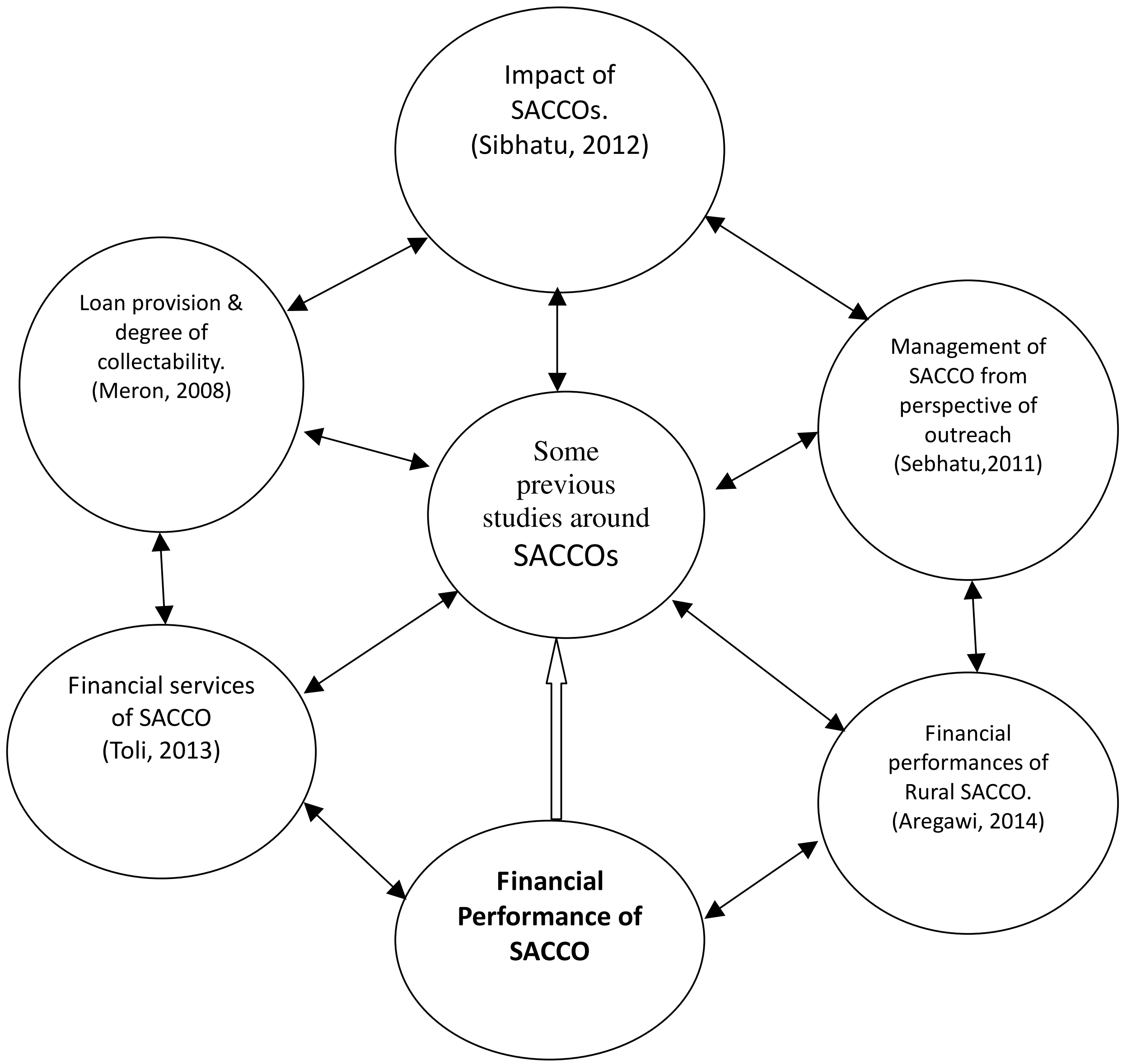


Figure 1: Literature Map of the Study

2. 5.1. Loan Provision (Protection) in SACCOs

Loan loss provisions are the first line of defense against any loss due to loan delinquency (default of members to repay their loan). Protection is about making allowances for loan losses or the adequacy of the institution's provision for loan losses. (Aregawi, 2014)

Loan default is the failure to pay back a loan which may occur if the debtor is either unwilling or unable to pay its debt. A defaulted loan is a cost to SACCOs in terms of forgone or delayed interest, high recovery cost and finance cost associated with external borrowing.(Nancy, 2013)

In accordance to David (2011) default occurs when a debtor has not met his or her legal obligations according to the debt contract, for example has not made a scheduled payment, or has violated a loan covenant (condition) of the debt contract. A default is the failure to pay back a loan. Default may occur if the debtor is either unwilling or unable to pay his or her debt.

The adverse selection occurs when the lender cannot easily determine which customers are likely to be more risky than others. But the problem is the lender does not know who is who, and raising average interest rates for everyone drives safer customers out of the credit market. Those who are willing to repay high interest rate may, on average, be worse risky; they are willing to borrow at high interest rates because they perceive their probability of repaying the loan to be low. (Fikirte 2011)

SACCOs grant loans on the basis of member's savings. The loan may be more or less than the savings of the borrower. Loans less than the member savings are secure and the repayment is assured .Loans in excess of the members savings must be guaranteed by other members. Loans that are not recovered are considered to be delinquent and hence defaulted. For those defaulted loans, provision should be assigned to protect members' savings from loss.

According to Dermine and C. Neto (2007), a fair level of provisions on bad and doubtful loans is an essential input in mark-to market accounting, and in the calculation of profitability, capital and solvency. Loan-loss provisioning is directly related to estimates of loan-loss given default (LGD).The issue of adequate loan-loss provisions is well recognized by central banks. In Basel II, the difference between provisions and expected loss on the loan portfolio will affect the measure of capital.

One indicator of effective Micro finance intermediary is the loan repayment performance of the borrowers. High repayment rates are associated with benefits both for the Micro finance intermediary and the borrowers. If there is high repayment rate, the relationship between the Micro finance intermediary and their client will be good, as Fikirte (2011) argues that high repayment rate helps to obtain the next higher amount of loan and other financial services. In contrast, if there is low repayment rate, both the borrowers and the Micro finance intermediary will be affected. In this case the borrowers will not be able to obtain the next higher loan and the lender will also lose their clients.

Loans taken from credit institutions vary from country to country, region to region, sector to sector. But most credits of developing countries were found to share one common characteristic: suffer from a considerable amount of default rate (the amount of loans not collected on current and past due loans for the reference period) (Kashuliza 1993).

As cited by Fikirte (2011) , Abafita, (2003) states that there are many socio-economic and institutional factors influencing loan repayment rates in the Micro finance intermediary. The main factors from the lender side are high-frequency of collections, tight controls, a good management of information system, loan officer incentives and good follow ups. Most Micro finance intermediary in Ethiopia are experiencing default problems as can be observed from their declining repayment rates.

Default on borrowed funds could be voluntary and involuntary. Involuntary default on borrowed funds could arise from unfavorable circumstances that may affect the ability of the borrower to repay. On the other hand, voluntary default, whereby a borrower does not repay even if he/she is able to do so. Therefore, the lender must understand the causes and the possible solutions of default. (Fikirte, 2011)

Loan loss provisions have been widely employed by financial institutions managers in managing risk on capital and earnings. Therefore, a manager must build up loan loss reserves in ‘boom times' and this reserve will be drawn on in bad times to mitigate credit crunches. Loan loss provisions can be used by financial institutions to overcome and manage problems concerning losses from loan activities, meet regulations or laws on capital requirement and manage present and future income. (Faridah and Wahida 2011)

As WOCCU (2013) explains when financial intermediaries do not recognize loan losses:

►Asset values are inflated

►Reported net income is overstated

►Provision for loans losses are lacking

►Member – client savings are not secure

►Dividends are overstated and erroneously paid out

2.5.2. Financial Structure in SACCOs

An institution has an effective financial structure when asset, financed by savings deposits, generate sufficient income to pay market rates on savings, cover operating costs and maintain capital adequacy. (WOCCU, 2013)

The effective financial structure focuses on an institution’s sources of funds (savings, shares, external credit and institutional capital) and its uses of funds (loans, liquid investments, financial investments and non-earning assets). (WOCCU, 2013)

2.5.3. Asset Quality in SACCOs

Asset Quality is one of the most critical areas in determining the overall condition of the financial intermediary. The primary factor effecting overall Asset Quality is the quality of the loan portfolio and the credit administration program. Loans are usually the largest of the asset items and can also carry the greatest amount of potential risk to the bank's capital account. (Khalid 2012)

Asset quality management has recently received much attention in the financial intermediary industry. Asset quality management is considered extremely important by the financial intermediary sector at home and abroad. Asset quality is a general concern for the financial supervisory authorities in every country throughout the world. Asset quality not only affects the financial and operating performance of the financial intermediary itself, but also further impinges on the soundness of the national financial system. (Khalid 2012)

From the view of management accounting, financial intermediary asset quality and operating performance are positive related. If a financial intermediary's asset quality is inadequate (e.g. the loan amount becomes the amount to be collected), the financial intermediary will have to increase its bad debt losses as well as spend more resources on the collection of non-performing loans. When financial intermediary list the loan amount for collection, financial intermediary will incur extra operating costs from non-value-added activities so as to handle and supervise the collection process. (Khalid 2012)

Asset quality is the main variable that affects institutional profitability. An excess of defaulted or delayed repayment of loans and high percentages of other non-earning assets have negative effects on credit cooperative earnings because these assets are not earning income. (WOCCU, 2013)

2. 5. 4. Rate of Return in SACCOs

Rate of Return in WACCU(2013) technical guide measures rate of return and cost that monitor the return earned on each type of asset (use of funds) and the cost of each type of liability (source of funds). On the asset side, one can determine what types of assets earn the highest returns. On the liability side, one can determine what the least and most expensive source of funds is.

According to Alfred Okwee (2011), profitability is not the primary concern for credit unions. However, the WOCCU (2005) report looked at profitability of credit unions from a different perspective. It stated that credit unions sought to generate profits in order to directly benefit the owners as they (members) serve as both the owners of the credit union and the recipients of the credit union services. Thus when credit unions maximize their profits, it results in the form of lower interest rates on loans, lower service fees and higher dividends for the members. In line with the WOCCU report (2013), credit unions were financial cooperatives, organized to meet the needs of their members thus surpluses or profits were returned to members in the form of reinvestment in the credit union, dividends to members, or lower interest rates on loan products.

Kelifa (2008) argue the size of financial resources availed for lending purposes is one of the major factors affecting institutional sustainability. One of the main factors affecting sustainability is the level of growth or outreach in terms of loan portfolio. Profitability and sustainability of SACCOs are affected by the amount of money the organization has for lending.

Operational efficiency is the capability of an enterprise to deliver products or services to its customers in the most cost-effective manner possible while still ensuring the high quality of its products, service and support.

Operational efficiency is often achieved by streamlining a company's core processes in order to more effectively respond to continually changing market forces in a cost-effective manner.

In order to attain operational efficiency a company needs to minimize redundancy and waste while leveraging the resources that contribute most to its success and utilizing the best of its workforce, technology and business processes. The reduced internal costs that result from operational efficiency enable a company to achieve higher profit margins or be more successful in highly competitive markets.

2. 5.5. Managing Liquidity in SACCOs

The term liquidity is often used in multiple contexts. An asset's liquidity can be used to describe how quickly, easily and costly it is to convert that asset into cash. Liquidity can also be used to describe a company by the amount of cash or near cash assets a company has; the more liquid assets, the higher a company's liquidity. (Brendan 2010) Banks face two central issues regarding liquidity. Banks are responsible for managing liquidity creation and liquidity risk. Liquidity creation helps depositors and companies stay liquid,

for companies especially when other forms of financing become difficult. Managing liquidity risk is to ensure the bank's own liquidity so that the bank can continue to serve its function.

A financial intermediary's liquidity needs consists immediate obligations, such as deposit withdrawals or legitimate loan demands that the financial intermediary must meet to continue its functions. Large depositors and large borrower may influence the short- term liquidity need of an individual financial intermediary disproportionately. (Tirualem, 2009)

Depositor's confidence in SACCOs will be destroyed if an institution is not able to serve client withdrawals. As Tirualem (2009) mentioned, source of liquidity fall in to two basic categories:

► the first category consists of financial institutions assets in which funds are temporarily invested with the assurance that they either will mature or be paid when liquidity is needed or will be readily saleable.

► the second category includes the various methods by which financial institutions can borrow or otherwise obtain funds.

2. 5.6. Sign of Growth in SACCOs

Growth is measured in terms of the number of active clients (with outstanding loan), loan size, number of saving clients, volume of saving, percentage of loans to clientele,

Growth in the microfinance industry is desirable to reduce poverty and attain operational and financial sustainability. Although growth or outreach has risk, unless planned and managed very well, it has also positive implications for financial institutions. First, growth enables the microfinance institutions to reach large number of clients. Hence, it is the key to make sound impact on reducing poverty. Second, growth reduces average operating cost for the MFIs. It reduces or eliminates losses, not by increasing lending interest rates, but by reducing operating costs. Third, growth improves operational and financial sustainability of MFIs. Fourth, it helps institutions to satisfy their client's need through various services. Fifth, it gives better image of the institutions to attract loanable fund form banks for further expansion and increases the borrower's willingness to repay. (Kifle 2011)

One of the greatest comparative advantages of SACCO is their ability to reach large number of people that are overlooked by formal financial institutions. The contributing fact to their advantage is their ability to collect deposit from members and providing diversified loan to members (Toli, 2013)

Growth or outreach is "a hybrid measure that assesses the extent to which an MFI has succeeded in reaching its target clients and the degree to which the MFI has met the demand of clients for financial services" The indicators of outreach are the depth (types of clients reached and level of poverty) and breadth of outreach (number of clients served) Thus, growth of the microfinance institutions involves: (i) a permanent increase in the size, scale, and complexity in activities and various results being achieved by MFIs overtime.

This includes increases in number of clients, outstanding loan portfolio and turnover, size of savings, etc. (ii) the other most important meaning of growth is the one signifying changes in character of institutions itself. This would mean the transformation of the institution (graduation of the organizations and to become regulated financial organization, improving and upgrading the capacity of the institution and obtaining high level of sustainability.(Kifle 2011)

One measure of outreach is the number of active clients served. The number of active client includes borrowers, depositors and other clients who are currently accessing any financial service, Tilahun and Dereje (2012). This idea was supported by Toli (2013), in order to measure outreach; simply the numbers of persons now served that were previously denied access to formal financial services. Usually these persons will be the poor because they cannot provide the collateral required for accessing formal loans, are perceived as being too risky to serve, and impose high transaction costs on financial institutions because of the small size of their financial activities and transactions.

As Kifle (2011) mentioned how growth or outreach is measured, outreach is measured in terms of the number of active clients (with outstanding loan), loan size, number of saving clients, volume of saving, percentage of loans to clientele, percentage of female clients, range of financial and non-financial services offered to the poor, the level of transaction costs levied on the poor and the extent of client satisfaction with respect to financial services. In the last ten years, the saving and credit cooperative in Ethiopia has shown a remarkable progress in terms of outreach and performance. The SACCOs meet only less than nine percent of the demand for financial services of the active poor. This indicates that there is significant unmet potential demand for microfinance in Ethiopia.

According to WOCCU (2013), sign of growth reflect member-client satisfaction, appropriateness of product offerings and financial strength. Growth in loan size, number of saving clients, volume of saving, percentage of loans to clientele, and total asset directly affects an institution's financial structure an requires close monitoring to maintain balance; for example, growth in saving drives growth in total asset, but if loans are not growing as quickly as saving, then the institution will have high liquidity and low earnings.

Similarly, as savings are growing, it is important to watch that institutional capital is increasing at a similar pace so that there will be a buffer to managers maintain a balanced and effective financial structure.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

It is believed that the research methodology is the philosophy or 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 that is to be adopted to carry out the research.

3.1. Research design

In order to accomplish this study, considering the knowledge of the management about financial performance indicators and time and financial resources, the quantitative research method was employed with special emphasis on ratio analysis suggested by WOCCU, which is PEARLS. PEARLS is a financial performance monitoring system designed to offer management guidance for credit unions and other savings institutions. PEARLS is also a supervisory tool for regulators and can be used to compare and rank cooperatives. (WOCCU 2013.)

Just having financial statements alone was not enough to answer the question financial users want answered without further analysis (Wild, John, J. and Bernsein, Lernstein, Leopld A : 2004) . There fore, the study undertakes to investigate the actual financial performance of saving and credit cooperatives using financial ratios.

Since it is important to understand how the cooperatives profitability and efficiency are linked with financial performance, WOCCUs proposed standards will be used for all Saving and Credit cooperatives under study. For this purpose, **analytical** and **quantitative** research methods were used through the analysis and interpretation of audited financial statements of EEPCOs Saving and Credit cooperative societies.

3.2. Population and Sampling Techniques

The study was conducted in EEPCO Saving and Credit Cooperatives found in Addis Ababa having one branch. Data for the study was collected from secondary data source. This secondary data was the audited financial statements of seven consecutive years (1999E.C. to 2005E.C.). Because it is case study, one population and secondary data, purposive sampling techniques were employed.

3.3. Methods of Data Analysis

The collected data was analyzed by using WOCCU performance standards with reference to PEARLS (PEARLS offers indicators and standards to supervise the performance of saving and credit institutions) and the financial health of the cooperative was measured by ratio analysis. A PEARL is a set of financial ratios or indicators that help standardize terminology between institutions categorized in 6 main categories. In total, there are 44 quantitative financial indicators that facilitate an integral analysis of financial conditions of any financial institutions. Out of these 44 indicators, there are 18 key PEARLS indicators identified by WOCCU that can provide an objective of evaluating financial performance by evaluating the result of strictly quantitative indicators. (WOCCU, 2013) The WOCCUs proposed standards of excellence will be used as measure of excellence.

CHAPTER FOUR
DATA ANALYSIS, RESULTS AND DISCUSSION

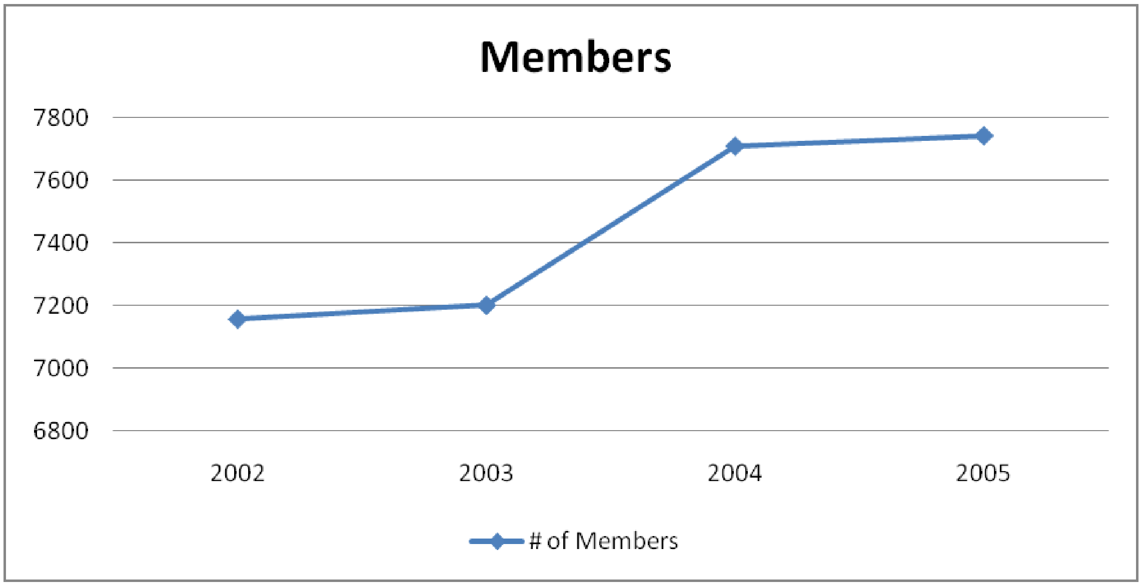
This section of the paper presents and analyses the data collected from secondary source that is the four year of audited financial statements. The objective of the study was to analyze the financial performance of EEPCO saving and credit cooperative and to examine the financial health of the cooperative in performing its financial activities in relation with WOCCU proposed standards. This was decomposed into the level of protection or loss provision, the financial structure, the quality of the asset, the operation efficiency or the financial performance, and the liquidity status of the studied cooperative.

4.1. Profile of the Cooperative

This section gives the background of the cooperative members and their saving for the study period. Though it was discussed in the background section of this paper, in the next analysis and discussion part we use the number of members of the cooperative and their savings frequently, so the researcher believe that it is better to illustrate graphically to provide detail understanding.

Average passbook deposit of forced and voluntary deposit per member-client in EEPCO SACCO is 16,313ETB. Permanent employees of the organization are more than 13,000 and only 56 % of the employees are member of EEPCO SACCO. This shows that the cooperative has 44 % of potential members to generate saving deposits.

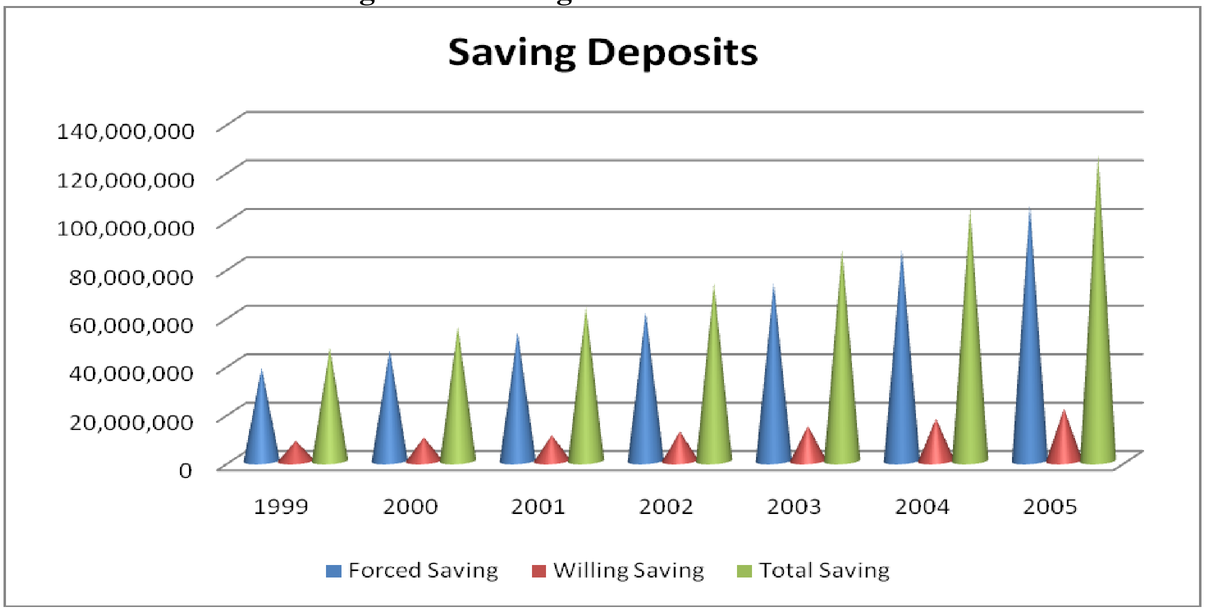
Figure 1: Members of EEPCO SACCO



Source: Worked out from audited financial report.

As can be seen from figure 1,(the audited financial statement of 1999 to 2001 does not shoe the number of members) number of members of the cooperative increases year to year. In 2003 E.C the number increased by 2.8%, in 2004 E.C. it increases by 9.8%, and in 2005 E.C. the increment becomes 9.6% which is lower than by 0.2% from the previous year .Even though the increment was encouraging and positive, as compared with the total population that the cooperative can market its financial service, it is very small and this shows that the cooperative has large field to increase its members. This will be discussed more detail in the sign of growth indicator section.

Figure 2 : Saving of Members in EEPCO SACCO



Source: Worked out from audited financial report

As we can see from figure 2 , the forced saving (a saving that is mandatory to be a member of the cooperative) increases by about 12 million to 2003E.C; by 14 million in 2004E.C. and by 18 million in 2005E.C.One reason for the increment is the increase of members salary. The willing saving (it is a saving that the member can save more that the forced saving voluntarily) also increases by 2 million, 3 million, and 4 million by 2002E.C. to 2005E.C. respectively. As mentioned in the above section, saving of members can be increased if the cooperative works aggressively to market its financial service. The increase in saving in turn increases its profitability and its financial strength. A cooperative is financially strong means it is strong in sustainability and competitive to satisfy its members to provide their financial need. The major problem in saving and credit cooperatives is , as mentioned in the problem statement section, their weakness in providing financial service for their members because of lack of fund and in turn the problem is their weakness in marketing to increase their members.

4.2. Data analysis, Results and Discussion of the Study

Health of an individual financial institution is a function of multiple factors such as liquidity position, earnings and cost, solvency, capital adequacy, asset quality, financial structure and growth trend (Submissive . et. al. 2013). The result of these key indicators are presented in tabular form to check up the financial healthiness of EEPCO SACCO in the following sections and WOCCU model was used to interpret and assess the financial performance of the cooperative.

4. 3. Loan Provision (Protection)

The first objective of this paper is to evaluate the level of protection or loan provision of EEPCO saving and credit cooperative that provides depositors a safe place to save their money against the WOCCUs standard.

The primary goal of evaluating the loan provision indicators is to ensure that the financial institution provides depositors a safe place to save their money. Provision for loan loses are the first line of defense against unexpected losses to the institution because delinquency signals that loans are at risk, thus the institution must set aside earnings to cover those losses so that member- client savings remain protected.

Table 1: Loan Provision (Protection) of EEPCO saving and credit cooperative (Years in E.C.)

Indicator of Protection	**Proposed Standard**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
P1: Loan losses Allowances / Delinquency> 12 months	100%	0%	0%	0%	0%	0%	0%	0%
P2: Net Loan Loss Allowance / Delinquency of 1-12 months	35%	0%	0%	0%	0%	0%	0%	0%

<u>Source:</u> Worked out from Audit Report of the cooperative

The most critical ratio under protection is P1. The goal of P1 is to have 10percent provisions for loan losses from loans that are greater than 12 months delinquent and to measure the adequacy of the provisions for loan losses when compared to all delinquent loans. As WOCCU (2013), accurate measurement of delinquency (total outstanding balance of portfolio-at-risk at 30 days), is integrally linked to the creation of adequate allowances for loan losses.

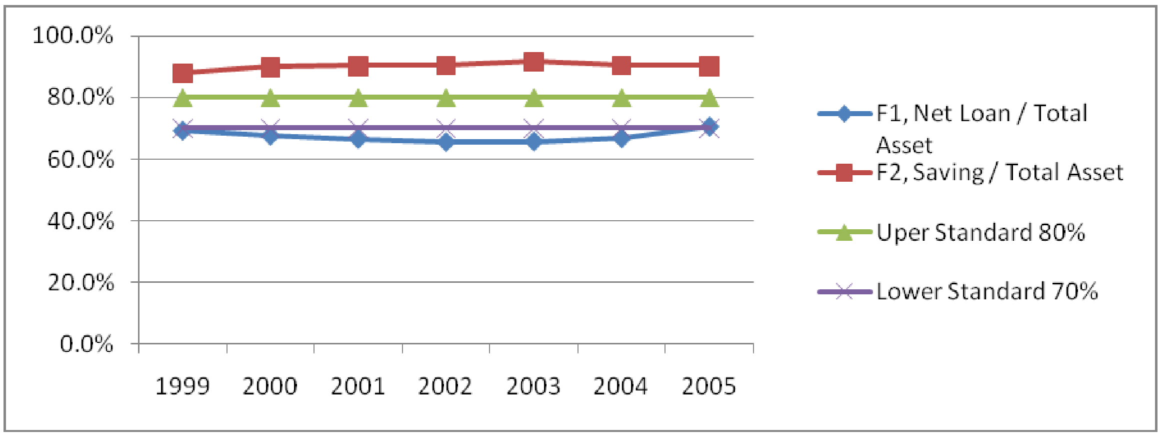
The practice of writing off loans is important because after a loan is delinquent for one year, it is unlikely the cooperative will receive repayment of that loan. The cooperative uses the provision it has set aside of 100% of the value of that loan to write off the delinquent loan. As a result of the write-off, the balance sheet will accurately state the value of the cooperative's assets.

The above table (Table 1), shows that P1 and P2 in all of the study period, EEPCO saving and credit cooperative complied with WACCU's protection standard. The reason behind this result is the fact that the cooperative did not report/ recorded any delinquent loan and loan loss provision and taken as zero delinquency and loan loss provision that indicates that no delinquency means there is full protection, because the cooperative relies on members' guarantee and loan repayment is directly deducted from the payroll, therefore the possibility of loan losses is very low. Similar study in the same topic studied by Aregawi (2014) in Tigray region saving and credit cooperatives shows that Tigray RUSCCOs did not report any delinquent loan and loan loss provision account because they relied on members' guarantee and the study consider it as 100% protected. Sambasivam et. al.(2013) also conduct a study in Gohe saving and credit union in Amhara region and reach to the same result and says the union instead of maintaining loan loss provision making delinquency report they followed maladjustment either from the account of the person or guarantors. The result also implies that the assets of the cooperative are not inflated, earnings are not overstated, dividends are not over stated, and members' savings are in a safe condition.

4.4. Effective Financial Structure

The financial structure of saving and credit cooperatives is the most important factor that affects growth, profitability or earning capacity and efficiency. WACCU advises that credit cooperatives that maintain most of their total assets in the loan portfolio have the greatest opportunity to maximize returns on these productive assets while providing their member-clients with the credit services they seek.

Figure 4: Effective Financial Structure



<u>Source:</u> Worked out from Audit Report of the cooperative

Table 4 : Financial Structure of EEPCO saving and credit cooperative (Years in E.C.)

Indicator of Financial Structure	**Proposed Standard**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
F3: External Credit / Total Assets	0 - 5%	0%	0%	0%	0%	0%	0%	0%
F4: Members Share Capital / Total Assets	10%-20 %	0%	0%	0%	0 %	0 %	0 %	0 %

<u>Source:</u> Worked out from Audit Report of the cooperative

This part of the indicator focuses on the effective management of source of fund and use of fund. According to the WACCU (2013) guideline, the financial structure of the credit cooperative is the single most important factor in determining growth potential, earning capacity, and overall financial strength. The WACCU model expects a credit cooperative to finance its loan portfolio mainly from saving deposits. WACCU classified assets as productive and non productive based on their capacity to generate revenue. A non productive or non earning asset (land, buildings, Equipment etc.) is one that does not generate income. According to WACCU assets of any saving and credit cooperative should consist 95 percent productive assets composed of 70-80percent loans; 70-80 percent members deposit savings, and 10 percent share capital.

The ratios calculated in relation to the effective financial structure of EEPCO SACCO are briefly discussed below in this section.

(i) Net Loan / Total Assets (F1)

This ratio measures the percentage of total assets invested in the loan portfolio. Cooperatives are encouraged to maximize productive assets as the means to achieve sufficient earnings. Since the loan portfolio is the most profitable asset of the cooperative, WOCCU recommends maintaining 70-80% of total assets in the loan portfolio, productive asset.

Though there is no data in relation to the provision of loan losses to determine the net loan, the study tried to calculate the ratio by taking the gross loan outstanding for the seven years. The data in Table 2 indicates that the percentage of asset invested in loan portfolio (F1) was 69.3%, 67.7%, 66.7%, 65.7%, 65.9%, 66.9%, and 70.6% in 1999, 2000, 2001, 2002, 2003, 2004, and 2005 respectively which are below the proposed standard except the 2005 which is 70.6% within the range of the standard. The ratio decreased from 1999 to 2002 and increased from 2003 onwards in the study period. Ratio below the proposed standard indicates that:-

(a)Too much fund is tied up in non productive assets (such as cash in current account or checking account, cash on hand, fixed asset, prepaid expenses, etc.)

(b) The cooperative have ineffective programmes to maximize loan disbursement, which is the main source of income. Since the cooperative have idle money generated through saving deposit (F2), this money should be used for loan portfolio, and

(c) Members are save either to earn an interest or to deposit their money from their payroll before they took it to their pocket.

(ii) Saving Deposit / Total Assets (F2)

The ratio of total saving to total asset measures the percentage of total asset financed by members saving deposit. As can be seen from Table 2, the percentage of total assets financed by member savings deposit (Liability of the cooperative) were much higher than the 70-80% target in the study periods. Loan could not disburse to members from the amount of share contribution, rather from members' saving deposit. WACCU expects SACCOs to maintain adequate amount of capital in the form of saving deposits if it wants to satisfy the demand of member borrowers. The percentage of F2 in Table 2 indicates that the cooperative tries to maximize saving deposits from the members. But when we look at the number of employees of the corporation (total population for the cooperative), members of the cooperative are only 56 % and the cooperative has opportunity to increase members in turn increase fund. This can be seen in detail in the growth indicators that the growth in members is less than the standard (S3).

(iii) External Credit / Total assets (F3)

The goal of F3 is to measure the percentage of total assets financed by external borrowing (i.e. debt obligations with other financial institutions outside of the cooperative. For the indicator of external credit to total asset ratio (F3), the proposed standard is less than or equal to 5% and the result on Table 2 shows that EEPCO saving and credit cooperative was much below which is 0% for all the study period. This shows that the cooperative uses no external credit for its financial structure and the cooperative did not depend on external fund, rather it is able to finance its activities from members saving deposit and gains financial independency in all the study periods.

Sambasivam et. al.(2013) found in his study that in Goah saving and credit cooperative in Ethiopia there was 45.52% and 60.05% of external credit in the two study years which was much more than the standard that shows the cooperative was too much reliance on external credit to cover the demand of loan from its members.

(iv) Members Share Capital / Total Asset (F4)

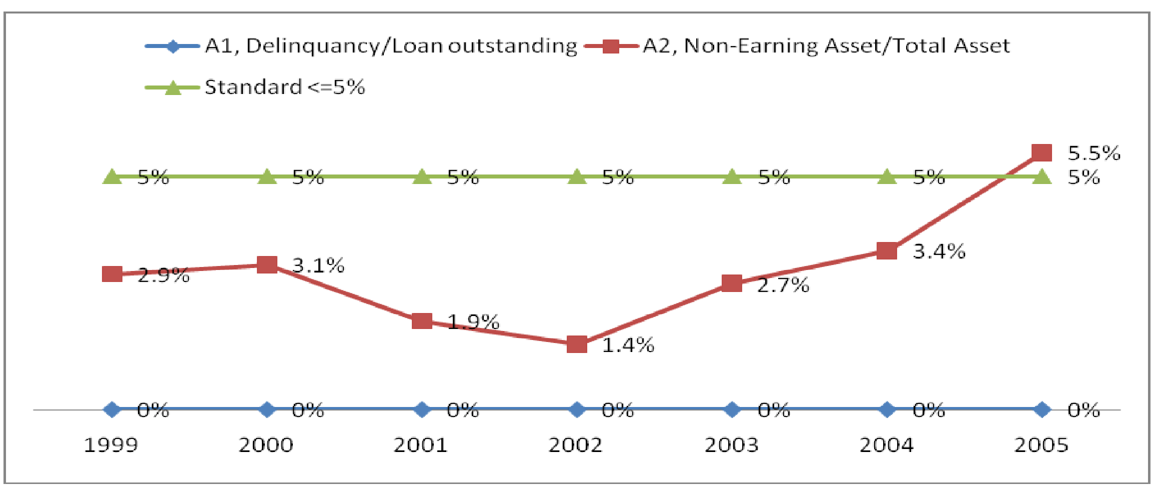
The purpose of this ratio is to measure the percentage of total assets financed by member's capital. WACCU proposed to SACCOs to finance using share capital minimum 10% to maximum 20% of total assets. The ratios for EEPCO saving and credit cooperative indicates 0 % for 1999, 2000, 2001, 2002, 2003, 2004 and 2005 respectively. None of the study years meets the minimum requirement because the cooperative does not have members share till mid of 2006 which is not included in this study because it was under audit process.

4.5. Asset Quality

Asset Quality is the main variable that affects institutional profitability. The indicators in this section measure the percentage of non-earning assets that negatively impact profitability. An excess of defaulted or delayed repayment of loans and high percentage of other non-earning assets have negative effects on credit cooperative earnings because these assets are not earning income.

Figure 5: Asset Quality of EEPCO saving and credit cooperative

(Years in E.C.)



Source: ***Worked out from Audit Report of the cooperative***

(A1) , total delinquency to total outstanding , measures the proportion of delinquent loan in the gross loan portfolio and measures the institutional weakness that if delinquency is high, it usually affects all other area of the cooperative operations and (A1) of EEPCO saving and credit cooperative in all the study period Table 3 shows zero percent. This tells us that the asset quality of the cooperative goes in line with WACCUs standard and the cooperative has efficient credit management to control delinquency. The reason behind this ratio, as stated in protection section, is that there has not been any delinquency reported in the study period.

Similarly, the quality of assets can be measured in terms of the proportion of non-earning assets (A2) such as cash, non-interest earning money checking accounts and fixed assets, to the total asset of the cooperative. As WACCUs standard, such assets should not exceed 5% of its total assets. Even though the ratio looks to increases few studying year as shown in Table 3, Non-earning Assets to Total Assets was 2.9%,3.1%, 1.9%, 1.4%, 2.7%, and 3.4% for 1999, 2000, 2001, 2002, 2003, and 2004 respectively and it was below the proposed standard, but it was 5.5% in 2005 which is greater than the standard because 99% of the non-earning asset was cash at checking account.(Non-earning assets of the cooperative is from property and equipment and cash at checking account). Cash at checking account in all the study period was more than 95%. This indicates that more cash tied up in non-earning asset and large amount of non-earning cash was reported on their balance sheet and it affects the profitability of the cooperative, and this result agrees with F1.

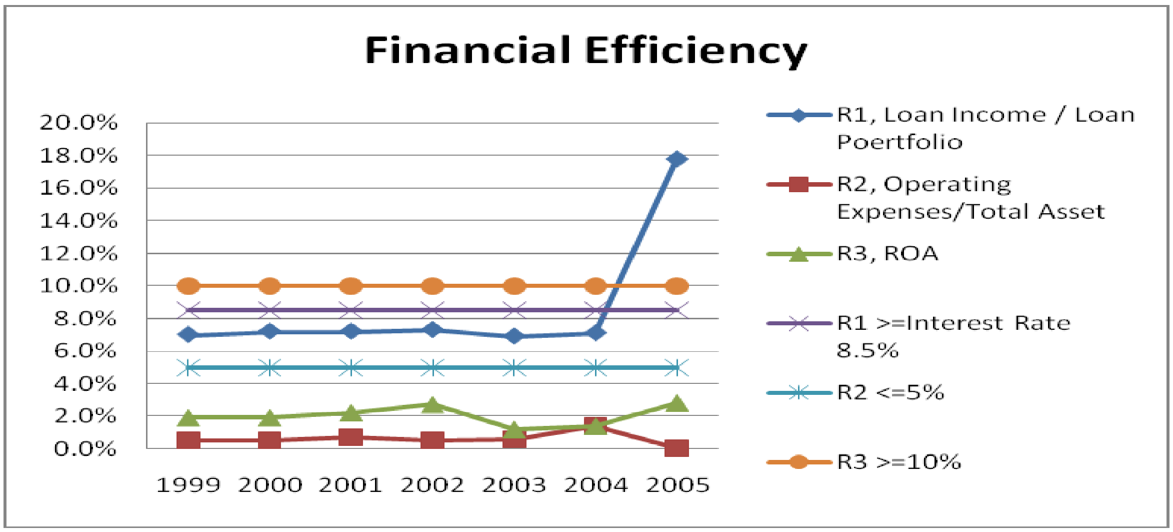
In his study Sambasivam et. al.(2013) shows that Goah RUSCOs Non-earning assets ratio revels minimum 7% to maximum 80% and this was because of very large amount of cash was reported on their balance sheet which is one of the non earning asset that was 78% of total non earning assets. Even though this percentage of non-earning asset (cash) was smaller than that of EEPCOs saving and credit cooperative (95%), the ratio of non-earning asset from total asset of EEPCO is in line with the standard except one study year.

4.6. Rate of Return and Cost

Operational efficiency measures the average income generated for each of the most productive assets of the cooperative. By comparing financial structure with yields, it is possible to determine how effectively the saving and credit cooperative is able to place its productive resource in to investment that produces the highest yield. (WACCU, 2013)

Figure 6: Financial efficiency of EEPCO saving and credit cooperative

(Years in E.C.)



<u>Source:</u> Worked out from Audit Reports of the cooperative

The loan portfolios are the most important and profitable asset of the saving and credit cooperatives. Interest on loans is the major income for the cooperative. Table 2 of (R1) measures the proportion of income generated from loan portfolio. According WACCUs proposed standard, R1 should be greater than interest rate charged on loan. This interest rate charged on loan covers interest expenses, operation and administration coast on financial activities, and it should earn enough to contribute to capital of the cooperatives. R1, the rate of return on loan portfolio, is below the standard set by WACCU in the study period except in 2005 which is much more than the interest rate. This shows that in the first six study periods, the cooperative was not generating enough amount of income to build up its capital and retained earning (reserves or surplus).

Such reserve, which is left after deducting dividend from the net income, can be used as source of funds for absorbing losses from loan delinquency. As the cooperative earning is too low, the sustainability and growth potential become in question and the same result was shown in other studies Aregawi (2014) and Sambasivan (2013). Income generated from loan in the last study year (2005) was 109.4% more than the interest rate and this become encouraging.

(R2), the ratio of operating expenses to total asset, indicates the degree of operational efficiency or inefficiency of the cooperative. Allocation of expenses, the primary ratio determining efficiency (R2), indicates that the cooperative is increasing its efficiency in controlling the operating expenses below the proposed standard for the whole study period. This is favorable ratio which might be cost efficiency of the cooperative or because of no cost incurred for rent of office and power expenses that the organization provide for the cooperative and this substantially reduce the amount of operating expenses.

The purpose of the ratio of Total Income to Total Assets (R3) is to measure the adequacy of earning and also the capacity to build institutional capital. Amount of net income is before dividend. An unadjusted return on assets (ROA) has been found much less than the proposed standard of greater or equal to 10 percent and the cooperative couldn’t generate sufficient profit to maintain strong capital. This reflects the cooperative kept much of its assets in non productive assets and as Sambasivan (2013) stats in his study of Goah saving and credit cooperative the inconsistency in earning and institutional capital building capacity.

4.7. Liquidity

Managing liquidity is an essential component of administering a saving institution. Liquidity serves to maintain short-term investment to respond to member-client withdrawal and disbursement demand. Depositor confidence will be destroyed if a cooperative is not able to serve members withdrawals.

Table 5: Liquidity of EEPCO saving and credit cooperative

(Years in E.C.)

Indicator of Liquidity	Proposed Standard	1999	2000	2001	2002	2003	2004	2005
L 1 : Loan Outstanding / Total Saving	60% -70 %	78.7%	75.3%	73.8%	72.6 %	71.9 %	74 %	78.2 %
L 2: Liquidity Reserve / Total Saving	10%	0 %	0 %	0 %	0 %	0 %	0 %	0 %
L 3: Non-earning Liquid Assets / Total Assets	< 1%	2.8%	3%	1.8%	1.3 %	2.6 %	3.3%	5.4 %

***Source**: Worked out from Audit Report of the cooperative*

The result of loan outstanding to savings (L1) in Table 5 was more than the proposed standard which reflects the cooperative was funding loans to members from members saving deposit. The cooperative have fund only from one source, saving deposits. As the study of Sambasivan (2013) of Goah cooperative in Amahara region shows in the two studied period the cooperative was not able to fund members loan from members savings deposit and was forced for external credit and the cooperative was not in the position to meet the required standard showing lack of sustainable financial services to financial loan from members saving deposit.

The liquidity reserve (L2) was out of the proposed standard. The WOCCU proposes to maintain 10 percent of saving deposit as liquid asset. Even though the cooperative maintain 10percent of reserve, it was kept in block account and the cooperative was not allowed to use it for any purpose, so it was considered as zero liquid reserve. Investment in non-earning liquid assets increases the liquidity position of a cooperative but it does not earn anything. So investment in such asset should be minimal. Similar studies in Tegray region cooperatives and in Goah cooperative in Amhara region Aregawi (2014) and Sambasivan (2013) respectively reveals the same result and the cooperatives couldn’t meet cash needed for withdrawals, but as stated earlier EEPCOs saving and credit cooperative has much unused cash at checking account to meet the needed cash.

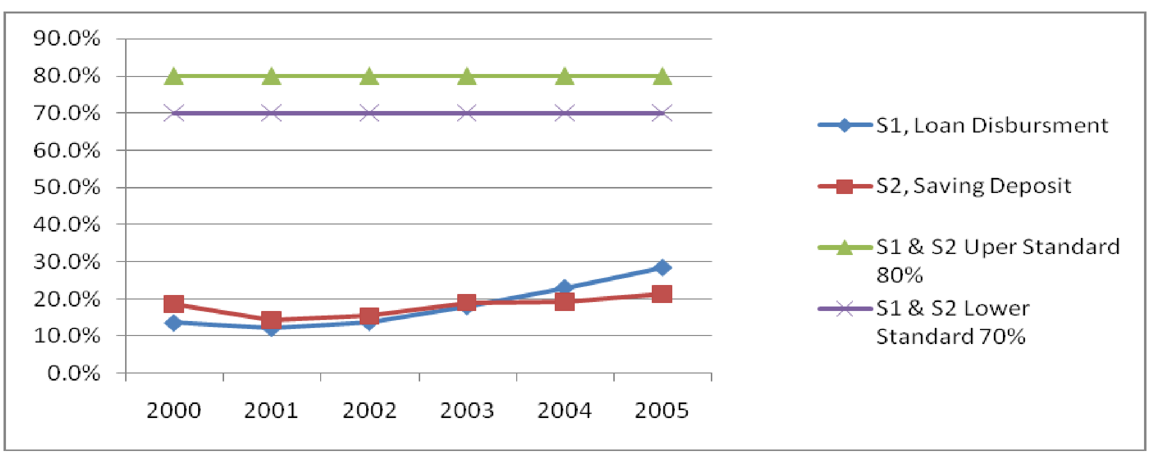
However there is an opportunity cost on idle liquid assets due to the fact that such cash earn negligible return in comparison with the investments.

As we can observe from Table 5, non-earning liquid asset to total asset (L3) indicates the cooperative could not perform the proposed standard and this shows much investment in non-earning assets and unhealthy functioning on earnings in all the study periods. In other wards, this increases the liquidity position of the cooperative because considerable amount of this investment of non-earning assets was checking account (current account). This implies that members were not motivated to take loan, and it has its own negative impact on the cooperatives earning or profitability.

4.8. Sign of Growth

Sign of Growth reflect the financial strength of the cooperative. Growth directly affects an institution's financial structure and requires close monitoring to maintain balance; for example, growth in saving drives growth in total assets, but if loans are not growing as quickly as savings, then the saving and credit cooperatives will have high liquidity and low earning. (WACCU, 2013). The indicator of this section measures the percentage of growth in each of the most important accounts on the financial statements, as well as growth in membership.

Figure 7: Signe of Growth of EEPCO saving and credit cooperative



<u>Source:</u> Worked out from Audit Report of the cooperative

Table 6 : Sign of Growth of EEPCO saving and credit cooperative (Years in E.C.)

Indicator of Sign of Growth	Proposed Standard	1999 (base year)	2000	2001	2002	2003	2004	2005
S3: Membership	>=12%	NA	NA	NA	7156	2.8%	9.8%	9.6%
S4: Growth in total Asset	> inflation	53,117,483	16.3%	13.7%	15.4%	17.5%	21%	21.5%
Inflation (Annualized)			3%	39%	3%	18.1%	34.2%	12.8%

Source: ***Worked out from Audit Report of the cooperative***

Note: ***Source of inflation rate is Central Statistical Agency of Ethiopia, 2014***

The loan portfolio is the most important and profitable assets of saving and credit cooperatives. By taking 2002 as base year, loan disbursement (S1) of 2000, 2001, 2002, 2003,2004, and 2005 has grown by 13.5%, 12.1%, 13.7%, 17.9%, 22.9%, and 28.3% respectively. These growths are much less than the excellence set by WACCU. The ratio (S1) in Table 6 shows that increment in loan disbursement means there was an increase in income/profit and the cooperative was growing in its loan disbursement, but does not meet even the minimum requirement. However, if growth in total loans keeps pace with growth in total asset as mentioned earlier, (it is proportional as seen in Table 6), there is a good likelihood that profitability will be maintained.

Saving deposits (S2) are the cornerstone of growth. The growth of total assets is dependent on the growth of savings. As Sambasivam et. al.,(2013) , the capital needed for development and growth of a cooperative can come from three sources: the members themselves(saving), net surpluses generated by the cooperative, and external finance such as bank loans. The best source of financing for a cooperative is from members. As we can see from Table 6, even though there was increment in saving, it was not because of increasing of number of members but it was because of increment in salary and it was much less than the standard and this affects the amount of fund needed for loan disbursement.

As this can be seen from the table, loans in 2004 and 2005 are growing more than saving and the difference was covered by the previous years saving deposit, and as mentioned earlier, there was idle money tide up in checking account. Growth in saving in Tigray region saving and credit cooperatives as mentioned by Aregawi (2014) was 2884 percent within four studying years and this was because of maintaining aggressive marketing program and EEPCO saving and credit management should work aggressively to market its financial service specially to increase number of members and loan granted .

Growth in members (S3) shown in Table 6 was less than the standard. This shows that the cooperative does not work in increasing members and it affects its growth in saving. As stated above, only 56% of employees of EEPCO are members of the cooperative, so the cooperative is expected to work hard to marketing its financial services.

Growth in total asset is one of the most important indicators. Many of the indicators in the PEARLS ratio include total assets as the key denominator. Consistent growth in total assets improves many of the PEARLS ratios. Growth in total assets (S4) should keep the same pace of the sign of growth in total loan portfolio (S1) and the growth is almost the same and this shows that the investment of fund was in relatively high profitable asset and the cooperative keeping sustainable growth trends in its total assets. As to the real growth of the cooperatives the WACCU model proposed total asset growth must be above the inflation rate and the cooperative does not perform total asset growth in line with the proposed standard except in 2000, 2002, and 2005 which was more than the proposed standard and this tells us the cooperative was not maintaining sustainable real value of the members' assets and does not able to protect from the impact of inflation in the three studying periods.

CHAPTER FIVE
CONCLUSIONS AND RECOMMENDATIONS

The overall objective of this study was to analyze the financial performance of EEPCO saving and credit cooperative using PEARLS model suggested by WACCU. SACCOs in Ethiopia operate within the frame work of the proclamation No. 147/98. Saving and credit cooperatives are user-owned financial intermediaries and providers of financial service. EEPCOs saving and credit cooperative is found in Addis Ababa and covers the whole country EEPCO s workers. Those permanent workers are eligible for membership. There are two types of saving, forced and willing savings. Cooperative lending is restricted to members only. Based on the analysis made on chapter four, the following conclusions are made on each indicator.

5.1. Conclusions

5.1.1. Protection

The first objective of this paper was to evaluate the level of protection or loan provision of EEPCO saving and credit cooperative and the primary goal of evaluating the loan provision indicators is to ensure that the financial institution provides depositors a safe place to save their money. In this category there were two indicators with standards set by WACCU that shows the level of protection of the saving deposit of SACCOs members and proposed 100percent provision for more than 12 months delinquent loan and 35percent of all loans delinquent for 1-12 months. These indicators are depending on Loan Losses Allowances for Delinquent loans. Because EEPCO saving and credit cooperative does not assign loan loses and does not report any allowances and delinquent loan, the ratio of protection become zero and this counted as full protection . The cooperative was relies on members guaranty and repayment of loan is deducted directly from members payroll. This result implies that the assets of the cooperative are not inflated, earnings are not overstated, dividends are not over stated, and members' savings are in a safe condition.

5.1.2. Financial structure

As mentioned in the analysis part of this paper , growth, profitability or earning capacity and efficiency of saving and credit cooperatives is affected by the financial structure of the institution. As WACCU advises, those saving and credit cooperatives who maintain most of their total asset in the loan portfolio have the greatest opportunity to maximize their return. According to WACCU assets of any saving and credit cooperative should consist 95 percent productive assets composed of 70-80percent loans, 70-80 percent members deposit savings, and 10 percent share capital, and the remaining maximum 5percent can be external credit. In general, even though the cooperative does not meet the proposed standard ratio of Net Loan to Total Asset, EEPCOs saving and credit cooperative financial structure shows it is in a good position that avoids external credit and it satisfies its members need for loan from its saving deposit. The ratio of Saving Deposit to Total Asset was more than the proposed standard implies too much fund was tied up in non-earning assets and the cooperative have ineffective program to maximize loan disbursement to its members which in turn it affects its profitability.

5.1.3. Asset Quality

The Asset Quality indicators of this study measure the percentage of non-earning assets that negatively impact profitability of saving and credit cooperatives. Delayed repayment of loans and high percentage of non-earning assets have negative effects on credit cooperative earnings. The quality of the asset of EEPCO saving and credit cooperative was measured with two indicators, Total delinquent to Total loan outstanding, and Non-earning asset to Total asset which should be less than 5percent that was proposed by WACCU. EEPCOs saving and credit cooperative meets the standard except one studying year (2005) that the ratio of non-earning asset was 5.5percent and this implies that large portion of fund was tied up on non-earning asset which is cash at checking account and this was 99 percent of total non- earning assets. This implies the qualities of some assets were very poor and affects the profitability of the cooperative.

5.1.4. Rate of Return and Cost

Income generated from each of the most productive assets of the cooperative shows operational efficiency of the cooperative. The financial structure of the cooperative also can be compared with yield to determine how the cooperative place its asset in effective way. Income from loan portfolio is the most important and profitable asset of the cooperative because the income generated in the form of interest covers operational expenses and contribute for the accumulation of capital in the form of retained earning. The ratio of income from loan to loan portfolio of EEPCO saving and credit cooperative was below the standard (interest rate on loan) set by WACCU except the last study year. This implies that, even though the cooperative was profitable, it does not able to generate enough income to build up its capital. Another ratio contribute for the profitability of the cooperative was operating expenses to total asset and the result was meet the proposed standard, because of the cooperative was controlling its expenses and it dose not record rent expenses which was one of the large cost for the cooperative. In addition to this, the result of ROA that measures the adequacy of earning, shows much less than the standard that does not meet the proposed standard because large portion of total asset, saving fund, was keep in non-earning asset and this affects the profitability and efficiency of the cooperative.

5.1.5. Liquidity

Liquidity serves to respond to member-clients withdrawal and disbursement demand. Depositor put their confidence on the cooperative if a cooperative able to serve members withdrawals and demand for loan. One of the liquidity indicator was how much loan was granted for members from total saving and this ratio of EEPCOs saving and credit cooperative shows more than the standard set by WACCU that implies funding loans to members was only from members saving deposit and the cooperative does not face any liquidity problem and it was sustainable in its financial service. This result and implication was supported by another indicator of, liquidity reserve, that shows zero percent, means the cooperative dose not assign any liquidity reserve. Another indicator of liquidity position of the cooperative was its investment in non-earning liquid asset that shows greater than the proposed standard which implies even though the cooperative tide up too much money in non earning account , it support for its liquidity purpose.

5.1.6. Sign of Growth

Financial strength of the cooperative is reflected by growth in each of the most important accounts on the financial statements such as saving deposits, loan disbursement, growth in total asset, as well as growth in membership. Growth directly affects an institution's financial structure. When we look at to the percentages of the growth rate that shows us how the EEPCOs saving and credit cooperative growth was compared with the standard set by WACCU, it was below the standard except it was above the inflation rate in growth of total asset in 2000, 2002, and 2005. Saving and Loan should grow proportionally to maintain profitability of the cooperative and this was seen in the figure. Even though total asset was not meeting the standard fully, it grew proportionally with loan and the cooperative was able to maintain its profitability because the cooperatives investment was in the most productive asset.

In general, even though there are some issues compared with the WOCCU standard that the cooperative should correct and give due attention for the sake of the financial health and better performance, EEPCo saving and credit cooperative is in a good position of performing its financial activities.

5.2. Recommendations

Based on the findings of this study, the following recommendations are given for further action to be taken by the management of the EEPOs saving and credit cooperative.

1. The cooperative does not assign any loan loss provision. Regardless of the collateral mechanism used, it is true that all loans extended could not be recovered. Therefore, the proper protection of members' saving deposits should be designed and this mechanism can be loan loss provision allowances or insurance for each loan granted. But, if the cooperative believes that because of loan repayment is deducted directly from payroll and loan delinquency will never recorded, it can be continue as it is as long as there is full protection of members saving.

2. Having members share helps the cooperative to be strong in its financial affairs. WOCCU also proposes 10 percent to 20 percent of the cooperative asset should be members share capital. The writer of this study recommends the cooperative to facilitate ways for members to contribute for the capital building in the form of share and invest it in other type of investment than loan and generate additional income for members.

3. According to WACCU standard 70-80 percent asset of a cooperative must be in the form of productive assets, especially in loan portfolio. However, the percentage of loan portfolio of EEPCO saving and credit cooperative was between 65 percent to 70 percent during the study period. This indicates that members of the cooperative had less demand for loan products. Therefore, it is recommended that the cooperative uses their capital productively through extensive marketing and show them the way how to start small business for members partners (wives or husbands or children) by taking loan. If not the management should know that they have to pay interest for saving deposit with out earning any income from it.

4. Many of the result of the analysis shows that more fund was tied up in non-earning or unproductive assets. So the writer recommends that the management try to use the tied-up fund wisely to generate income such as investing in share companies, time deposit which yields more interest than saving interest, and Government treasury bills.

5. The number of membership is too low compared to the total population of EEPCO workers. It is one of the indicators of the growth of the cooperative. It approximately accounts only 56percent of the population. Therefore, the management should make intensive awareness and promotion service in order to increase the number of members through showing the benefit of saving and taking loan to improve there live.

6. Rates of return of EEPCO Saving and Credit Cooperative have been found below the standard ratio set by WOCCU. Therefore the cooperative is not generating enough amount of income necessary for their sustainability and for their building of capital. Thus, the cooperative should make effective marketing activities to extend loan to their members and increasing the interest rate on loans, because the amount of loan is not significant that dose not reflect the burden of interest like other financial institutions.

7. The indicator of non-earning liquid asset level of the cooperative shows very high position, means the cooperative was very liquid because more than 90 percent of the non-earning asset was current account. The writer would like to give advises to the cooperative to control the liquidity position through investing in capital and other investments as in recommendation 4, otherwise it affects the profitability of the cooperative.

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