

# Analysis of Factors Influencing Financial Performance of Savings and Credit Co-operative Societies in Lesotho: Evidence From Maseru District

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## Abstract

SACCOS play a major role of providing financial access to poor people who are excluded from the services of Formal Financial Institutions (FFIs). However, they also face number of challenges which may affect their performance. Most of the previous studies in the area of SACCOS did not concentrate on their performance. The aim of this study therefore was to assess performance of SACCOS in Maseru District, Lesotho. The study adopted a cross-sectional research design where data were collected at one point in time. A sample size of 369 respondents was computed by the use of formula by Yamane (1967). Respondents in the sample were selected by using simple random sampling technique. However, respondents from individual SACCOS were proportional to the total number of members in particular SACCOS. This was done in order to make the sample representative of all SACCOS in the study area. Analyses of data were done by using different techniques which include: mathematical equations (i to vii); different financial ratios; tables; graphs; bar charts and other types of descriptive statistics like mode and percentages. It was found that socio economic characteristics of members were supportive to financial performance of the SACCOS. Furthermore, SACCOS in the study area achieved high performance in terms of ratios of members' capital; loan delinquency; volumes of savings in the SACCOS; and growth of total assets. On the other hand, the SACCOS realised poor financial performance in terms of ratio of fixed assets to total assets; and share capital owned by members.

**Keywords:** SACCOS, financial performance, access to financial services, Maseru district, microfinance institutions

## 1. Introduction

### 1.1 Background Information of the Study

Savings and Credit Co-operative Society (SACCOS) are among the Micro Finance Institutions (MFIs) which are owned and managed by their ownmembers using co-operative principles (Bailey, 2001). They are autonomous association of persons who are united together voluntarily for the purpose of meeting their common economic and social needs through jointly owned and democratic controlled enterprise (Mikwamba, 2004). These economic needs include among others; maximisation of profits, enhancement of financial accessibility, harnessing skills of the members, boosting social capital, enhancing advocacy and bargaining power. Others include promoting investment, providing educational opportunities and contributing to poverty reduction (Tache, 2006; Magill 1994). The main objective of these associations is to promote economic interests and general welfare of their members by providing them with avenues for borrowing for the purpose of enhancing production and welfare (Cheruiyot *et al.*, 2012).

SACCOS and other types of MFIs were established worldwide for the purpose of filling the gap left by Formal Financial Institutions (FFIs) including banks which were not ready to provide financial services to poor people (Zikalala, 2016). These institutions posit that poor people are risk borrowers who do not own collaterals such as houses, land in surveyed areas with title deeds, and other fixed assets (Zikalala, 2016; Kadigi, 2015). SACCOS have made it possible for the poor people to access credit with reasonable rates of interest and conditions that favour themselves. Ahimbisibwe (2007) noted that without SACCOS and other types of MFIs, the poor would permanently remain poor. This fact is also supported by the International Finance Corporation (IFC) which found that about 60% to 69% of the

populations in many African countries had no access to financial services from FFIs (Kariuki and Rai, 2010; Chijoriga and Cassimon, 1999). Access to financial services enables poor people to establish and manage their own small enterprises which create profits, increase working capital, and generate employment opportunities (Chandler, 2009). According to King and Levine (1997) financial development is a good predictor of future growth. Importance of SACCOS over the recent decades have been realised throughout the world. It is estimated that around 760 million people in the world are members of SACCOS which create 100 million jobs (Barrientos, 2008). For example, in the USA alone SACCOS were serving four million people with gross businesses worthy \$93 billion. Credit Mutual in France and Rabobank in the Netherlands are among the leading banks in their countries (Okoye, 2009). In South America for example, SACCOS are well developed in most countries which include Argentina, Brazil, Chile and Uruguay (Ngondi, 2013). In Latin America, there are numerous examples of successful SACCOS, for example in Bolivia poultry production SACCOS produces about 60% of the country's chickens and nearly 30% of fertilizer inputs requirement for the country (Mosley, 2001). In the Kenyan context, SACCOS contribute 45% of the country's GDP and that the sector has effectively managed to mobilise Ksh 200 billion deposits and assets worthy Ksh 210 billion (Hezron and Muturi, 2015). In Tanzania, contribution of SACCOS in the economy of poor people and the country as a whole cannot be over emphasised. For example, by December, 2006 there were over 3,500 registered SACCOS in the country with approximately 420,000 members (Duursma, 2007). SACCOS have increased incomes, assets, food consumption, education expenditure, improved housing and decline expenditures in health to its members compared with non-members (Sharma *et al.*, 2005).

Despite the importance and contribution of SACCOS in rendering good services of providing access to financial services among the poor people, they are encountered by a myriad of challenges that are likely to affect their performances. In India for example, SACCOS are faced with problems which include inadequate capital, poor member participation, inadequate managerial skills, corruption, frauds and absence of common brands. These challenges have created inefficiency and lack of competitiveness in the institutions which is likely to impair their performance (Siddaraju, 2012). In Malaysia, co-operatives including SACCOS are facing many obstacles which include among others; improper governance, poor financial performance, managerial inadequacies and lack of capital (Tehrani *et al.*, 2014). In the case of Uganda, most SACCOS face a number of challenges which in turn are handicapping their performance (Kakungulu *et al.*, 2010). Ondieki *et al.* (2011) reported that SACCOS in Kenya were confronted by myriads challenges such as poor record keeping, high illiteracy level among their members, loan backlogs, inadequate capital, managerial deficiencies and audit arrears. Tanzania is not an exception as SACCOS have been encountering problems of poor management, lack of working capital, embezzlement, high loan delinquency rates and poor business practice (Mwakajumulo, 2011; Maghimbi, 2010).

A study by WOCCU (2008) revealed that SACCOS were facing severe liquidity problems and majority of them were unable to meet demands of their clients for loans and withdrawal of savings. According to Mvula (2013), common issues that were affecting performance of SACCOS in Malawi were inadequate capital, poor asset quality, poor governance, poor profitability, poor liquidity and noncompliance. On the other hand, Mudibo (2005) noted that some of the factors that were affecting performance of SACCOS in Malawi include among others; weak regulation, limited product and services, low marketing and poor image. A number of previous other studies (Zikalala, 2016; Mang'ana *et al.*, 2015; Nkuru, 2015; Maingi, 2014; Gweyi, 2014; Odieki *et al.*, 2011) were conducted on the area of dynamics of SACCOS in the light of investment in information technology, resource mobilisation, growth sustainability, social economic, growth of income and performance.

Zikalala (2016) for example studied the role of SACCOS in promoting access to credit in Swaziland; Mang'ana *et al.* (2015) studied the extent to which SACCOS had invested in Information Technology; Maingi (2014) evaluated factors that were affecting financial performance of SACCOS in the Kenyan context. Others include Odieki *et al.* (2011) who studied financial performance of SACCOS in Kisii central while Nkuru (2015) dealt with factors that were affecting growth of SACCOS within the agricultural sector in Kenya. As one can observe, each of the above mentioned previous authors studied some aspects of SACCOS within certain specific areas. However, no previous authors analysed factors influencing financial performance of SACCOS in Lesotho. The aim of this study therefore was to fill this knowledge gap by analysing factors which influence financial performance of SACCOS with special emphasis to Maseru District in Lesotho.

## 2. Theoretical Framework: Stakeholders Theory

This study was hinged on the Stakeholders Theory which advocates for treatment of all stakeholders with fairness, honesty, and even generosity (Harrison *et al.*, 2015). According to Harrison *et al.* (2010), a firm which advocates for

its stakeholders, allocates more resources for the purpose of satisfying the needs and demands of its legitimate stakeholders than what is necessary in order to retain their wilful participation in the productive process of the firm.

The theory promotes a practical, efficiency, effectiveness, and ethical way of managing organisations in a highly complex environment (Freeman *et al.*, 2007). According to the theory, all management decisions contain an ethical component, and the ethical arguments in defence of managing for stakeholders are as important to the theory as are practical considerations. The theory has an advantage over many other theories which deals with organisation as it comply with many other theoretical perspectives such as integrated social contracts theory (Donaldson and Dunfee, 1999), the doctrine of fair contracts (Freeman, 1994), the principle of fairness (Phillips, 2003) and the principle of common good (Argandoña, 1998). It further provides a mechanism for connecting ethics and strategies and holds that firms which diligently seek to serve interests of all groups of stakeholders stands a better chance of creating more value over time (Harrison *et al.*, 2015; Freeman *et al.*, 2009; Phillips, 2003; Campbell, 1997). In addition to the above idea of managing resources for the mutual benefits of all stakeholders, firm's performance is considered as the total value created by the firm through its activities, which is the sum of the utility created for each of the firm's legitimate stakeholders.

According to Phillips (2003), legitimate or normative stakeholders are those who constitute the organisation and make it a going concern. They include among others; customers, communities in which the firm operates, suppliers of materials, capital, labour and equipment. Firms that tend to make their stakeholders better off are likely to retain their support, participation and consequently thrive over time. Stakeholders themselves determine their own utility functions based on individual preferences. These preferences come from perception regarding how transactions, relationships and interactions with the firm influence utility which they receive. SACCOS assume obligations with multiple stakeholders whose demands may not be met in entirety (Hezron and Muturi, 2015). Some of the previous studies (Harrison *et al.*, 2015; Freeman *et al.*, 2009) in similar area found that firms which build better relationships with their primary stakeholders were likely to obtain greater returns. For example, SACCOS which are socially responsible have greater ability of recruiting qualified employees and also build moral capital among their stakeholders. This in turn, promotes a certain type of safety against a loss of institution's reputation during difficult times (Turban, 2001; Godfrey, 2000).

## 2.1 Empirical Literature Review

### 2.1.1 Factors Influencing Performance of SACCOS

MFI's are very important organisations in providing access to financial services especially in poor developing countries where majority of their people cannot access the services of FFIs because they view them as risky borrowers who do not own collaterals. SACCOS are among the MFI's which play important role of mobilising savings from their members and thereafter issue them to other members who need loans (Miriti, 2014). SACCOS are expected to render better services to their members at relatively lower costs compared to FFIs. In assessing ability of SACCOS in rendering services to their members there are different tools and indicators that are used. Performance is one among the major indicators which are used to measure the extent to which SACCOS are able to render services to their members. Performance of SACCOS depends on their operational efficiency (Nyanjwa, 2008). Other indicators which are used to measure performance of SACCOS include: profitability, asset quality, growth, return on assets, return on investment, rate of cost to revenue and many others.

Following are some of the most important factors which influence performance of SACCOS: duration or time taken to process loans; amount of defaulters; size of membership; capital adequacy; credit evaluating criteria; and financial liquidity. Time spent in processing loans for members is one of the most important factors which determine performance of SACCOS. If a SACCOS is able to process loans for its members timely and at appropriate rates, then it is considered to be performing well (Microfinance House, 2006). Otherwise, if duration for processing loans is too long, members will be dissatisfied and sometimes withdraw their membership and consequently the SACCOS will underperform and collapse. Rate of loan default is another factor which has direct influence on performance of SACCOS. It affects performance of SACCOS negatively because money which might have been planned to be invested in certain projects in order to generate profits disappears and consequently no interest is obtained. The higher the rate of loan repayment in SACCOS, the higher the chance of collecting revenue in the form of interest and the lower the rate of loan losses in any lending institution (Alfred, 2011). On the other hand, poor loan repayments have a harmful negative impact on SACCOS, earnings, as well as in fulfilling its objectives and can cause the institution to collapse. Huseyin (2011) noted that failure to manage loan repayment results in losses and high delinquency management costs. The higher the expenses of monitoring loan portfolios and costs of handling legal

issues associated with serious loans delinquent, the less the rate of performance which will be achieved by the SACCOS. Such costs adversely affect income generated by the lending institutions.

Size of membership in SACCOS is another factor that has an influence on financial performance of SACCOS. This implies that SACCOS with large number of members has more chances of accumulating large amount of capital and consequently issue more loans compared with the one with small number of members. In addition, large number of membership in SACCOS guarantees flow of revenue and consequently enhances its financial performance. In a similar study, Makena (2014) found that branding had positive influence on membership of SACCOS through enhanced membership retention, increased in membership and hence shareholders. Capital is another factor which has a direct influence on performance of SACCOS. Capital adequacy is a statutory minimum reserve for capital which a financial institution including SACCOS must maintain and it has a direct influence on performance of the institution. Previous other studies (Kioko, 2016; Mutrungi, 2014; Johnson and Schools, 2007) found that capital adequacy had a significant influence on performance of SACCOS. Murungi (2014) in his study found that credit had a significant positive influence on performance of SACCOS.

Loan evaluation criteria have a direct influence on performance of SACCOS (Collins and Wanjan, 2011). Issuing loans to borrowers who are already overloaded with debts or possess unfavourable loan history can expose SACCOS to unnecessary default and loan risk. In order to decrease these risks, SACCOS and other lending institutions need to take into consideration several common applicants' particulars such as debt to income ratios business and loan history and performance record and for individual loans applicants their time on the job or length of working in their organisations (Mullei, 2013).

Liquidity in SACCOS is used to measure the extent to which the organisation has cash to meet immediate and short term obligations. Liquidity enables an organisation including SACCOS to ensure that it has a reliable supply of cash at hand but also to determine financial health of future investments (Muheebwa, 2018; Clementi, 2001). According to Majid (2003), liquidity is an essential component of the overall risk management framework. He further posits that organisations which have more liquid assets have more chances of performing better as they are able to realise cash at any point in time and meet their obligations and are also less exposed to liquidity risks.

## 2.2 Knowledge Gap

There is large volume of literature in the area of dynamics of SACCOS in the light of information technology, resource mobilisation, growth sustainability, social economic and many others. Some of the other previous studies (Muheebwa, 2018; Zikalala, 2016; Mang'ana *et al.*, 2015; Nkuru, 2015; Maingi, 2014; Gwenyi, 2014; and Odieki *et al.*, 2011) addressed different dynamics of SACCOS. However, very few studies (Miriti, 2014; Maigi, 2014; Joseph, 2014; Mvula, 2013; Alfred, 2011) assessed the influence of different factors on performance of SACCOS. All of those who studied performance of SACCOS with the exception of Alfred, (2011), Mvula, (2013) and Muheebwa, (2018) confined their studies to different geographical areas of Kenya where environment and level of co-operative development may not be similar to that of Malawi. Out of the three authors who did conduct their studies outside Kenya, only Mvula, (2013) did conduct his study in Malawi on common issues affecting performance of SACCOS in the country but his study did not put much effort on financial performance of the SACCOS. Furthermore, his study was about general performance in the whole country while this one concentrated in Maseru District where there is larger number of SACCOS than in any other place in the country. The aim of this study therefore was to fill this knowledge gap.

## 3. Methodology of the Study

Cross sectional research design was applied in conducting the study where data were collected at one point in time because information that were being collected were not expected to change within a short period of time. The study was conducted in Maseru District in Lesotho because it is the place where SACCOS were started for the first time in the country. In addition, it had the largest number of SACCOS in the country compared with other districts. Furthermore, it is the major business area in the country and hence there was high possibility of having SACCOS which were performing well financially. The district as explained above was selected purposely because of its long history in management of SACCOS. Census sampling technique was used to pick all 23 SACCOS which were available in the district as it was a small population in order to reduce sampling error and at the same time increase reliability of the results. Respondents were selected from their respective SACCOS using simple random sampling technique in order to give each member an equal chance of being selected as they were expected to have the same type of information. However, the total numbers of respondents from respective SACCOS were drawn proportionally to the total number of members in the concerned SACCOS. That is, ratio of members in each SACCOS to the total number of members in all 23 SACCOS were taken. Thereafter, proportions of members of

individual SACCOS to the sample size were computed. This was done in order to make sure that the sample size was representative of all individual SACCOS.

Sample size of the study consisted of 369 main respondents who were picked using simple random sampling technique. Furthermore, 10 key informants' were also selected by using snow ball sampling technique. The sample size was computed by using experience from Yamane (1967) who provided a simplified formula for calculating sample size from large populations. The formula is as follows:

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

Where n = the sample size

N = the population which was 4,800 members

e = the level of precision which is 0.05

Both primary and secondary data were used for the study as they were found to complement each other. In analysing data, various methods were used which include equations (i) to (vii), financial ratios, tables, graphs and bar charts. Performances of SACCOS in the study area were measured using equations, financial ratios and descriptive statistics.

#### 4. Results and Discussion

##### 4.1 Socio Economic Characteristics of Respondents

The study assessed socio economic characteristics of respondents in order to assess their influence on performance of the SACCOS in the study area. Six most important socio economic characteristics were selected and tested and the results are as shown in Table 1.

Table 1. Respondents (n = 369) according to their socio economic characteristics

Issues	Percentage (%)
<b>Respondents by gender</b>	
Male	39
Female	61
<b>Respondents by age (years)</b>	
Less than 20	10
30-39	41
40-49	30
50-59	14
60 and above	5
<b>Respondents by marital status</b>	
married	72
Single	8
Widow	20
<b>Respondents by employment status</b>	
Employed	88
Own employment	12
<b>Delinquency level</b>	
Low	80
Moderate	15
High	5
<b>Level of interest charged</b>	
Low	78
Moderate	14
High	8

## 4.2 Socio-Economic Characteristics of Respondents

### 4.2.1 Respondents According to Their Gender

In order to assess socio economic characteristics of members of the SACCOS which influenced performance of their institution all respondents were divided in terms of their sex. The result shows that there were 60% female and 30% male. This shows that women were more attracted to join SACCOS compared to male. This is likely to be the case because women in many African societies are the ones who take care of families particularly the old and youth. This family responsibility forces them to join SACCOS in order to get credit which can be used to invest in small businesses which in turn enables them to generate incomes for taking care of their families. Furthermore, men look for employment outside their families where they can earn more money. This result is consistent with previous study by Chirwa (2004) who found that recently there has been an increase of small businesses owned by women and that they were growing more rapidly compared to male owned businesses. This result is likely to influence financial performance of the SACCOS because studies (Kotur and Anbazhagan, 2014) found that women are more productive than men.

### 4.2.2 Respondents According to Their Ages

All respondents were asked to indicate their ages and the following were the results: 10% of the respondents were in the age category of less than 30 years; 41% were in the age category of 30 to 39 years; 30% were in the age category of 40 to 49 years; 14% were in the age category of 50 to 59 while only 5% were in the age of 60 years and above. The modal age group according to Table 1 was between 30 and 39. Majority of respondents (71%) were in the age between 30 and 49 years. At these age groups they may be looking for money for basic family activities like constructing family houses, health services, food and clothes for their families and school fees for their children. Most members of the SACCOS who were in these ages groups were likely to be strong and energetic and eager to work hard in order to fulfil their psychological demands. This in turn can enable the SACCOS to achieve high performance. On the other hand, majority of those who were under the age of 30 years might have just completed tertiary education and hence they may be looking for employment opportunities and hence membership in SACCOS may not be their priorities. In addition, those who were above the age of 60 years might have retired from active services and consequently they may not be interested in joining SACCOS.

### 4.2.3 Respondents According to Marital Status

Respondents were also asked to indicate their marital status because this factor may have influence on performance of the SACCOS. Results of the question show that 72% of the respondents were married couples; 20% were widows while 8% were single. From this result (Table 1) it shows that majority of the respondents (72%) were married couples with family responsibilities and this might be one of the reasons which prompted them to join the SACCOS in order to access credit which can be invested in projects for the purpose of generating incomes for their families. This is likely to motivate them to participate actively in the affairs of the SACCOS in order to get income and good services. This if happens, is likely to increase performance of the SACCOS. On the other hand, those who were widow were also likely to work hard in order to get money for their families knowing that they were single parents. These gender characteristics were likely to influence performance of the SACCOS in the study area positively.

### 4.2.4 Respondents According to Sources of Their Employment

Another socio economic characteristic of members of the SACCOS which was assessed is source of their employment. This is because capital bases of SACCOS depend on financial capability of their members which in turn depends on sources of their employment. Respondents were therefore asked to indicate sources of their employment as it was considered to have an influence on performance of the SACCOS. Result of this question show that those who were formally employed and were having monthly salaries accounted for 88% while those who employed themselves e.g. in their farms, industries and other businesses accounted for only 12%. The fact that majority (88%) of the respondents were formally employed and that they were being paid monthly salaries had positive influence on performance of the SACCOS because they were able to repay their loans promptly and consequently reduce loan delinquency ratios. As it will be seen later in this section, loan delinquency was not a major problem in these SACCOS because majority of their members were able to repay their loans promptly.

### 4.2.5 Opinions of Respondents on Loan Delinquency Ratio

Respondents were asked to give their opinions on loan delinquency ratios for their SACCOS. This is because if rate of loan delinquency is high performance of the SACCOS will decrease because money intended for investment will be in the hands of individual members and consequently it cannot be used to generate profits. On the other hand, if loan delinquency rate is low, it means the SACCOS will be more liquid and hence be able to invest in profitable

projects. Results of this question show that 80% of the respondents felt that rate of loan delinquency ratios in the SACCOS were low; 15% of felt that it was moderate and that only 5% felt that ratios of loan delinquency were high. Majority of the respondent (88%) felt that the ratios of delinquency in the SACCOS were low.

4.2.6 Opinion of Respondents on Rates of Interests Charged by Their SACCOS

Respondents were asked to give their opinion concerning level of interests which were being charged by the SACCOS in the study area. This is because rates of interests charged by any financial institution have a direct influence on performance of the institution. When rate of interest being charged is high, most depositors are likely to withdraw from the institution but when rate of interest being charged is low more depositors will be attracted to join the institution. Result of this question show that 78% of the respondents were of the opinion that rates of interest which were being charged by the SACCOS in the study area were low; 14% felt that they were moderate while only 8% of the respondents felt that they were high. From these results it show that majority of the respondents felt that rates of interest which were being charged by the SACCOS in the study area were low. This result shows that the SACCOS in the study area were achieving high performance. Further investigation from the key informants revealed that this was the best period in the history for SACCOS in the country because interest rates were the lowest. They further said that most of the SACCOS in the study area were charging one digit of interest rates which imply that interest rates were less than 10% in most of the SACCOS.

4.3 Analysis of Performance of SACCOS in Terms of Different Indicators

In this section, performances of SACCOS in the study area were also assessed in terms of financial performance indicators. Seven performance indicators were carefully selected and assessed according to different criteria in order to establish whether they influenced performance of SACCOS or not. These indicators were: members’ share capital; loan delinquency ratio in the SACCOS; ratio of fixed assets to total assets; growth of loans in the SACCOS; growth in savings volume for the SACCOS; growth of share capital owned by members; and growth of SACCOS in terms of total assets. Each of these indicators is briefly assessed in the following section.

4.3.1 Performance of SACCOS in Terms of Members’ Share of Capital

The study assessed performance of SACCOS in the study area in terms of shares owned by members. This is because shares are long term sources of finance and represent unit of ownership in SACCOS. Ratios of shares were computed using equation (i) and results presented in terms of simple bar charts (Figure 1).

$$\text{Ratio of members' share} = \frac{\text{Total shares of members}}{\text{Total Assets}} \times 100 \tag{i}$$

Results of members’ shares indicate that the SACCOS in the study area managed to maintain capital ratios which were within the level recommended by WOCCU.

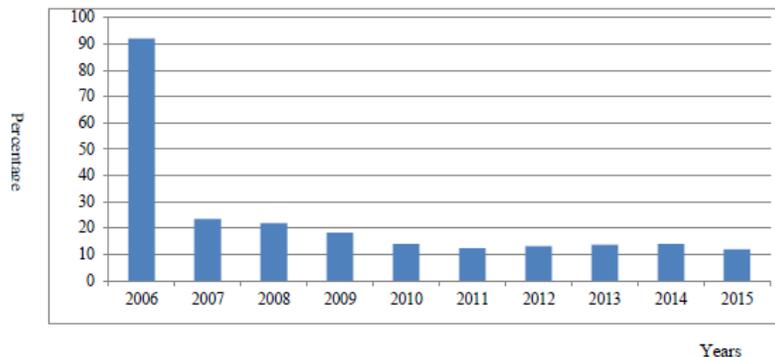


Figure 1. Ratio of members’ shares

SACCOS in the study area had an optimum working capital that enabled them to operate smoothly and successfully which was an indication of good financial performance. In a similar study, Joseph (2014) noted that if an enterprise has an adequate working capital, it will be able to carry on its affairs without any financial stringency. It will also be

able to cover losses and unforeseen emergencies without creating any disaster. The finding of this study was in line with Lesotho Financial Co-operative Policy of 2011 which states that SACCOS should retain adequate capital in order to ensure that they maintain a level of capital which is adequate for protection or cushion of members' deposits and creditors against losses resulting from business risks that they face. These risks include among others: credit, investment, legislative, liquidity, interest rate and competitive risks. Thus, as a measure of a financial institution's safety and soundness, adequate capital promotes public confidence in the SACCOS.

#### 4.3.2 Delinquency Ratio

Another indicator that was used to assess financial performance of the SACCOS in the study area is loan delinquency. This is a measure that is used to establish and monitor the extent of non-payment or defaults happening in a loan portfolio. If the ratio is high, it usually affects all other key areas of the SACCOS and hence the reasons for being assessed. Loan delinquency in this study area was computed using equation (ii) and the results presented in Table 1.

$$\text{Delinquency Ratio} = \frac{\text{Total Loan delinquency}}{\text{Total Loan Portfolio}} \times 100 \quad (\text{ii})$$

According to WOCCU, in order to have health situation in loan portfolio for SACCOS, delinquency ratio should not exceed 5%. Table 2 shows that SACCOS in the study area managed to control loan delinquency to less than 0.55% with the exception of the year 2008 when it was 1.0% which was also within the required level.

Table 2. Performance of SACCOS in terms of loan delinquency

Year	Loan delinquency	Total loans	LD/TL (%)
2015	30 000.00	12 049 167.00	0.25
2014	39 000.00	11 900 560.00	0.33
2013	13 000.00	11 600 000.00	0.11
2012	0.00	11 500 400.00	0.00
2011	0.00	11 200 000.00	0.00
2010	21 000.00	10 600 000.00	0.20
2009	43 000.00	7 900 000.00	0.54
2008	59 000.00	6 000 567.00	1.00
2007	10 300.00	4 900 000.00	0.21
2006	24 980.00	300 567.70	0.31

Source: Extracted from financial position of SACCOS in Maseru District (2006-2015)

Note: LD = Loan Delinquency; TL = Total Loans

Further investigation by the authors from key informants concerning factors behind this achievement revealed that most of the members who formed the SACCOS in the study area were formally employed as teachers, nurses, police officers, doctors, and in some other areas something which assured them reliable monthly salaries and hence reduced the chances of defaulting and delinquencies. Results of this analysis show that SACCOS in the study area were experiencing good performance in terms of loan delinquency.

#### 4.3.3 Ratio of Fixed Assets to Total Assets

In assessing performance of the SACCOS in the study area, ratio of fixed assets to total assets was also analysed (see equation iii). This is because the ratio is important in determining proportion of fixed assets that are likely to be required as other asset level change. Ratios of fixed assets to the total assets were computed using equation (iii).

$$\text{Ratio of fixed assets} = \frac{\text{Total Fixed Assets}}{\text{Total Assets}} \times 100 \quad (\text{iii})$$

The ratio of fixed assets to total assets which is recommended by WOCCU (2009) is equal or less than 5% (that is  $x \leq 5\%$ ). In other words, it should not exceed 5% of the total assets of the SACCOS. WOCCU (2009) discourages large investment in fixed assets because once purchased, they are normally difficult to liquidate. Results of ratio of fixed assets to total assets is summarised in Figure 2.

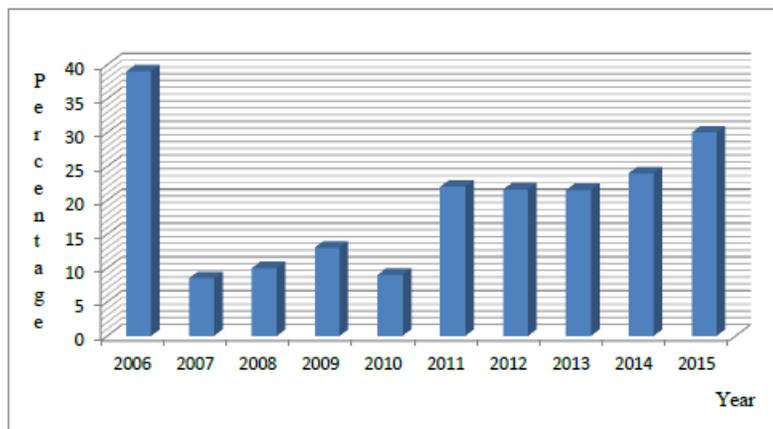


Figure 2. Performance of SACCOS in terms of ratios of fixed assets

Figure 2 shows that in the year 2007, the ratio of fixed assets to total assets was 8% which was very close to 5% that is recommended by WOCCU. Generally, from the year 2007 the ratio continued to increase slowly until it reached 29% in 2015. The highest ratio of fixed assets to total assets was 38% which was realised in the year 2006. In short, the ratio of fixed assets to total assets remained above the level recommended by WOCCU throughout the period under investigation which implies that the SACCOS in the study area were investing more in unproductive fixed assets than it was necessary. Further investigation from the key informants revealed that some of the SACCOS in the study area had invested in land while others had invested in supermarkets in order to generate more money.

This situation may force SACCOS to charge higher rates of interest on some of their products for the purpose of compensating money spent in fixed assets. Consequently, members may be affected negatively due to investment in fixed assets which means redirecting the funds from liquid investments to illiquid assets. When members do not get loans or deposits withdrawals, liquidity problems may become an obstacle to performance of the SACCOS. The idea of making investment is prudent but if not well planned it can have negative effect on liquidity of the SACCOS. The only effective way of maintaining the ideal balance between productive and unproductive assets is by increasing the volume of productive assets which include among others securities and government bonds. Results from Figure 2 shows that performance of the SACCOS in terms of ratio of fixed assets to total assets was not good as it exceeded the recommended level of 5% for the entire research period.

#### 4.3.4 Growth of Loans in the SACCOS

Performance of SACCOS in the study area was also measured in terms of growth of loans as summarised in Figure 3. This is because loan is the major productive asset for SACCOS. Results from Figure 3 shows that loan portfolio for the SACCOS in the study area increased in two distinct phases as follows; between 2008 and 2010 it increased from 23% to 34% while between 2013 and 2014 it increased from 1% to 3%. Furthermore, the figure shows that there were two distinct periods of decrease as follows: from 2010 to 2013 where it decreased from 34% to 1% and from 2014 to 2015 when it decreased from 3% to 2%. Taking into consideration that loan was the major productive asset of the SACCOS, and that the rate of inflation in the area at the time was 4.4%, then it can be said that this rate of growth was not enough. To make the matter worse, most of the times, rates of growth for the loans were less than the inflation rate which was 4.4% during the same period.

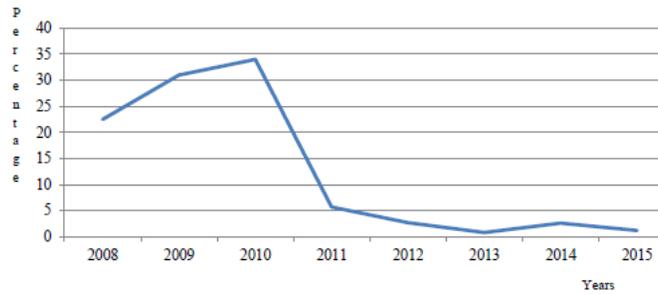


Figure 3. Growth of loans for SACCOS in the study area

This suggests that the SACCOS in the study area need to improve their loan portfolio if they were to realise significant growth. According to WOCCU (2009), if growth in total loans keep pace with growth in total assets, it is likely that profitability will be maintained. Conversely, if loans growth rates drop, it suggests that other less profitable areas are growing more quickly which was the case with SACCOS in the study area where the ratios of fixed assets to total assets were far above the required standard of 5%. An implication of this small rate of growth is illiquidity of the SACCOS in the future days especially if they will continue with the slow pace. Growth of loans was computed using equation (iv) and expressed in Figure 3.

$$\text{Growth in Loans} = \frac{(\text{TLCY} - \text{TLPY})}{\text{TLPY}} \times 100 \tag{iv}$$

Where:

TLCY = Total Loans Portfolio of Current Year

TLPY = Total Loans Portfolio of the Previous Year

In short, performance of SACCOS in the study area in terms of growth of loans was not good.

#### 4.3.5 Growth in Savings Volume for the SACCOS

Performance of SACCOS in the study area was also measured using ratio of volume of savings. Growth of volume of savings for SACCOS is very important because that is the basket where they can draw funds for the purpose of providing loans to their members. Results from Figure 4 shows that rate of growth of savings for the SACCOS in the study area decreased in three different phases during the period of 10 years as follows: it decreased from 30% in 2008 to 8% in 2010

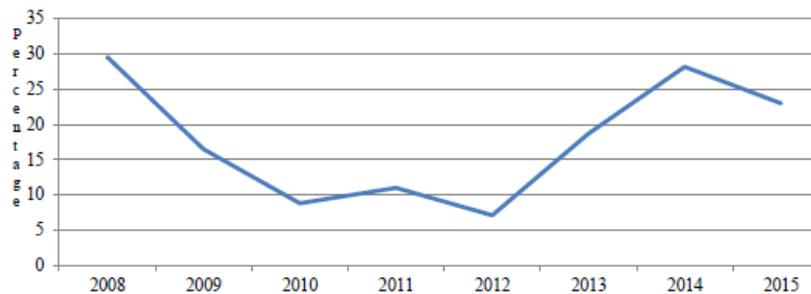


Figure 4. Growth of volume of savings for the SACCOS

In 2011 it decreased again from 12% to 7% in 2012 and finally, it decreased from 28% in the year 2014 to 23% in the year 2015. On the other hand, growth in volume of savings for the SACCOS in the study area increased from 8% in 2010 to 12% in 2011 and from 7% in 2012 to 28% in 2014. Generally, according to Figure 4 the rate of growth of savings for the SACCOS in the study area experienced fluctuation trends for the entire period under study. Despite these fluctuation trends, the rate of savings growth was above the inflation rate which was 4.4% at the time of study

but generally performance of the SACCOS in the study area in terms of growth of savings was not promising. Therefore, performance of SACCOS in the study area in terms of the rate of growth was fair but not promising as it kept on fluctuating. Growth of volumes of savings in the study area was computed using equation (v) and expressed in Figure 4.

$$\text{Growth in Savings} = \frac{\text{TSVCY} - \text{TSVPY}}{\text{TSVPY}} \times 100 \tag{v}$$

Whereby:

TSVCY = Total Savings Volume for the Current Year

TSVPY = Total Savings Volume for Previous Year

#### 4.3.6 Growth of Share Capital Owned by Members

The study assessed growth of members’ share capital in order to establish whether the SACCOS in the study area were improving or maintaining their shares for the purpose of meeting government requirement. According to the Lesotho Financial Co-operative Policy of 2011, SACCOS are given a grace period of four years after which they must maintain adequate share capital (which is between 10%-20%) of the total assets. The result shows that SACCOS in the study area managed to have members’ share capitals which were above 10% up to the year 2011 when it started to decrease continuously until 2015 when it reached of 2.4 (Figure 5). The fact that members’ share capital ratio was in the required level for a very short period of time (between 2006 and 2008 and between 2011 and 2012) implies that growth of the members’ share capital was not acceptable for most of the periods. In addition, this growth rates were less than the inflation rate which was 4.4% for the last two years of study i.e. between 2014 and 2015. Members’ share capital for the year 2015 is shown as an example (see equation vi).

$$\text{Growth in Members Shares} = \frac{(\text{TSCY} - \text{TSPY})}{\text{TSPY}} \times 100 \tag{vi}$$

$$\text{Growth in Members Shares} = \frac{M(2173000 - 2123000)}{M2123000} \times 100 = 2.4\%$$

Where:

TSCY = Total Savings for the Current Year

TSPY = Total Savings for Previous Year

These results (Figure 5) show that from the year 2008 to 2011 members’ share capital increased at a decreasing rate while from the year 2011 to 2012 it decreased at a decreasing rate and that between the years 2012 and 2015 it decreased at a low rate. The implication depicted by the trend in Figure 5 is that SACCOS in the study area were not receiving large number of new members between 2011 and 2015. Generally, the continuous decreasing rate means that number of members who were withdrawing from the SACCOS were more than the number those who were joining the SACCOS. The continuous decreasing rate between 2013 and 2015 on the other hand would lead SACCOS to the point where they will have inadequate capital which may have negative effect on effectiveness of the SACCOS.

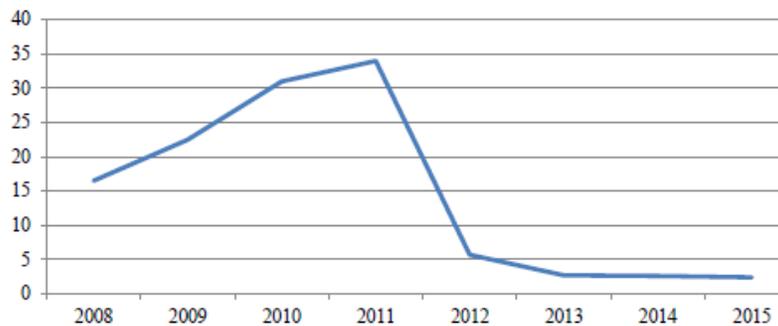


Figure 5. Growth of members’ shares in Maseru District SACCOS

#### 4.3.7 Growth of SACCOS in Terms of Total Assets

Growth in total assets is one of the most important indicators for measuring performance of any business organisation and that is the reason which prompted the authors to apply it in assessing performance of the SACCOS in the study area. According to Mpiira *et al.* (2013), when comparing growth in total assets to other key areas, it is possible to detect changes in the balance sheet structure that could have a positive or negative impact on earnings.

Findings of the study revealed that SACCOS in the study area were showing a general declining trend of rate of growth despite the fact that it fluctuates. For example, in the year 2007 there was growth of asset of 652.9% from the previous year while in 2008 the rate of growth decreased to 25.8% but in the year 2009 it improved slightly to 30.4%. In the last year of study asset growth was 9.9% which shows that there was a general decline in the rate of growth for assets of the SACCOS in the study area. However, most of the years with the exception of 2012 and 2013 it were above the inflation rate of 4.4% which existed in Lesotho during the study period. Information showing rates of growth for SACCOS in the study area was computed using equation (vii) and summarised in Table 3.

$$\text{Growth in Total Assets} = \frac{(\text{TACY} - \text{TAPY})}{\text{TAPY}} \times 100 \quad (\text{vii})$$

$$\text{Growth in Total Assets} = \frac{\text{M } (18165956 - 16527427)}{\text{M } 16\ 527\ 427} \times 100 = 9.9\%$$

Table 3. Growth of SACCOS in terms of assets

Years	Total assets (M)	Rate of asset growth (%)
2006	716 426.70	
2007	5 394 197.00	652.9
2008	6 787 892.00	25.8
2009	8 853 765.00	30.4
2010	12 124 034.00	36.9
2011	14 980 234.00	23.6
2012	15 155 078.00	1.2
2013	15 458 223.00	2.0
2014	16 527 427.00	6.9
2015	18 165 956.00	9.9

Source: Extracted from financial position of SACCOS in the study area

Data from Table 3 shows that performance of SACCOS in the study area in terms of assets growth was not good as it indicate that there was a general declining trend of asset growth.

#### 5. Conclusion

Financial performance of SACCOS in the study area were assessed by using various measures which include: equations (i) to (vii); ratio of members' share of capital; loan delinquency; ratio of fixed assets to total assets; growth of loans; growth in volume of savings; and growth of total assets. In gauging performance of the SACCOS in the study area, guidelines set by WOCCU were also applied.

It was found that SACCOS in the study area managed to maintain optimum working capital which enabled them to operate smoothly. That is, they managed to maintain members' share capital within the level recommended by WOCCU. Therefore performance of SACCOS in the study area in terms of members' share capital was high. It was also found that performance of SACCOS in the study area in terms loan delinquency or non-repayment was high. This is because the level of loan delinquency for the entire period of study did not exceed 1% of the total loan. WOCCU recommends the ratio of loan delinquency to be less than 5% of the total loan portfolio. This achievement was contributed partly by the fact that majority of members of the SACCOS were formally employed and hence they were getting monthly salaries. The study further found that performance of the SACCOS in terms of growth of

volume of savings was fair. This is because the ratios were above the inflation rate of 4.4% which existed in the area during the period under the study. However, it was not promising as it kept on fluctuating for the entire period of the study.

On the other hand it was found that performance of the SACCOS in terms of total assets to fixed assets was not good. This is because most of the time this ratio was above 5% while according to WOCCU it should not exceed 5%. In other words, the SACCOS were investing more in unproductive assets than it was necessary. Performance was also measured in terms of growth of loans and that it was not good because it was less than 4% while the inflation rate during the same period in the area was 4.4%. This shows that loan portfolio was not keeping pace with total growth in the assets. Therefore performance of the SACCOS in terms of growth of total assets was not good. This is because the SACCOS experienced general declining trend in total assets.

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