The role of savings and credit cooperatives in promoting access to credit in Swaziland

By

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DECLARATION

I hereby declare that this thesis which I submitted for the M.Sc. degree in Agricultural Economics at the University of Pretoria is my own work and has not been previously submitted for a degree at this or any other university of higher learning.

Signature: ………………………………… Date: …………………………………….

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I would like to dedicate this work to the Almighty God for his grace and gift of life. Philippians 4: 13 “I can do all things through Christ who gives me strength”. I would also like to dedicate this work to my father. May your soul rest in peace Khuzweni!

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Abstract

Internationally acclaimed institutions within the development field, such as the United Nations (UN) and the International Labour Organization (ILO), have taken a keen interest in the cooperative model as a mechanism that can be utilised to promote financial inclusion. However, in Swaziland, there have been mixed views regarding the role of savings and credit cooperatives (SACCOs) in facilitating access to financial services for their members. Moreover, within applied economics literature, research has been scarce on the role of savings and credit cooperatives in facilitating access to credit. Additionally, there has been limited knowledge concerning the role of savings and credit cooperatives in promoting access to credit in developing economies like Swaziland. The main objective of this study was to assess the role of savings and credit cooperatives in promoting access to financial services, especially credit services to their members.

Empirical analysis was based on both the qualitative and quantitative approaches that utilised a combination of primary and secondary data. The data was collected in a survey of 38 savings and credit cooperatives in Swaziland through face-to-face interviews with respondents and

from the cooperative data analysis system (CODAS). The data analysis tool utilised for this analysis was the Statistical Package for Social Science (SPSS) version 22.

The results of the study indicated that savings and credit cooperatives in Swaziland have a high level of outreach with an average membership of 631 members, with 46 percent representing women, and also have one physical access point. In addition, in 2014 they managed to accumulate total assets worth E17 333 051, mobilised savings worth E13 501 341, and issued loans worth E11 154 433. However, these savings and credit cooperatives also experienced a huge amount of outstanding loans, accumulating to E12 542 230 in 2014, and a significantly low level of penetration of 3.09 percent.

The results of the study also showed that savings and credit cooperatives in Swaziland failed to meet international standards of financial sustainability set for cooperatives. The social performance indicators revealed that savings and credit cooperatives utilise occupation as the common bond. Their development goal is to improve financial access and eradicate poverty for their members, although the savings and credit cooperatives are modest in that they are established to target low-income and middle-income earners. The results also showed that the savings and credit cooperatives vary in terms of human resource policies and staff incentives. In addition, SACCOs were reluctant to invest in enterprise financing ventures and they also experienced low client retention.

It also transpired from the results that the major challenges faced by financial cooperatives in Swaziland included low levels of skills and competition from commercial banks. Another major challenge that emerged from the results was the introduction of the Financial Service Regulatory Authority (FSRA), which has escalated the workload of savings and credit cooperative managers/clerks in preparing quarterly reports to be submitted. This has also brought about confusion within the savings and credit cooperative movement as they now

report to two separate entities, the FSRA and the Commissioner of Cooperatives. Retirements and retrenchments comprised another major challenge cited by the respondents, as some of the SACCOs have lost their faithful members due to the ending of employment tenures, which has also influenced their client retention rate.

Key words: *Savings and credit cooperatives (SACCOs), access to finance, outreach, cooperative sustainability*

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ABBREVIATIONS AND ACRONYMS

CAR	Capital to asset ratio
CCU	Control Cooperative Union
CGAP	Consultative group to assist the poor
CICOPA	International Organisation of Industrial, and Service Cooperatives
CODAS	Cooperative Data Analysis System
E	Emalangeni: Swazi currency
EURICSE	European Research Institute on Cooperative and Social Enterprises
FRSA	Financial Service Regulatory Authority
GDP	Gross domestic product
GSDRC	Governance and Social Development Resource Centre
ICA	International Cooperative Alliance
IFAD	International Fund for Agricultural Development
ILO	International Labour Organisation
KZN	KwaZulu-Natal
MDG	Millennium Development Goals
MFI	Microfinance institution
MFRS	Micro Finance Reporting Standards
MIX	Microfinance Information Exchange

NGO	Non-governmental organisation
ROA	Return on assets
SACCA	Savings and Credit Cooperative Association of Africa
SACCO	Savings and Credit Cooperative
SASSCO	Swaziland Association of Savings and Credit Cooperatives
SDI	Subsidy Dependence Index
SPSS	Statistical Package for Social Sciences
SPTF	Social Performance Task Force
UN	United Nations Organisation
USAID	The United States Agency for International Development
WOCCU	World Council of Credit Unions
ZOA	Zone of acceptance

CHAPTER ONE
INTRODUCTION

1.1 Background

Internationally acclaimed institutions within the development field, such as the United Nations (UN) and the International Labour Organisation (ILO), have taken keen interest in the cooperative model. In 2005, the UN declared "*The International Year of Microcredit"* as an approach to increase access to financial services for all, and the cooperative model was viewed as the vehicle to achieve this objective. Moreover, in 2011, the ILO conducted research about the resilience which the cooperative model had shown in the economic downturn of 2007/08. To put the icing on the cake, the phrase "*financial inclusion"* has been the topic of discussion at every development forum that has occurred in the past decade. In addition to this, Rabobank (2007) reports that the phrase "*access to financial services for all"* has been a mantra of development organisations in the past ten years.

At the beginning of the millennium, the UN formulated eight Millennium Development Goals (MDGs) to be realised by the year 2015. The promotion of the financial sector by the UN for providing access to services for all income levels was a strategy designed to fulfil the MDGs (Rabobank, 2007). Additionally, Rabobank (2007) reports that economic analysis has revealed that increased availability of financial services is undeniably amongst the vital drivers of economic growth. Full access to financial services by households has the profound effect of reducing the persistent poverty problem faced by most developing countries (Rabobank, 2007).

In addition to this, development scholars have virtually unanimously established that the poor and the marginalised in both rural and urban areas lack sufficient access to financial services from the recognised financial practitioners. The shortage of financial services for the poor is mainly attributed to the fact that formal financial institutions rate the poor as a risk to lend to because they lack collateral to secure credit and also because of their irregular income. The major factors that have contributed to the failure of formal institutions to provide financial services to the rural market are mainly information asymmetry and high transaction costs (Manh Hoa, 2005). The inability of low-income earners to access financial services in formal financial institutions showcases the main limitation of formal financial institutions.

A majority of developing countries have fallen behind with regards to access to financial services (Rabobank, 2007); countries like Swaziland paint a vivid picture of the severe consequences of insufficient availability of credit and savings services. The shortage of access to financial services for the poor and low income earners has had severe repercussions on the Swazi economy, as 43.9 percent of the adult population has access to formal financial institutions, while 44.4 percent of the population does not have access to financial services (FinMark Trust, 2011). The latter are unable to access either formal or informal financial services to financially sustain their livelihoods. Furthermore, a large majority of the Swazi adult populace is reliant on other people for their source of income and livelihood. This includes 29 percent who depend on family members for income, 19 percent who rely on remittances, and 11 percent who depend on state social grants (FinMark Trust, 2011).

Despite this challenge of financial exclusion faced by a majority of rural people, the situation is not hopeless and the cooperative movement has been regarded as being one of the financial mechanisms that can be used to improve financial accessibility for low-income earners. Financial cooperatives are viewed as the vehicle to cultivate a culture of saving among low-income earners. In the absence of commercial service providers, the cooperative sector has emerged to build up assets and a membership base, and thus is even considering starting a formal bank in Swaziland (FinMark Trust, 2004). The role of cooperatives in the social economy has been endorsed by the United Nations (UN) in its *2012 International year of cooperatives* report as a tool to overcome the limitations of formal financial providers

(Périlleux, 2013). Rabobank (2012) recognises the creation of financial cooperatives as a mechanism to correct market failure and to combat the challenges flowing from asymmetric information provided to borrowers.

Rabobank (2012) further states that cooperatives are not designed as an instrument for providing direct help to the poor and the marginalised groups who lack economic potential and have no access to resources of their own to pool. They do not function as semi-public welfare organisations, their true value is not in how cooperatives can help the poor and marginalised, but their real value is in how groups of people can help themselves by forming or joining cooperatives (Müncker, 2002). The cooperative model functions properly if the poor and marginalised have economic resources which they can combine in order to aid themselves to avoid the poverty trap. Once they have pooled their resources, they have to share the responsibility in developing their cooperative and resources.

1.2 History of cooperatives in Swaziland

The Kingdom of Swaziland is a landlocked country located in southern Africa, bordered north, south and west by the Republic of South Africa and in the east by Mozambique (FinMark Trust, 2011). It is a small country with a population of about 1.2 million (UN, 2014), with only 42 percent of the population being under the age of 30, and 63 percent of the population being women (FinMark Trust, 2011). FinMark Trust (2011) states that 63 percent of the population of Swaziland resides in rural areas and there is a vast difference between the urban and rural area.

The first Co-operative Proclamation was introduced in Swaziland in 1931 (FinMark Trust, 2011). During this period, the cooperative sector was restricted to a few agricultural cooperatives. The Department of Cooperatives Development and the Registrar of Cooperatives were established in 1963, and the promulgation of the Cooperative Society Proclamation followed in 1964, which later changed into the Cooperative Society Act of 2003 (FinMark Trust, 2011).

The movement stimulating the inception of savings and credit cooperatives in Swaziland dates back to the 1970s, when a small contingent of agricultural cooperatives joined forces to establish a governing body called the Central Cooperatives Union (CCU) (FinMark Trust, 2011). A few of these cooperatives decided to form saving and credit cooperatives (SACCOs) with the purpose of providing financial services for their agricultural activities. Given that the majority of the farmers had irregular income and could not pay their financial obligations when they came due, these SACCOs were a complete failure (FinMark Trust, 2011). After a difficult period for savings and credit cooperatives, government and parastatal institutions began to establish SACCOs with professions as the common bond. These SACCOs revitalised the cooperative movement in Swaziland (FinMark Trust, 2011). The SACCOs that were formed by the professionals included a SACCO for nurses, teachers, correctional services, police and army personnel (FinMark Trust, 2011).

To unite all non-bank financial institutions under one regulatory authority, the Financial Service Regulatory Authority Act was passed in 2010 (FinMark Trust, 2011). This act made way for the formation of the Financial Service Regulatory Authority (FSRA), which has the mandate and licence to regulate and supervise all the activities of all non-bank financial institutions to help develop a sustainable, safe and sound financial system in Swaziland (FinMark Trust, 2011).

There are 320 registered cooperatives nationwide in Swaziland, with a membership base of 46 623, and they are classified into two categories, namely, financial cooperatives (SACCOs) and non-financial cooperatives (multipurpose cooperatives) (Department of Cooperatives, 2014). The Department of Cooperatives (2014) further reported that there are 244 registered non-financial cooperatives with a membership base of 6 114 and, 76 registered SACCOs with a membership base of 40 509, nationwide.

Despite the revival of the cooperative movement in Swaziland, a negative attitude has developed about the establishment of the cooperative movement. Much of the criticism has been directed at the massive failure of the Central Cooperative Union (CCU) of Swaziland, the incomplete building project of the Swaziland Association of Saving and Credit Cooperatives (SASCCO) and the unsuccessful Asikhulumisane's Sentra Supermarket, amongst others (Hlatshwako, 2010). Furthermore Hlatshwako (2010) states that, there is a declining trend in the number of active cooperatives in Swaziland and agricultural/multipurpose cooperatives, in particular, are becoming more inactive. However, not all cooperatives have performed dismally, and a majority of them are still active and meeting the financial needs of their members.

McKinsey and Company (2012:2) state that "the cooperative movement represents about 3 to 3.5 percent of the global domestic product (GDP)". Cooperatives are formed in nearly all economic sectors, from agriculture to health to financial services. Savings and credit cooperatives in Swaziland have played a major role in the economy. In April 2002, it was estimated that SACCOs, combined nationwide, saved E137 million, or 1.4 percent of the GDP. Furthermore, they contributed a total loan portfolio of E118 million or 1.2 percent of GDP (FinMark Trust, 2004).

1.3 Problem statement

A mixed perception has arisen, worldwide, concerning the economic role of cooperatives in facilitating access to financial services for their members (Rabobank, 2012). Globally, savings and credit cooperatives have struggled, facing severe and basic problems. CGAP (2005) states that the savings and credit cooperative model in most developing countries has a history of instability. Studies that have been conducted on cooperatives in Swaziland have revealed that a majority of the people in Swaziland have a negative perception about the formation of cooperatives (Hlatshwako, 2010). Furthermore, these studies have discovered that there has been a declining trend in the formation of agricultural/multipurpose cooperatives, as a majority of them are becoming inactive (Hlatshwako, 2010). This is direct corroboration of Siddaraju's (2012) statement that cooperatives today are viewed as a failed institution surrounded by inefficiency and corruption.

On the contrary, there have been successful financial cooperatives elsewhere around the world, with Swaziland being one of the success stories as it has received recognition in the form of accolades for outstanding governance on savings and credit cooperatives in Africa. The country was positioned by the African Confederations of Cooperatives and Credit Association as being the second best, after Kenya, (Nkhambule, 2013). Furthermore, the United Nations (UN) has endorsed the cooperative movement worldwide by declaring *the year 2012 as the international year of cooperatives,* in acknowledgment of the pivotal role cooperatives have played in economic and social development worldwide (Périlleux, 2013; Rabobank, 2012). Moreover, Birchall and Ketilson (2009) postulated that, the popularity of the cooperative business model has gained increased recognition throughout the world in recent years because of its strong resilience during recent financial and economic crises.

Rabobank (2012) reported that, today cooperatives are undoubtedly significant elements of the economy and society in many countries; however, despite their potential, little has been done to estimate the role of savings and credit cooperatives in promoting access to credit in developing economies. Empirical evidence on the crucial role played by cooperatives in promoting financial access in Swaziland is scarcely available. The possibility that savings and credit cooperatives may influence increased financial inclusion in Swaziland through the facilitation of access to credit services that have not been fully explored.

There has been a shortage of research studies about Swaziland concerning the role of cooperatives in the promotion of financial inclusion. Recent studies show that a majority of the poor and non-poor people in developing countries are confronted by a high degree of financial exclusion and high barriers to access to finance (Beck *et al.,* 2009b). Swaziland is amongst the countries that are constrained by financial access for rural dwellers, 44 percent of the population lack access to formal financial services (FinMark Trust, 2011). In the absence of formal providers, the large and vibrant cooperative sector in Swaziland has emerged to assist members in providing access to financial services (FinMark Trust, 2004). This study sought to close the knowledge gap that exists in Swaziland with regard to the role of savings and credit cooperatives in promoting access to credit. This was done by assessing the performance and sustainability of savings and credit cooperatives in promoting access to credit. Moreover the research went further to assess the challenges that are faced by savings and credit cooperatives in Swaziland. The potential gain from this study will be realised from the identification of policies that can assist policy makers in developing appropriate policies to assist the cooperative movement in the country. Recently, Swaziland passed the Financial Service Regulatory Act of 2010 to regulate non-bank financial service providers, such as savings and credit cooperatives, in their operations. Hence, information regarding the role of savings and credit cooperatives in promoting access to credit is of crucial importance.

This study focused keenly on gathering empirical evidence on the role of savings and credit cooperatives in promoting access to credit for their clientele. The study further explored the types of policy interventions that can be implemented to assist in accelerating the role of savings and credit cooperatives in promoting access to credit.

1.4 Study objectives

The general objective of the study is to assess the role of savings and credit cooperatives in promoting access to financial services, especially access to credit for their members.

The specific objectives of the study are:

1. To determine the level of outreach of savings and credit cooperatives in Swaziland, including the level of penetration and the quality of financial services provided.
2. To assess the level of sustainability of savings and credit cooperatives in Swaziland, including economic, financial and social sustainability.
3. To identify the challenges faced by SACCOs in providing financial services and to propose measures for enhancing their performance.

1.5 Key definitions

i. Savings and credit cooperatives

Savings and credit cooperative societies (SACCOs), sometimes referred to as financial cooperatives, are an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned, democratically controlled enterprise (International Cooperative Alliance, 1995; International Labour Organisation, 2002; Cheruiyot *et al.*, 2012). Financial cooperatives are member-owned cooperatives with the mandate to mobilise savings and provide access to affordable credit to members as a way to assist their socioeconomic well-being. In financial cooperatives, the members are simultaneously owners and clients (ICA, 2013; USAID, 2005), and the cooperatives are formed on common bonds, either community bonds or occupational/association bonds. The common bonds are used as security because they ensure that members have a sense of identity, mutual concern, cooperation, loyalty and trust

(Cheruiyot *et al.*, 2012). Furthermore, in theory, common bonds provide collateral for members because they are familiar with every member and this increases the rate of effectiveness in managing their credit. However, in practise this may not be the case as members continue to default on their loan repayment by using their common bond as an excuse not to repay. Members are the heartbeat of a financial cooperative and they are the reason for the survival of the institution (Ahimbisibwe, 2007).

Savings and credit cooperatives are guided by practice, philosophy, the basic principle and values of the cooperative movement all over the world (Ahimbisibwe, 2007). They are established by a group of individuals with a common bond or the same objective. Moreover, savings and credit cooperatives place human need at their core; they put their members' interests first, not shareholders' values (ICA, 2013).

ii. Access to finance

Access to finance is about the ability of an individual to get financial services that are affordable, usable and meet their financial need (FinMark Trust, 2004). A well-established financial market is one that provides the majority of adults in the population with the opportunity to access financial services. Understanding, measuring and tracking access to finance are vital in determining how financial markets operate to facilitate financial services for the poor and marginalised in society (FinMark Trust, 2004). Member participation in cooperatives increases their access to credit and gives them improved terms, compared with what they would be eligible for in a loan as an individual. Savings and credit cooperative societies grant savings and credit services to people who would otherwise have insufficient access to financial resources.

iii. **Outreach**

Outreach provides an indication of the level of penetration and quality of financial services supplied by the savings and credit cooperative society, as well as the volume of activities in the designated target area Lafourcade *et al.* (2005). Outreach incorporates breadth and depth dimensions (State Bank of Pakistan, 2009). Breadth can be explained as the number of clients serviced and the volume of the service (State Bank of Pakistan, 2009), while depth showcases the socioeconomic level of the clients that financial cooperative reach. Basically, increasing client outreach widens the financial services that are available to the financial cooperative members. Okumu (2007) states that, outreach can also be assessed in terms of developmental objectives, scope and depth of progress in the targeted population.

iv. Cooperative sustainability

Cooperative sustainability is the ability of a cooperative to be an economically viable business that entirely implements the seven cooperative principles and preserves or rejuvenates the ecosystem in which it is embedded (ICA, 2013). The seven basic cooperative principles are voluntary and open membership, democratic membership control, member economic participation, autonomy and independence, education, training and information, cooperation amongst cooperative and concern for community. Cooperative sustainability is divided into the three pillars of sustainability, namely social, economic and environmental dimensions (ICA, 2013; CICOPA, 2013). Social sustainability is defined as the ability of savings and credit cooperatives to develop processes and structures that, not only meet the needs of its current membership, but also support the ability of future generations to maintain a healthy community. Economic sustainability is the use of the accumulated assets of the savings and credit cooperative efficiently to allow it to continue functioning profitably in the long run. On the other hand, "environmental sustainability is the maintenance of the factors and practices that contribute to the quality of the environment on a long-term basis" (ICA, 2013:17). For the purpose of this study, we will only consider economic and social sustainability to measure the performance and sustainability of savings and credit cooperatives in Swaziland.

1.6 Outline of the chapters

The remaining chapters of the study are set out as follows: Chapter 2 provides a comprehensive analysis of the existing body of literature on the role of financial cooperatives in promoting access to credit. This chapter begins with an overview of financial cooperatives globally, and then covers the role of access to finance in household welfare, and the role of cooperatives in promoting access to financial services. This chapter also highlights the role of government in assisting the cooperative movement and the products and services provided by savings and credit cooperatives.

Chapter 3 presents a review of the theoretical and empirical literature on the challenges and determinants of success or failure of savings and credit cooperatives. The chapter begins by reviewing the constraints faced by the cooperative movement, then the barriers to access for poor households, and the factors that determine the sustainability of financial cooperatives. This chapter also highlights the factors that determine the success or failure of savings and credit cooperatives.

Chapter 4 outlines the methods used to measure financial performance of financial cooperatives and the conceptual framework for analysing the role of savings and credit cooperatives in Swaziland.

Chapter 5 presents the methods and procedures for this study, including the research design, description of the study area, sample design and data collection methods.

Chapter 6 presents the results concerning the performance of financial cooperatives in Swaziland, derived from the SACCO managers, to gain a supply perspective of the role of SACCOs in promoting access to credit. The results presented and discussed include the level of outreach of the SACCOs in Swaziland, including the level of penetration and the quality of financial services provided.

Chapter 7 presents the results concerning the level of sustainability in financial cooperatives in Swaziland. The results shown and discussed include economic, financial and social sustainability levels of financial cooperatives.

Chapter 8 presents the results concerning the challenges faced by financial cooperatives in providing financial services in Swaziland.

Chapter 9 presents a summary of the findings of the study, and conclusions and recommendations. The recommendations are aimed at developing policy interventions that can be used to promote access to credit by SACCOs in Swaziland. Suggestions for further research are also presented.

CHAPTER TWO

SAVINGS AND CREDIT COOPERATIVES AND THEIR ECONOMIC CONTRIBUTION

This chapter provides a brief discussion of savings and credit cooperatives and their economic contribution, worldwide. The global overview of savings and credit cooperatives is summarised. General views on the role of access to finance in a household's welfare, the role of cooperatives in promoting access to financial services, the role of government in assisting cooperatives and the products and services provided by savings and credit cooperatives are presented.

2.1 A global overview of savings and credit cooperatives

The innovation of the savings and credit cooperative model was first introduced in the 1850s in Germany by two social entrepreneurs named Hermann Schulze-Delitzsch and Friedrich Raiffeisen (Birchall, 2013). This innovation came about as a response to market failure of the formal financial system. The need of credit by rural household sparked the development of these institutions as the formal banks became unpopular because of their rationing in the delivery of credit services (Birchall, 2013). The savings and credit cooperative movement has spread globally, with a vital contribution in the banking sector market share. Borzaga and Galera (2012) states that, the rise of the financial cooperative model and its success globally can be attributed to its not-for-profit nature as it strives to meet the needs of its clients and community at large.

Borzaga and Galera (2012) continue to state that the cooperative model has been in existence for the past two centuries operating in all sectors of the economy. Moreover, financial cooperatives have shown greater sustainability compared to profit maximising business. In addition, the cooperative model has shown great versatility in the past, continually adjusting to changing conditions and innovations (Borzaga and Galera, 2012), as different types of cooperative forms have materialised to mitigate new economic and social distresses. Moreover, the UN (2013) states that, cooperatives have portrayed unlimited potential in several sectors of the economy including the agricultural and food industry, banking and financial service, insurance, consumer and retail, industry and utilities, health and social care and lastly information technology and craft.

Cooperatives have played a key role in both developing and industrial economies contributing to socio-economic development, employment development and an equal distribution of wealth (Borzaga and Galera, 2012). Cooperatives can be placed in four categories according to (i) the degree of formality, (ii) ownership and purpose, (iii) type of activity, and (iv) levels in the cooperative hierarchy. In addition to these classifications, all these types of cooperatives can be combinations of the four categories.

Cooperatives that are classified according to the degree of formality can further be classified into three types, namely, informal groups built on the cooperative principles, common initiative groups and fully registered cooperatives. Those classified according to ownership and purpose type, can be further distinguished into two groups: worker-owned cooperatives and user-owned cooperatives. Classification of cooperatives according to type of activity results in three groups: economic services, social services and other service cooperatives. Finally, classification by levels in the cooperative hierarchy leads to four groups: village savings groups, cooperatives societies, credit unions and cooperative banks.

In Swaziland, cooperatives are distinguished into two categories, which are financial cooperatives and non-financial cooperatives (multipurpose). Non-financial cooperatives (multipurpose) are cooperatives that do not only focus on access to savings and credit services for their members, but also provide other services such as marketing, sales and transport, while financial cooperatives focus solely of the extension of savings and credit services to their members.

Financial cooperatives have specifically shown to be important players in the global banking sector, by reaching the poorest people and having a considerable economic influence (UN, 2013). “Globally, savings and credit cooperatives serve 857 million people, including 78 million living on less than two US dollars a day which represent 23 percent of all bank branches” (UN, 2013:3). Moreover, financial cooperatives can be distinguished into two categories, namely cooperative banks found in Europe, and credit unions based in North American and developing countries. To differentiate between these two types of financial cooperatives, cooperative banks are member-owned organisations and can have non-member clients, while credit unions are licensed to serve members’ needs only (UN, 2013).

The UN (2013:3) reports that “in Europe alone there are 4000 cooperative banks operating in 20 countries across Europe with a client base of 50 million and 780 000 employees, with 565 billion Euros worth of assets and an overall market share of 20 percent”. On the other hand, “there are 51 000 credit unions worldwide that operate in 100 countries with a 196 million membership base and 1.56 billion US dollars’ worth of assets” (UN, 2013:3). The UN (2013:3) goes on to report that, generally the market penetration of these cooperatives is 7.8 percent on average, but may vary from region to region; North America, Oceania and the Caribbean are renowned for the highest market penetration with 45 percent, 26.3 percent and 17.5 percent respectively. Whilst Africa, Latin America, Europe and Asia are known for the lowest market penetration contributing 7.2 percent, 5.7 percent, 3.5 percent and 2.7 percent respectively (UN, 2013:3).

Savings and credit cooperative activities provide a livelihood for as many as three billion people and also contribute significantly to national economies (UN, 2013). The ICA (2012) estimated that, cooperatives account for between three to ten percent of gross domestic product (GDP) and moreover 300 of largest financial cooperatives in the world have a combined annual turnover of two trillion U.S. dollars, which is more than the GDP of Italy which is the world's seventh largest economy.

In addition to this, financial cooperatives have demonstrated their strength and resilience to benefit their members, employees and customers since the 2007 to 2008 global economic and financial crises (UN, 2013; Birchall, 2013). They have maintained good credit ratings, increased their assets and turnover, and have also experienced a growth in clientele (UN, 2013). Moreover, Birchall (2013) and Rabobank (2011) report that in Europe only a minority of seven percent of the cooperative banks suffered losses and write-downs in the midst of the economic crises of 2007-2008, while their average weight in the banking sector was much higher, accounting for about 20 percent of the deposit market. In addition to this, the financial cooperative losses were quickly recovered, with only a few of them having to accept a government bail-out (Birchall, 2013).

Savings and credit cooperatives maintain and endorse ideals and values of viable development based on a triple bottom line approach, being a triple line economic organisation themselves (CICOPA, 2013). The triple bottom line approach of sustainable development that financial cooperatives implement comprise social sustainability, economic sustainability, and environmental sustainability. These three are the mainstay of sustainable development that governs the growth of savings and credit cooperatives. The cooperative principles are the guide lines that cooperatives embody to ensure that the three pillars of sustainability are safeguarded.

2.2 The role of access to finance in household welfare

The rise in demand for financial services has brought about a change in the cooperative society as a factor in financial, economic and social empowerment. Recent empirical evidence has emphasised that access to basic financial services can make a pivotal contribution to the improvement of poor people's livelihood (Ardic *et al.,* 2011). Furthermore, financial inclusion, which is the provision of financial access for all, has gained prominence in the past few years as a policy objective for national policy makers, multilateral institutions and other organisations in the development field (CGAP, 2009). The provision of basic access to credit services for the poor and low income populace is viewed as one of the tools that can be used to improve the welfare of rural households directly and further enhance their productive capacity through financing investments (Baiyegunhi and Fraser, 2014), as a broad outreach to financial access is correlated with the economic and social welfare agenda (Beck and De la Torre, 2007).

In Swaziland the unmet demand by the rural population for financial service has been documented as one of the major contributors in widening the unequal income distribution and exacerbating the poverty problem. This concurs with the argument of Beck *et al*. (2009b) that lack of access to finance has been often the crucial mechanism generating persistent income inequality, as well as slow economic growth. The poor in rural areas need access to basic financial services so that they can meet their basic consumption needs and, furthermore, they require financial services to invest in their children's future through education. Khandker (2006) adds that access to micro-credit is an appropriate tool for poverty reduction, not just for households with access, but also for the rest of the community so that it is able to reap some benefits, as it has a positive spill-over effect on the society as a whole. Therefore, access to financial services has positive externalities on the rest of society as a whole, and not just for the household that is able to acquire access to credit.

The ability of rural households to access credit benefits the general population and tangibly improves the community's welfare (Solo and Manroth, 2006). Access to loans is used as a tool to strengthen the saving culture of the low-income earners and this therefore leads to asset accumulation and thereby improves their ability to deal with economic shocks and periods of financial difficulty (Solo and Manroth, 2006). Improved access to credit by smallholder farmers enhances their risk-bearing ability, and influences their adaptation calibre of new technology, thus providing them with new skills and the ability to create employment. Furthermore, this inspires activities that generate a dynamic economic growth, which assists these households to deal with negative income shocks and to smoothen their income and consumption flow (Khandker, 2003; Parker and Nagarajan, 2001; Rosenzweig, 2001; and Zeller 2000).

Hlongwane (2010), in his presentation of the impact and challenges facing the SACCO movement in Swaziland, suggests that the participation of SACCO members in this institution has empowered SACCO communities to start their own small and medium enterprises. Furthermore, these financial cooperatives have managed to mitigate the high risks foreseen by commercial institutions, which render low-income earners un-bankable. Hlongwane (2010) continues to state that financial cooperatives have generated employment opportunities for people, thereby contributing towards achieving the Millennium Development Goals (MDGs). Generally, the SACCOs employ five people, but more are usually employed through the small and medium enterprises they run (Hlongwane, 2010). This concurs with the UN (2011) report on "Cooperatives in social development and implementation of the international year of cooperatives", in which the cooperative model, particularly in developing countries, plays a vital role in the achievement of many globally accepted developmental objectives, as well as the MDGs.

For the above-mentioned reasons, increased access to credit has been enthusiastically endorsed in the development community for its potential capability to produce viable economic growth that incorporates the poor (Murdoch and Haley, 2002). Beck *et al.* (2009a) further add that while there is no conclusive evidence, but a bulk of proof suggests that financial growth and better availability of financial services are likely to not only accelerate economic growth but also contribute to the reduction of income inequality and poverty.

In contrast to the above argument, other schools of thought dispute that the demand and supply of credit alone constitute an efficient mechanism for the poor households to improve their economic status, even if they run small business enterprises (Adams and Von Piscke, 1992). The core justification for this argument is that there are more crucial barriers that rural dwellers are confronted with, and these obstacles encompass product price, land tenure, technological adaptation, market access and risk. Furthermore, Gulli (1998) postulates that access to credit services alone is not at all times the main hindrance for households' development, and that rural dwellers need a broad variety of financial services for them to be able to improve their economic welfare.

Armendriz and Morduch (2005) perceive that access to credit indeed does have the capacity to contribute positively in the livelihood of a majority of rural dwellers, but it is not a panacea or a magical bullet against poverty. It cannot be anticipated to have the same positive effect for everyone to whom, and everywhere it is applied. This simply implies that making credit available for everyone is not always the instant solution in improving household welfare.

2.3 The role of cooperatives in promoting access to financial services

Savings and credit cooperatives traditionally provide an intriguing option to capitalist commercial institutions. In Europe financial cooperatives execute a major function in financial inclusion; this is showcased by the Danish Rabobank having achieved a far-reaching market penetration with nearly 50 percent of all Danish citizens as their clients/members (Birchall and Kitelson 2009). Moreover, there are other cooperative financial institutions in Europe that represent the largest banks in Europe and globally: these include the Pohjole Group based in

Finland, Credit Agricola located in France, and the Raiffensen found in Germany (Bunger, 2009).

Financial cooperative institutions boast a comparative benefit of informational advantage over for-profit financial institutions since they were innovatively intended to overcome the challenge of information asymmetry within the financial institutions (Fonteyne, 2007). The good information flow within these cooperative mechanisms, accompanied by their developmental incentive, gives them a comparative advantage over commercial banks. Commercial bank stockholders want managers to implement financial decisions that will maximise their profits while, by contrast, financial cooperative owners demand of the manager to maximise the welfare of the clients who are also the members. The informational advantage held by financial cooperatives is also crucial, more particularly in the case of the common bond as this provides more information about the members' breadth, as well as their socio-economic characteristics, thus creating proper products and rates that accommodate the desires of the customers (Bunger, 2009).

The cooperative movement has been viewed as one of the mechanisms that can be utilised to facilitate access to affordable credit for rural and urban dwellers, because it has the potential to minimise the costs of doing business and decrease the threat on non-payment. Swain (2007) mentions that, the proximity of financial institutions like cooperatives to their clientele decreased the administrative and transaction costs of lending to rural households, thus providing a comparative advantage over their counterparts the commercial banks. This concurs with Dallimore and Mgimeti (2003) and Nayak (2012) who provide empirical evidence in support of this argument.

In addition to this, the advantages of savings and credit cooperatives are well-known to deliver their services to members only, thus providing them with a comparative advantage over commercial banks, as they are exempted from paying income taxes, while commercial banks do pay taxes. However, cooperatives' ability to provide services to members only can also act as a restriction, as it limits cooperatives from taking advantage of market opportunities as they can only raise capital from their members. The ultimate purpose of the financial cooperative is to maximise customer welfare, as opposed to profit maximisation, and for this reason any interest and other income earned from loans to members is exempted from income tax (Birchall and Ketilson 2009; Write, 2013). However, financial cooperatives still have an obligation to pay a levy which is utilised to finance the operation of the regulatory and monitoring entity overseeing financial cooperatives (Write, 2013).

Apart from the above-mentioned benefits, cooperatives have a momentous and influentially favourable position over capitalist financial institutions in the cost of capital; while commercial banks are engineered to pay over part their distributable earnings to shareholders, owners' equity in cooperatives only encompasses the total value of membership shares (Bunger, 2009). Financial cooperatives are not obliged to pay owners on earnings of their intergenerational endowment. Additionally, financial cooperatives incorporate their profits into their products; the low cost of capital for cooperatives makes it convenient for the managers to transfer this benefit to their members in the form of lower lending rates and higher interest on deposit (Fonteyne, 2007).

Oluyombo (2013a) provided empirical support that the principle of a cooperative, which makes saving a prerequisite for accessing loans, provides an innovation that gives these institutions a competitive edge over their commercial bank counterpart. However this can act as both a strength and limitation for cooperative. The fact of being a savings account holder in a commercial bank, however, does not provide certainty for access to a loan for a client, while savings and credit cooperative members are afforded the opportunity to borrow because of their savings within the association. The limitation of having savings as a prerequisite is that commercial institutions have been able to lend profitably to clients who do not have savings deposits with them, which is an enormous market opportunity that cooperatives have failed to capitalise on. Moreover, the amount of savings mobilised also determines the size of the loan a member is eligible to apply for. This gives an incentive to cooperative members to save more so that they can increase their loan size in time of need, thereby promoting access to credit.

Apart from this innovation, cooperatives have also managed to mitigate the collateral problem which has been a persistent obstacle for rural households, as it acted as a barrier in commercial financial institutions. FinMark Trust (2011) states that one of the pillars of the cooperative movement in Swaziland is that almost all the financial cooperatives promote non-withdrawal savings. The amount of saving mobilised by a cooperative member is used as collateral to give access to loans they require (FinMark Trust, 2011). This is used as a tool to discourage delinquent payment behaviour within the cooperative. If members fail to repay their loan, their savings are used as repayment for the loan they have taken. This innovation gives the members enough incentive to try and repay their loans, because they stand to lose the savings they have mobilised, should they fail to repay their debt.

Apart from this, Oluyombo (2013b) provides empirical support that the joint ownership of the cooperative by members provides them with self-esteem and a feeling of belonging. Moreover, Fonteyne (2007) adds that cooperatives enjoy a strong and loyal customer base as the members have a strong connection to their cooperative. This, therefore, leads to decreased default rates on loans because members envision themselves as co-owners of the association, and they have a motive to ensure that the institution does not fail, because if the organisation ceases to function, they will lose their hard-earned savings. Furthermore, Oluyombo (2013b) continues to state that the common bonds in associations like the cooperative movement ensure a collective responsibility that enhances better loan repayment among the members. In addition to this, the UN (2011) provides support that "in customer-owned financial institutions, the agency problem is evaded, because the customers have a dual role as the owners and clients of the institution. There is no divided shareholder interest and the financial organization can be imagined to work in the interest of their members" (UN, 2011).

Despite the comparative advantages enjoyed by the cooperative movement in promoting access to financial services, they also have some drawbacks that are visible, and there is a need for them to get their house in order to make a meaningful contribution in providing financial access (Nayak, 2012). Nayak (2012) continues to provide evidence that in recent years the cooperative movement has been plagued by scandals and corruption which has rendered these associations unorganised. This does not paint a good picture of the cooperative movement, as it is consistently being rocked by scandals, thus bringing into question its viability in the promotion of access to financial services, more especially the provision of credit to rural households.

Moreover, financial cooperatives managers have been criticised for permitting inadequacies to persist, without any drastic action being implemented against them (Bunger, 2009). This lack of vigilance has made financial cooperatives more liable to executive difficulties; this can be as conspicuous as embezzlement or ingenious like empire-building (Fonteyne, 2007). Managers are often enticed by the intergenerational endowment of savings and credit cooperatives that they are custodians of, and participate in expansions futile for the cooperatives' crucial goal of maximising customer wellbeing. The intergenerational endowment may be in the form of financial reserves that the cooperative has managed to accumulate since its inception, this money may be mismanaged by managers by pursuing self-promotion and moreover management may desire to develop their institution to the disadvantage of their members. The absence of executives' attentiveness can be made worse by the long-lasting concern of low profitability associated with financial cooperative institutions (Bunger, 2009).

In addition to the above criticism, another disapproving observation that has been mentioned about savings and credit cooperatives is that their employee pay scales are typically lower than they are in commercial banks, resulting in a tough predicament for them in procuring highly skilled managers who require large remuneration packages (Fonteyne, 2007). This makes it very challenging for savings and credit cooperatives to increase their non-interest revenue as a result of their employees (some of which are volunteers) lacking the financial intricacy needed for them to execute multifaceted investment ventures (Goddard *et al.*, 2008).

Furthermore, financial cooperatives have been criticised for their inability to rapidly generate capital during harsh times of financial pressure due to the fact that they strictly rely on a specified target market (Bunger, 2009). Because they acquire their capital from the sale of shares to members, these common bonds within cooperatives, limit access from external avenues which they could utilise to generate capital in times of financial stress. Another censure that financial cooperatives have been subjected to comes as a result of their characteristically small and homogeneous pool of specific target market clients being exposed to vulnerability in volatile markets, especially to sector-related risks (Bunger, 2009). As opposed to having their risks hedged by a heterogeneous client population, financial cooperatives are exposed to the full market forces of their specific markets. However, bigger and more broadly based cooperatives such as the ones found in most developed countries do have the strength and weakness of having clients from a diversity of sectors and areas. Which is clearly the opposite of what is happening in Swaziland.

To demonstrate the influential role played by SACCOs in Swaziland over the past four years, Table 2.1 illustrates the performance of SACCOs' growth trends in the recent past. This table was extracted from the CODA 2014 presentation by the Department of Cooperatives. The number of registered financial cooperatives in Swaziland has shown a steady increase in the past four years, rising from 62 SACCOs in 2011 to 76 SACCOs in 2014. Secondly, the membership base of SACCOs has also shown a steady increase in the past four years. Moreover, the amount of savings mobilised, loans issued, outstanding loans, current assets, and total liabilities have all displayed a stable increase in the previous four years. The amount of investment showed a rapid decline in 2012, but has since been increasing steadily in the past two years.

Table 2.1: SACCO membership, assets and liabilities, savings, investments and loans (2011-2014)

Year of survey	2011	2012	2013	2014
No. SACCOs	62	67	70	76
Membership	37 214	37 062	39 582	40 509
Share capital (E)	34 302 194	33 650 296	33 683 561	42 465 944
Savings mobilised (E)	628 807 961	668 151 710	750 026 448	842 281 843
Loan issued (E)	495 890 349	551 588 490	592 916 848	609 201 713
Outstanding loans (E)	480 164 938	533 528 912	548 856 314	698 209 693
Investments (E)	107 387 219	83 085 414	88 143 305	94 076 697
Current assets (E)	498 246 503	594 671 163	475 920 438	458 065 597
Total liabilities (E)	575 915 103	704 144 173	794 790 558	896 758 602

Note: Currency units are in Emalangeni (currency unit of Swaziland). E1 = 0.01134 US$ in real exchange rate to account for inflation. Source: Department of Cooperatives (2014)

2.4 The role of government in assisting the cooperative movement

Evidence from numerous countries demonstrates that a favourable political environment and lobbying efforts assist the cooperative movement to improve their fruitful performance (Chloupkova, 2003). Internationally, the cooperative model has been used as an economic and social development tool, with most governments offering their support in terms of the policy climate (Stagar, 2007).

In contrast to the above argument, a government that uses cooperatives as a national development project to meet its political agenda contributes to the failure of cooperatives

(Stagar, 2007). In support of the argument, Birchall (2004) provides evidence that in the 1980s, many prominent cooperatives in developed countries lost their true identity and meaning as a result of excessive control by their governments, which control was designed to facilitate their political agendas. These cooperatives lost their essence and relevance because they were no longer meeting the needs of the main clients who are the members, but they were used to promote a political agenda by the state. Moreover, Stager (2007) provides evidence from KwaZulu-Natal (KZN) that government support that empowers a state-led development agent is counterproductive to the cooperative movement because cooperatives are established to meet the needs of their members, and not a political objective by the state. Stager (2007) continues to state that the overpowering of cooperatives by the government is hazardous because it does not encourage the autonomous and independent principle of cooperatives, which is essential for the long-term sustainability of the cooperative. The development of cooperatives that are reliant on government grants exposes cooperatives to the risk of failure, and hence discredits of the cooperative model (Stager, 2007).

In Swaziland there has been a remarkable growth in the number and size of financial cooperatives since their inception. This increase comes as a result of the pivotal function executed by the government in supporting these institutions and the members' undying loyalty to their societies (FinMark, 2011). The formation of large SACCOs within the government, parastatal and private sector has contributed to the growth of this sector and has also inspired more confidence in this association.

The Government of Swaziland has shown great support for the cooperative movement by providing an enabling environment and by establishing the Department of Cooperatives to drive the development of the movement (Hlatshwako, 2010). The Department of Cooperatives, established by the Cooperative Society Act of 2003, was assigned the responsibility of sensitising, mobilising and developing cooperatives in the Kingdom of Swaziland, and also of assisting to convert them into economic enterprises that can contend with other enterprises in an open economy (FinMark Trust, 2011; Hlatshwako, 2010). Additionally, the Department of Cooperatives was given the mandate to implement government policies on the launch and progress of cooperatives under the guidelines of the Cooperative Society Act. Apart from this, the Commissioner's Office is also responsible for the auditing of small cooperatives that are unable to do the task themselves.

Besides this, there is a large number of public sector employee-based SACCOs in Swaziland and the government has granted permission to these financial cooperatives to deduct their loan repayment fees directly from their payroll (FinMark Trust, 2011). This strategy has assisted in reducing the rate of delinquency to a very low level; however, the government of Swaziland is looking to subcontract this service to an external service provider. In addition to this method, SACCOs have enjoyed great success in keeping delinquency rates down by using stop orders or debit order deductions from bank accounts (FinMark Trust, 2011).

Apart from providing institutional support, the government of Swaziland has been tasked with the obligation of providing statute and the creation of supportive cooperatives. But in spite of the existence of a supportive legal and policy environment for cooperatives to function in, they have continued to struggle (Hlatshwako, 2010). With only 36 employees on their payroll, the Department of Cooperatives has been understaffed and it cannot fully execute its regulatory duty (Hlatshwako, 2010). It was for this reason that the Financial Institution Acts transferred the powers of regulating SACCOs from the Ministry of Finance to the Office of the Commissioner, who then delegated the responsibility to the Central Bank (FinMark Trust, 2011).

Despite all the positive efforts that the government of Swaziland has made to provide an enabling environment for the development of cooperatives, there are still some institutional bottlenecks that have constrained the cooperative movement. The weakness of the cooperative movement to fully represent their members is attributed to the political system in Swaziland, which bans cooperatives from voicing their members' concerns on issues that do not relate to cooperative business (Hlatshwako, 2010). Hlatshwako (2010) further states that it is no surprise that annual general meetings and special general meetings are only permitted to proceed upon consent from the Commissioner of Police, and police officers are present to monitor all the discussion taking place.

2.5 Services and products delivered by savings and credit cooperative

The provision of efficient financial products and services by financial cooperatives plays a crucial role in developing a strong cooperative sector and improving access to financial services, which leads to greater economies of scale, thereby enhancing profitability and sustainability (Sebhatu, 2012). Numerous savings and credit cooperatives offer a wide assortment of products and services. Most significantly, all provide an affordable source of credit to their clientele. Interest rates are capped at two percent, per month, on the reducing balance (Write, 2013). Cooperatives in Swaziland provide the four basic retro types of loan products, namely short-term loans, medium-term loans, long-term loans, and emergency loans. Their loans are not classified according to usage into SME (Small and Medium Enterprise) loans, housing loans, loans for agriculture, and loans for education. The large SACCOs have the potential to offer long-term loans of up to E400 000, and short-term loans start from as little as E100 paid over a duration of one month, to short-term loans up to E2000, depending on the financial cooperative (FinMark Trust, 2011).

2.5.1 Short-term loans

All loans payable within a period of twelve months are classified as short-term loans and are excused from having to provide any type of collateral. These loans are prominent in both rural and urban SACCOs (FinMark Trust, 2011). These loans are usually used to finance basic household activities, such as acquiring groceries.

2.5.2 Medium-term loans

Medium-term loans are loans that are repayable within a period of 12 to 36 months. This type of loan, and long-term loans, require the client to save so that they can gain access to it, and then use their savings as collateral. The maximum loan amount that a member can access is often set at a multiple of the value they have saved within the SACCOs (FinMark Trust, 2011). These loans are usually utilised to finance important events, such as weddings, house renovations or extensions, furniture acquisitions, loan consolidations, vehicle repairs, lobola payments (dowry), and children's education.

2.5.3 Long-term loans

Some SACCOs in Swaziland are now able to offer large loans, which are mostly used for asset financing (FinMark Trust, 2011). SACCO members have accessed loans to purchase motor vehicles, build their houses, and start businesses or grow their existing businesses. All long-term loans require collateral, and for loans taken by members with the sole intention to purchase motor vehicles or to build houses, the asset itself acts as collateral for the loan (FinMark Trust, 2011).

In addition to this, FinMark Trust (2011) discovered that business loans are not a prominent product offered by SACCOs in Swaziland. This is a direct consequence of the lack of competence in the correct appraisal of business loans and also the lack of resources to monitor the business venture in order to ensure that the business remains viable until the loan is fully repaid. A minority of financial cooperatives offer small- and medium-enterprise loans on condition that the repayment is deducted directly from the members' salary, as opposed to income generated from the enterprise itself (FinMark Trust, 2011)

2.5.4 Emergency loans

This is a short-term loan of up to twelve months, offered to members who have an immediate need for funds as a result of an emergency and have no alternative source of money available within the time of the emergency to act, or experience severe personal financial hardship and cannot obtain a regular loan. This loan product offers easy access to credit for members to meet elementary needs that they cannot afford in the immediate term. These could be medical, burial or educational expenses, although the loan is flexible in its use.

2.5.5 Savings products

All SACCOs offer a range of saving accounts, including special purpose savings for school fees, Christmas and the ploughing season. Clients can pay indirectly by payroll deductions, or through benefits direct account, through standing order or direct debit, and in cash at the local SACCOs office (Write, 2013). Moreover, savings and credit cooperatives now offer a guaranteed rate of interest on savings, in addition to dividends, allowing members to compare the paybacks of saving with banks or SACCOs (Write, 2013).

2.6 Summary

Savings and credit cooperative societies are an important non-bank financial service provided in Swaziland, although their sustainability is threatened by increased incidents of failure and dormancy. Yet, theory and empirical literature has shown that the savings and credit cooperatives model has great potential for improving the availability of financial services for low-income earners in both urban and rural surroundings. Savings and credit cooperatives are viewed as a significant development vehicle to improve access to financial services for households so that they can improve their livelihoods. Moreover, the government is viewed as an important player in assisting savings and credit cooperatives to expand their reach within the financial market.

CHAPTER THREE

CHALLENGES AND THE DETERMINANTS OF SAVINGS AND CREDIT COOPERATIVE SUCCESS/FAILURE

This chapter explores both the theoretical explanations and empirical evidence relating to the challenges to, and the determinants of, savings and credit cooperative success. The theoretical context deals with the fundamental challenges faced by savings and credit cooperatives. The purpose of this chapter is to outline all the external and internal challenges faced by savings and credit cooperatives. A section is also devoted to the barriers to access for poor households, reviewing their relevance to the analysis of access to credit facilitated by savings and credit cooperatives. Another section is dedicated to examining the factors that determine the sustainability of savings and credit cooperatives and also factors that contribute to the success/failure of cooperatives, reviewing their significance for the provision of credit by saving and credit cooperatives in developing economies.

3.1 Constraints faced by the cooperative movement

The constraints that savings and credit cooperatives are faced with can be distinguished into two types, namely, internal constraints and external constraints (CGAP, 2005). Internal constraints are the challenges that arise as a direct consequence of the activities, or the function, of the cooperatives and which can be mitigated internally. External constraints are the challenges that are beyond the reach of the cooperatives and cooperatives can do nothing about them.

3.1.1 Internal constraints faced by financial cooperatives

One of the on-going challenges faced by financial cooperatives has been the optimisation of customer satisfaction and developing customer relationship management (Cheruiyot *et al.*, 2012). To ensure increased customer satisfaction levels, financial cooperatives must capitalise on choosing the right people with the proper qualifications, technical competence, and the right attitude (Cheruiyot *et al*., 2012).

Another challenge that cooperatives in most developing countries like Swaziland face is winning back the trust of the general public as a financial provider (Ardic *et al*., 2011). The general public has lost confidence in the capability of the cooperative movement to provide access to financial services because of the bad publicity of corruption and mismanagement of funds constantly portrayed in the media about financial cooperative (Hlatshwako, 2010).

The UN (n.d.), having studied 450 cooperatives in Tanzania and Sri Lanka, provided empirical support for the view that one of the major challenges faced by cooperatives is lack of access to loans to finance the expansion of their business activities. In addition to this obstacle, lack of technological knowledge and access to new technology, lack of training in business and leadership, and lack of access to markets beyond their local clients are some of the constraints that cooperatives are faced with (UN, n.d.). This concurs with Van Der Walt (2013) in his study of cooperatives in Limpopo. Moreover, Van Der Walt (2013) continued to identify lack of conflict management skills within the system as being another challenge faced by cooperatives. A majority of financial cooperatives are plagued by internal conflict among members, thereby instigating turbulence within the association.

Nayak (2012), in his study of the microfinance sector in India, provides empirical support that amongst the challenges faced by microfinance, and more specifically cooperatives, is the failure of the model to deliver financial services to the poor households that are below the poverty line or the very poor. The study discovered that the very poor are often not accepted into group lending schemes because they are viewed as a bad credit risk (Nayak, 2012).

Although these associations have shown such great potential, they still have not managed to reach the poor that are living below the poverty line.

Moreover, CGAP (2005) further adds that some of the internal challenges faced by savings and credit cooperative societies include weak governance and a limited menu of products. Weak governance emanates from the clash of interests between those of the members of the volunteer board of directors and those of the hired manager on the daily operations of the institution. Members of the board of directors have a tendency to intervene in daily operational decisions, even after a qualified manager has been hired to manage the operational activities of the organisation, instead of directing their attention to monitoring operations.

The limited choice of products arises from the traditional type of loans that financial cooperatives offer. A majority of these organisations offer only one type of loan product with a 3:1 or 5:1 multiple of members' saving balance (CGAP, 2005). These loans do not vary according to the type of risk level of the borrower.

In addition to this McKinsey and Company (2012) state that the cooperative model has its own constraints, and central to these challenges is the issue of organisational agility. Financial cooperatives are renowned for slow action in addressing problems or opportunities as they occur. Their slow response rate is attributed to the democratic control in cooperatives, as decision-making is taken by the society as a whole. Moreover, McKinsey and Company (2012) go on to state that another challenge common to cooperatives is low capabilities. This is proven by the fact that cooperatives put less importance on making sure that they have institutional skills and talent to facilitate strategies and create competitive advantage for them. In essence, cooperatives are less responsive to hiring and developing the talent they need (McKinsey and Company, 2012).

The above-mentioned constraints will be examined in the Swazi context to determine if they do have an influence in the facilitation of access to credit by the financial cooperatives in the country. Moreover, the study will examine if a collection of certain constraints results in new constraints that limit the functioning of the SACCOs in efficiently promoting access to credit.

3.1.2 External constraints faced by cooperatives

One of the major external constraints faced by cooperatives in Africa is the constant threat of HIV/AIDS (UN, n.d.). The impact of HIV/AIDS affects the human resource aspect of cooperatives through the loss of trained employees and devoted members. Moreover, it contributes to the harsh business environment that cooperatives have to operate in. Credit cooperatives are more especially vulnerable to the threat of HIV/AIDS because of the defaults on loans and the need to design products that are specific to those members that are affected by this disease (UN, n.d.). Despite the threat from HIV, cooperatives provide an ideal setting for facilitating increased awareness and education about this pandemic for their members.

Another external constraint faced by cooperatives in Swaziland is the strong competition from commercial banks that have managed to develop financial products which were previously associated with savings and credit cooperative societies (SACCA, 2010). This has prompted cooperatives to continuously reinvent themselves in order to stay relevant to their clients.

CGAP (2005) refers to another constraint, stating that amongst the external challenges faced by SACCOs in developing countries are the insufficient bylaw and administration of these institutions. Competent external regulation and monitoring can be used as a vehicle to assist SACCOs in detecting, avoiding, and solving some common challenges they are faced with (CGAP, 2005). In most developing countries, SACCOs are supervised by a government agency which is responsible for all kinds of non-financial cooperatives, and accordingly such governmental agencies might lack the financial abilities and the political influence which are vital for effectively managing this kind of semi-formal financial organisation (CGAP, 2005).

Moreover, Hlongwane (2010) adds that retrenchment and retirement act as an external constraint for the SACCOs members. With their profession acting as the common bond for a majority of SACCOs in Swaziland, the loss of jobs greatly influences the SACCO members, as they are unable to save as a result of the loss of the regular source of income from their employment.

Another external obstacle that SACCOs are faced with in Swaziland is the emergence of the newly established Financial Services Regulatory Authority (FSRA) which has created a major threat to the development of SACCOs, as it removes SACCOs from the Cooperative Society Act of 2003 (SACCA, 2010). Secondly, the Cooperative Society Act of 2003, which governs and regulates the activities of SACCOs, does not apply to the FSRA. Lastly, all financial cooperatives fund the operations of FSRA through a percentage of revenues taken from the cooperatives as subscriptions to the FSRA, and this levy slows the growth and development of cooperatives because this money could otherwise be reinvested to expand the financial cooperative.

3.2 Barriers to access for poor household

Figure 3.1 illustrates how access to, and use of, financial services are differentiated. Beck *et al.* (2009b) state that it is extremely important to be able to differentiate between access to and the use of financial service, because distinguishing between the two terms allows us to classify the people who do not have access to financial services into two categories. These categories are represented by those who choose to exclude themselves from financial services, which choice is called voluntary exclusion, and those that are forced into exclusion from financial services, which compulsion is called involuntary exclusion. Voluntary self-exclusion is a direct consequence of not having the need for financial services because of religious or cultural reasons or indirect access to financial services through friends and family (Beck *et al.*, 2009b).

On the other hand, there are the involuntarily excluded households who are classified into four groups according to the type of barriers that are hindering their access to financial services. The first group is the kind of household that has barriers to financial services because they have too little income, or they are considered as too high a risk to lend to. For this reason, instead of trying to participate in the borrowing association, they do not involve themselves at all.

The second group of the excluded are the households that are excluded from the financial cooperatives because of their discriminatory policies, which do not allow a certain type of individual to participate in the association. To provide an example, a cooperative for teachers discriminates against individuals who are not in the teaching profession. This in turn provides a barrier for certain individuals that would like to be involved in this organisation, but lack the necessary qualification to participate in that cooperative.

The third group of the excluded involves those that have deficiencies in the contractual and information framework. This acts as a barrier to access for those individuals that do not have sufficient information about the organisation. And the last group of the excluded are those households that are excluded because of the products which are offered by this association or by the interest rate that these organisations charge for their products. The product category and interest rate can act as a barrier, thereby excluding a certain group of the population that is interested in participating.

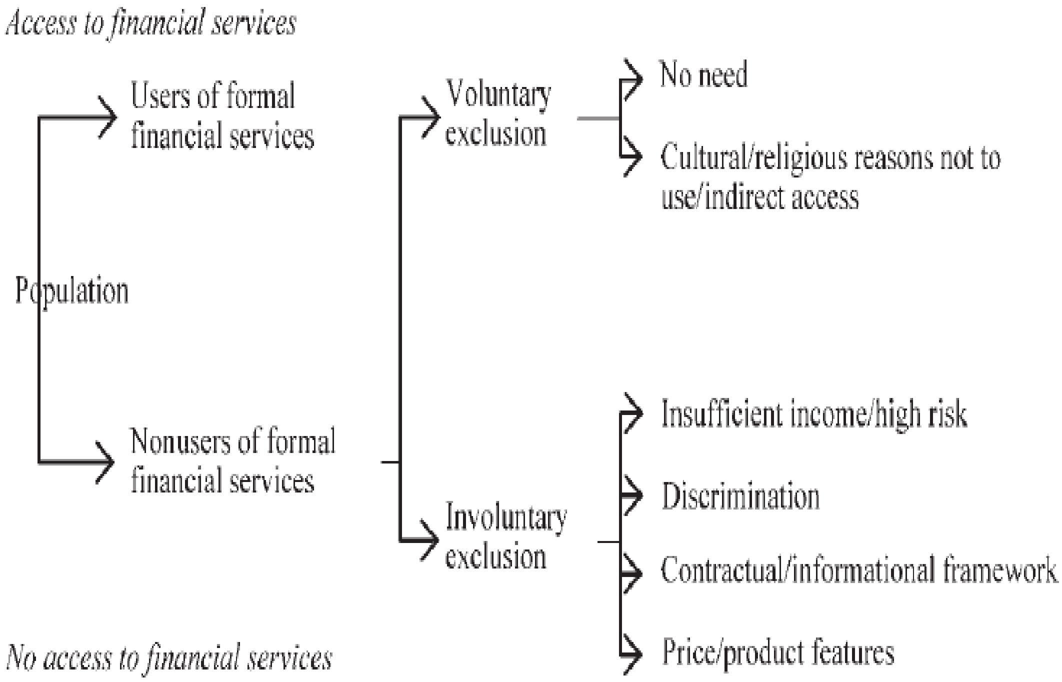

Figure 3.1: Differentiating between access to and use of financial services

Source: The World Bank Research Observer (2009)

3.3 Factors that determine the sustainability of savings and credit cooperatives

Since the early1850s the cooperative model has shown great prominence in Europe by playing an essential role in Europe's financial sector and showcasing great potential to resolve economic and social imbalance in the face of market failure (Bongini *et al.,* 2007). Intensely embedded in the local societies, cooperatives have created strong linkages among their membership built on trust and reciprocity, thereby adding a meaningful contribution to increased access for financial services to small and medium businesses, and low income households (Giagnocavo *et al.,* 2012). Although savings and credit cooperatives embody a homogenous business ideal, their functioning is intensely linked to the economic settings of their indigenous markets and also to the requirement to satisfy their member-clients' financial needs (Manetti and Bagnoli, 2013).

Apart from these attributes, cooperative institutions are recognised as microfinance institutions because of the nature of the clientele they serve, which is largely excluded from commercial financial providers due to their proximity to formal financial providers and their lack of collateral to secure loans. Through their double bottom line approach, savings and credit cooperatives perform a dual role, which is the facilitation of financial resources to low-earning household, while on the other hand providing a positive social influence.

In support of this view, Gutiérrez-Nieto *et al.* (2007), emphasised that microfinance organisations have a precise double bottom line in their outcome. Most importantly, microfinance organisations are evaluated on their economic sustainability and, moreover, they are assessed on their social efficiency as microfinance organisations (Gutiérrez-Nieto *et al*., 2007).

The International Cooperative Alliance [ICA] (2013) states that a cooperative is sustainable when it is an economically stable business that fully carries out the seven cooperative principles and also preserves or protects the environment in which it is embedded. Moreover, the ICA (2013) defined the term 'sustainability' as the representative term for sustainable development. Cooperative sustainability is a multifaceted concept that is made up of three pillars. The three pillars of cooperative sustainability are social, economic and environmental sustainability (ICA, 2013; CICOPA, 2013). The connection to the social sustainability dimension is stronger than links to environmental and economic dimensions, but nonetheless, all the three dimensions are important and must be present simultaneously to measure sustainable development of cooperatives (Cernea, 1993; ICA, 2013). Due to the nature of financial cooperatives, the environmental dimension will not be measured.

The ability of a microfinance institution to be sustainable can only be achieved if the institution has good financial and outreach performance to influence the socio-economic welfare of the poor (Lincolin, 2006). Yet a majority of studies on microfinance have focused on the evaluation of their performance and sustainability by only utilising financial indicators (Manetti and Bagnoli, 2013). However, Snow (1999) argues that the sustainability of a microfinance institution cannot be achieved if the financial service provider does not meet the needs of the people they are designed to assist. Therefore, Snow (1999) points out that the sustainability of microfinance institutions is embedded in and linked with the network of the existing local institutions. As a result, sustainability is socially constructed and arranged in a transparent nature, both socially and economically (Cernea, 1993). Moreover, Cernea (1993), in his analysis of the role of sociological factors on sustainability of microfinance, emphasises that among the fundamental causes of non-sustainability are the neglecting of social factors including social action, relations among people, institutional arrangements, culture, motives and values that influence their behaviour.

In support of this argument, the strategic management perspective has also revealed the point that the sustainability of an institution is greatly influenced by the institutional environment (Oliver, 1997). Oliver's argument is that the organisation's livelihood is greatly improved by the organisation's demonstration of conformity to the norms and social expectations of the institutional environment. Therefore, it is equally vital that the performance assessment of a microfinance institution be based on the social mission/objectives of the institution. This paves way for the use of social performance indicators to supplement financial performance indicators in the analysis of the sustainability of financial institutions. Financial performance, alone, does not reflect the true indication of a financial institution's performance.

3.3.1 Social sustainability dimension

The social dimension of sustainability is as crucial as the financial component of sustainability, and failing to acknowledge the crucial role played by the social actors has led to the demise of many programmes with development-induced agendas (Cernea, 1993). Generally, financial cooperatives have shown the capacity to provide access to products and services for their members without exploitation (ICA, 2013). These permit doing business with a set of values based on sustainability, because financial cooperatives cater for the needs of their social actors by developing products which are specific to their financial needs.

The cooperative principles represent the social dimension of cooperative sustainability because they form the set of values that enable cooperatives to do business. Due to the character of the cooperative principles, we can conclude that cooperatives, by their very description, also integrate the principles of sustainable development (ICA, 2013). In addition to this, Cernea (1993) mentions that social objectives of institutions, if known and well-defined, can act as a building block that can be translated and articulated into a powerful, action-oriented programme. However, if they are neglected, this can destroy development-induced programmes and curtail sustainability (Cernea, 1993). Therefore, it is vividly clear how the cooperative principles influence the social sustainability of financial cooperatives, as they determine the day-to-day operations of financial cooperatives. In the absence of these socially embedded cooperative principles, the operations of cooperatives would be compromised, providing room for opportunistic behaviour within the cooperative institution.

The cooperative principles are more closely associated with the social dimension of sustainability because there is an obvious and straightforward bond between sustainability and how financial cooperatives portray themselves (ICA, 2013). The cooperative principles of voluntary and open membership, democratic control, solidarity, autonomy and independence, education and training, collaboration, and community concern are the set of ideals that ensure the long-term sustainability of the cooperative movement (ICA, 2013). However the principle of voluntary and open membership may be compromised as cooperative membership is often limited to members of particular groups, for example, employees of the same firm, and can also be compulsory for other groups. They play a crucial function in the growth, development and the resilience of the cooperative model. Moreover, Ledgerwood *et al.* (2013) state that the social performance of an institution portrays the institution's ability to implement its social mission in its day-to-day operations. Therefore, social sustainability plays a crucial role in the long-term operations of financial cooperatives because it ensures the fulfilment of cooperatives' mission or objectives to their member-clients.

3.3.2 Economic sustainability dimension

Financial sustainability symbolises the institutional capacity to become liberated from donor and government subsidies (Malhotra, 1995). Financial cooperatives operate in the interest of their members, not their shareholders, because the members are both customers and owners. They promote stakeholder principles, making them essentially less hazardous (ICA, 2013). The available pool of empirical evidence supports the argument that financial cooperatives add to increased financial stability and sustainability (ICA, 2013). By placing human need at their core, financial cooperatives react to present day challenges of sustainability and convey a unique method of shared values. "Savings and credit cooperative have a directive to optimize products for stakeholders, without seeking to maximize the benefits of a solitary stakeholder" (ICA, 2013:14). Therefore, Sharma (1997) define financial sustainability as the ability of a microfinance institution to cover all it operating cost sufficiently with the operating income from the loans. This approach is adopted from the banker's perspective, as it utilises accounting principles of sustainability.

Moreover, financial cooperatives are not vulnerable to the challenge of "financialisation" that has encouraged capitalism, by evaluating financial performance as the focal indicator of good performance by financial service providers (ICA, 2013). For this reason, the nature and principles of financial cooperatives are less likely to reduce the quality of products or services in the pursuit of profits because they are more concerned about maximisation of the benefits of their members (ICA, 2013). This, however, does not mean commercial banks' financial products are inferior to those of cooperatives because the former are profit motivated.

In addition to this, cooperative aspirations are not basically reduced to the pursuit of profit maximisation or economic or financial wealth, but are rather in pursuit of maximisation of benefits for the members of the community (Mancino and Thomas, 2005). As a result, an analysis of economic sustainability must consider the difficulty of interpreting the economic profit for savings and credit cooperatives due to member compensation (Mancino and Thomas, 2005). Moreover, the World Cooperative Monitor has used financial data, such as turnover, operations costs, total assets and equity, for the definition of indicators for measuring the economic dimension of sustainability, efficiency and the level of capitalisation of cooperatives (ICA, 2014).

3.3.3 Environmental sustainability dimension

Environmental sustainability is more concerned with maintaining and protecting the ecological system in which cooperatives work. Environmental sustainability can be explained by cooperatives producing products that are environmentally friendly and, moreover, the cooperatives should invest in preserving or regenerating the environment for the benefit of future generations.

3.4 Factors that determine the success or failure of SACCOs

The Governance and Social Development Resource Centre [GSDRC] (2008) states that there is an increasing wealth of knowledge about the internal factors and structural conditions that determine the relative success or failure of SACCOs. Among these factors, the factors most commonly cited by literature are: a conducive legal environment for SACCOs to work in, secondly, access to credit for the members, thirdly, competent management and strong governance, fourthly, the autonomy and freedom from government influence, fifthly, a strong market-driven approach by the SACCO, and lastly, increasing, purposeful collaboration of SACCOs (GSDRC, 2008).

Moreover, Develtere and Pollet (2008) postulate that some of the aspects that are linked with the success of financial cooperatives in Africa comprise the local, embedded voluntary association of SACCOs and the general homogeneity of the interests of the group. Develtere and Pollet (2008) add that a result-driven cooperative and creativity in solving problems add to the success of a cooperative. Successful cooperatives regularly function as a demand-driven and market-oriented business with market niches and marketable products (Develtere and Pollet, 2008).

3.5 Factors that contribute to the dormancy of savings and credit cooperatives

The most common cause of financial cooperatives' dormancy and inactivity is financial loss (Jones, 2010). Financial loss can occur as a result of two predominant factors, namely loan delinquency combined with bad debt and also the inability of financial cooperatives to generate sufficient income to cover their operational expenses. Loan delinquency and bad debt joined together are often regarded as the principal cause for financial cooperatives' failure. This is followed by insufficiency of income generated by the financial cooperative for meeting its expenditure as being a second contributory factor to dormancy of financial cooperatives. In addition to these factors, financial loss can also occur in savings and credit cooperatives as a direct consequence of embezzlement and fraud. Financial cooperatives have been affected by incidents of embezzlement and fraud in Swaziland. This may not be a significant factor of financial loss, although it does destabilise the integrity of the financial cooperative as being an innocuous and secured environment for people to save their money in.

The combination of loan delinquency, coupled with bad debt and insufficient income to cover expenditures, are the immediate causes of financial losses that result in liquidation and dormancy of financial cooperatives. However, these two factors are themselves contributory features of internal and external market and economic environment issues

3.5.1 Internal market and economic environment causes of dormancy

Lack of financial discipline in the form of insolvency often results from failure by a financial cooperative to uphold financial discipline in its operations. This can be a result of financial cooperatives falling into debt by spending funds they do not have, without accruing funds for expenditures. Another internal factor that has resulted in the dormancy of financial cooperatives is lack of financial control, as savings and credit cooperatives have been unable to control their income and expenditures. This can happen as a direct result of a poor financial system, lack of internal control, and poor financial accounting, more specifically incompetence in understanding accruals based on accounting (Jones, 2010).

Other internal causes of failure and dormancy in financial cooperatives include lack of financial information needed to recognise the trends occurring within the financial cooperative, lack of financial analyses which might give insight into the interpretation of financial information in the form of ratio analysis, lack of financial planning in the form of shortage of foresight and ability to think ahead financially, poor credit administration and arrear collection as a result of imprudent lending and inefficient debt recovery procedure and lastly lack of business planning as a result of failure to implement a proper business or action plan that can be utilised to monitor progress.

3.5.2 External market and economic environment causes of dormancy

The external factors that threaten the growth and sustainability of financial cooperatives incorporate changes within the market place which could be a result of closing of the market, especially closing down of the company that sponsors the financial cooperative, which can adversely affect the continuation of the savings and credit cooperative.

3.5.3 Fundamental causes of savings and credit failure

In addition to the contributory causes of savings and credit cooperative dormancy, are two major basic causes of failure of financial cooperatives – insolvency and default (Jones, 2010). It is from two essential factors that all the contributory and immediate sources of cooperative failure flow. These are poor governance and bad management. Lack of effective governance in the form of lack of board competence and lack of confidence in decision-making can lead financial cooperatives into difficulties that may result in the dormancy of these financial cooperatives.

Furthermore, lack of effective management in the form of shortage of management personnel, lack of financial knowledge and insight among managers, lack of qualified and competent staff, and lastly, gatekeeper founding members can lead to the failure and dormancy of savings and credit cooperatives.

3.6 Summary

Savings and credit cooperatives are important semi-formal financial institutions that are faced by a number of constraints. The challenges that affect savings and credit cooperatives are classified into two categories, namely external and internal challenges. Apart from these challenges that affect savings and credit cooperatives, there are also other factors that influence the level of access to financial services that the cooperative members are subjected to. In order for savings and credit cooperatives to be sustainable in the long run, they must find innovative ways to mitigate the two types of challenges that they are constantly faced with. The sustainability of SACCOs may be achieved by taking into consideration the three dimension of cooperative sustainability, namely social, economic, and environmental sustainability .The inability of SACCOs to deal with these challenges to achieve the three pillar of sustainability may lead to the dormancy of a savings and credit cooperative.

CHAPTER FOUR

CONCEPTUAL FRAMEWORK: PERFORMANCE AND SUSTAINABILITY MEASUREMENT PROCEDURE FOR SAVINGS AND CREDIT COOPERATIVES

This chapter presents the theoretical framework for analysing the performance and sustainability of savings and credit cooperatives. Analysing the performance and sustainability of savings and credit cooperatives must integrate the economic and social dimensions of the savings and credit cooperative in order to assess whether the cooperative does meet its primary objective. The procedures utilised to assess the performance and sustainability of savings and credit cooperatives take into account the fact that savings and credit cooperatives are not profit-motivated financial institutions; rather, they are more motivated to meet the financial needs of their members. For this reason, the savings and credit cooperatives assessment procedures have to account for the two important dimensions of sustainability in the form of *social* sustainability and *economic/*financial sustainability.

4.1 Methods used to measure performances and sustainability

Successful financial administration entails a regular assessment of financial performance (Ledgerwood, 1999:205). Performance indicators are gathered to provide crucial information which practitioners and consultants can utilise to find out the efficiency, viability and outreach of financial cooperatives in their operations (Ledgerwood, 1999:205). Performance indicators incorporate ratios which can be used to compare financial data and trends to determine the performance of financial institutions in terms of growth or weakening of the institution. Furthermore, analysis of performance indicators provides information that can be utilised to detect potential and present limitations, which can lead to change in policies or operations, which in turn might improve financial performance (Ledgerwood, 1999:205).

The complexity of measuring cooperative economic performance has been widely acknowledged. Among the reasons that have been cited for the complication of quantifying economic performance for financial cooperatives is their very nature, in that they are not a profit maximising business model (ICA, 2013:5). Furthermore, Gentzoglanis (1997) adds that theoretical analysis has proven that cooperatives' financial and economic performance may be hugely governed by the cooperative principle of risk sharing and mutual responsibility, and therefore may influence productive and economic efficiency in a manner that financial performance would be different from one used by investor-owned firms.

The use of traditional economic and financial indicators to evaluate the financial performance of cooperatives does not capture the cooperative objective of maximising the benefits of the client or addressing the interests of the community (Mancino and Thomas, 2005). In support of this argument, Fonteyn (2009:19) states that most literature is inconsistent by measuring the performance of the cooperative model with for-profit financial institutions on just two measures which are profits compared to inputs. Moreover, Fonteyn (2009:19) adds that the business model does have an influence on the aims of the financial institution.

Any analysis of cooperative financial performance must take into consideration the difficulties of measuring economic profit due to the compensation of members by the cooperatives (ICA, 2014:5). Moreover, the adapted financial indicators to measure the performance of the financial cooperative model must also contribute to the interpretation of the organisation's sustainability, but cannot be used to measure the efficiency (Herman and Renz, 1999:108). Moreover, Yaron *et al.* (1997:87) add that in evaluating the performance of rural finance initiatives, it is important to determine first whether they have met their goal of expanding income and decreasing poverty, and then to evaluate their opportunity cost.

For many years there were no standard, agreed-upon criteria that were used to evaluate the performance of rural finance institutions (Yaron *et al.*, 1997:90), and basic financial ratios were utilised to assess the performance of rural finance institutions. The shortfall of these financial analysis tools was that they did not account for the various subsidies that were involved in the establishment and operations of these financial institutions, and neither did they give special attention to the objective assigned to these financial institutions (Yaron *et al.*, 1997:90).

To overcome the drawback of financial ratios analysis in assessing the performance of rural financial institutions, Yaron in 1992 developed and introduced a performance assessment framework which was widely accepted by academia and practitioners (Yaron *et al*., 1997:90). This analytical framework had two primary indicators for performance criteria, namely the level of outreach achieved among targeted clients, and the self-sustainability of the rural financial institutions. The outreach dimension was a dual measurement that assessed the extent to which a financial institution succeeded in reaching its targeted clientele and the degree to which the financial institution met the clientele demands for financial services (Yaron *et al*., 1997:91). Whilst the self-sustainability dimension used the S*ubsidy Dependence Index* (SDI) to assess the sustainability of an institution and also measured the social cost of funding the finance initiative (Yaron *et al.*, 1997:91).

The only limitation of Yaron's framework was that it put too much emphasis on rural institutions' dependence on government grants and neglected the assessment of rural financial institutions that do not receive any subsidies from government. In the context of this study, the self-sustainability measurement dimension does not apply because none of the financial cooperatives in Swaziland receive any kind of external funding from government or private donors (FinMark Trust, 2014:25). Therefore, it is not necessary to calculate the subsidy dependence index (SDI). Because SACCOs in Swaziland do not receive any grant for their operations, the Yaron framework would determine them to be self-sustainable, while neglecting to assess whether they do meet their sole objective, which is to maximise the provision of credit to their members. Therefore, in using the Yaron framework of 1992, we will only consider the outreach dimension in our assessment of performance for financial cooperatives. However, other indicators of sustainability, such as social performance indicators and financial performance indicators, will be utilised for our assessment in this study.

One of the quantitative methods that has been developed and widely utilised by economists to measure the economic sustainability of cooperative banks and to provide empirical analysis throughout the world is the z-score parameter. The z-score parameter has become prevalent as it was also used by Beck *et al.* (2009a) in their analysis of German banks' sustainability, and also Hesse and Čihák (2007) on the analysis of cooperative banks and financial sustainability. This technique is utilised as a tool to measure the amount of separation from insolvency by the savings and credit cooperative. The z-score method is calculated as the negative summation of the returns on assets, (Net income divided by total assets, ROA) and the capital to asset ratio (CAR) divided by the standard deviation of the return on assets (Bunger, 2009:19). By applying the assumption that the profit follows a normal distribution, the z-score is the value of the standard deviation that a given bank's return on assets can fall below its expected value before the bank is insolvent (Bunger, 2009:19). Moreover, a larger z-score is most preferred for the evaluation of efficiency on cooperative bank institutions.

In addition to the above methodology, Birchall and Ketilson (2009) offered a qualitative evaluation of the cooperatives model in their time of calamity by analysing the "Resilience of the cooperative business model in time of crisis". From their analysis, Birchall and Ketilson (2009) found the performance of financial cooperatives to be going extremely well, with their membership base increasing, their assets and deposits also displayed a growing trend, and furthermore their lending also increased, showing the resilience of the cooperative model during the financial crises of 2008/09.

The resilience of financial cooperatives can be attributed to their sustainability in times of crisis. Sustainability of financial cooperatives can be widely defined as the ability of the cooperative to withstand an unfavourable economic climate. The most common indicators that are used to measure the degree of sustainability within the cooperatives model is the level of capitalisation, low earning volatility and high profitability (Bunger, 2009:19). Nevertheless, quantifying these three indicators of sustainability is an extremely complex and cumbersome process (Bunger, 2009:19).

Bunger (2009), presented three qualitative measurement methods accepted to quantify financial sustainability at present. Moreover, Bunger (2009:19) added that all these methodologies are rather similar and they all require the use of financial ratios for calculation, although are all prone to the same limitations. In addition to this, Gentzoglanis (1997) adds that ratio analysis has been widely utilised in the assessment of financial performance for a long time; however, it is extremely difficult to apply financial ratios in an economic or financial analysis because of the scarcity of this type of data acquired from the relevant financial institutions. Regardless of this drawback, ratio analysis is a reliable tool which is regularly used in finance to provide valuable insight in economic and financial analysis (Gentzoglanis, 1997). Furthermore, ratio analysis expresses important information about a firm's operations and its current financial position, although the selection of ratios used for the analysis of a firm's performance will differ according to the perception of usefulness by the user evaluating the firm (Gentzoglanis, 1997).

The first methodology is the CAMELS (Capital adequacy, asset quality, management competency, earning strength, liquidity risk exposure and sensitivity to market risks) rating technique for financial institutions — which was made prominent by the United States Federal Reserve Bank and National Union Association as a measure of bank sustainability. A

CAMELS score is given on a scale of one to five (one being the best rating and five being the worst), and any score less than two is considered to be unsatisfactory.

The second measurement methodology is the PEARLS (Protection, Efficient financial structure, Asset quality, Rate of return and cost, Liquidity and Sign of growth) system which is a direct reflection of the CAMELS method and is widely utilised by the World Council of Credit Unions (WOCCU). The PEARLS framework is a set of 45 ratios used to evaluate and monitor the financial stability of financial cooperatives within WOCCU. The PEARLS monitor was established to be utilised by small credit unions in less-developed countries, especially those engaged in microfinance, and its similarities with the CAMELS method is clear for everyone to see. Fountain (2008:145) acknowledged the similarities between the two and further added that the PEARLS is aimed at removing the subjective measurement in the CAMELS rating, which requires on-site supervision to determine the competency of management. Moreover, Fountain (2008:145) adds that besides the inconsistency, the subjective rating system is expensive and time consuming, thus precluding frequent inspections.

Fountain (2008:145) revised the PEARLS framework established by the World Council of Credit Unions to offer his own eight crucial financial ratios for credit unions and also accommodates the zone of acceptance (ZOA) for these key indicators. The updated methodology uses the same six dimensions of measurement as the original PEARLS, but it uses few and simpler financial ratios for analysis. Instead of utilising the six financial ratios to measure protection as in the World Council of Credit Unions, PEARL framework, the updated PEARLS framework examines protection by net capital/assets. To measure effective financial structure, it uses gross spread and loan/share, for asset quality, it uses loan delinquency ratio and charge-offs/average loans, and for rate of return and cost, it uses operating expense/operating income and net returns on average assets. To measure liquidity, the updated

PEARLS uses net capital to assets, and lastly, for signs of growth, it uses number of members per employee. However, it must be mentioned that the main limitation of the PEARLS framework is that it only uses quantitative measurement and does not use qualitative indicators.

It is worth observing that these two methods of measuring sustainability of cooperatives have similarities and a crucial criticism of these two methods is that they fail to fully capture the true risk of failure. This limitation is directly attributed to the financial ratios used in these methods being lagged, and which are therefore unable to provide instant warning of trouble within the financial cooperative (Bunger, 2009:19).

The third performance framework is the Micro Finance Reporting Standards [MFRS] which is a framework developed by the SEEP network (Small Enterprise Education and Promotion Network) for institutional financial service providers, including NGO MFIs, deposit-taking MFIs, various types of banks, and others providing credit and savings, and in some cases, others providing repayment services (Ledgerwood *et al.*, 2013).

The MFRS uses five sets of core indicators to assess the performance of an institution and these are efficiency and productivity ratios, profitability ratios, asset quality ratios (portfolio quality), capital ratios, and liquidity ratios (Ledgerwood *et al.*, 2013). The logic for using this five-core measure of ratios is that all risks are interrelated (Ledgerwood *et al.*, 2013).

The last method of quantifying the economic efficiency of financial cooperatives is the World Cooperative Monitor system which was developed by researchers from the ICA and Euricse. The objective of this methodology is to collect financial data, such as turnover, operating cost, total assets and equity, which can be utilised as vital indicators for the definition of economic efficiency and the level of capitalisation of cooperatives (ICA, 2013). The World Cooperative Monitor system defined net income as the difference between income interest and expenditure interest, and this was used as an indicator to quantify turnover. The reason for using net interest income was that it is widely used and recorded in all financial statements offered by financial cooperatives. Moreover, some of the indicators used for economic performance by this system include premium income, non-interest income, total debt, total operating cost, total fixed cost, cost of goods, cost of staff, and profits or losses for periods under review.

Social performance measurement is among the important measures of institution financial services providers' sustainability, and it is as important as financial performance (Ledgerwood *et al*., 2013). To measure financial institutions' overall performance, social performance management has emerged as a crucial component, as it evaluates whether the financial institution acts in a socially acceptable manner. Social performance is essential for the translation of the mandate of the financial service provider into practice, in line with accepted social goals (Social Performance Task Force, 2012). Social performance is used as an indicator of whether an institution has fulfilled its mission, and it acts as a catalyst in allowing financial institutions to create value and benefits for its clientele. In addition to this, social performance helps to ensure that the institutions' mandate to enhance their members' welfare in an evolving market conditions is still intact (Social Performance Task Force, 2012). Moreover, Ledgerwood *et al.* (2013:334) state that social performance management is the process of incorporating the financial institution's mission into the daily business operations of the financial cooperative.

Social performance management focuses on gathering information that permits financial providers to assess the client's needs and behaviours and thus improves the suitability and efficiency of financial services/products offered by the financial providers (IFAD, 2006). There are numerous qualitative and quantitative analysis methods that can be utilised to assess the social performance of financial service providers. The quantifying aspects of a financial provider can assist in providing information that might influence the institution's products, policies and its mandate (Ledgerwood *et al.*, 2013). To provide internationally acknowledged standards of social performance management, the MIX Market and the Social Performance Task Force (SPTF) have combined to develop a universally accepted set of core social performance indicators (Ledgerwood *et al*., 2013; Gart, 2011).

The Microfinance Information Exchange (MIX) and the Social Performance Task Force have established eleven indicators which are essential for the measurement of social performance in microfinance institutions. These eleven specific indicators are utilised to collect social performance data from financial institutions globally and also provide a platform for benchmarking and analysis of sustainability in financial service providers (Gart, 2011).

Several standardised frameworks have been developed to monitor and manage financial performance, including risks (Ledgerwood *et al.*, 2013:334). The indicators utilised are similar and generally fall under six categories, namely, efficiency, productivity, profitability, asset quality, capital adequacy, and liquidity (Ledgerwood *et al.*, 2013:334). Moreover, each framework can be used to assess the performance of individual institutions or to assess performance across institutions (Ledgerwood *et al.*, 2013:334).

For the purpose of this study, the updated PEARLS framework, in conjunction with the MIX and Social Performance Task Force social performance indicators, will be used to measure sustainability of financial cooperatives. The PEARLS method was selected because it is a framework that was developed by the World Council of Credit Unions, which gives it merit over the other methods as it suitable for measuring the financial performance of cooperatives/credit unions (Ledgerwood *et al.,* 2013:334). Secondly, it is a framework that is internationally recognised as it falls under the standardised methods of measuring financial performance and sustainability of cooperatives. Lastly, the PEARLS framework will provide us with the appropriate benchmark for the assessment of financial cooperatives, as it is used worldwide to assess the financial performance of credit unions and cooperatives. Furthermore, the MIX and SPTF social performance indictor framework was selected because it is a universally acclaimed method that is used to measure social performance of financial service providers and it is used as the benchmark methodology for assessment of social performance.

4.2 A summary of the performance and sustainability of saving and credit cooperatives measurement procedure.

The previous section presents a theoretical modelling, illustrating the main factors to consider when assessing the performance and sustainability of savings and credit cooperatives. In this section, the theoretical model is simplified into a schematic diagram to make it attractive for readers less interested in assessment of performance and sustainability of saving and credit cooperatives. The performance and sustainability of savings and credit cooperatives are conceptualised by the access to financial services provided for their members, as depicted in Figure 4.1.

The conceptual framework of this study assumes that access to credit offered by savings and credit cooperatives to their users has the potential to increase their welfare. Welfare is a broad subject and shall be categorised into four dimensions, according to this study. The four uses of credit which may eventually enhance welfare that this study will discuss are income smoothening, increased consumption, minimisation of risks, and investment. The role of the government as an external influence on cooperatives cannot be overlooked, as the government plays a pivotal role in providing an enabling environment for cooperatives to thrive in, and might also provide a harsh environment for cooperatives to participate in.

The financial products that are provided by cooperatives are short-term loans, medium-term loans, and long-term loans. These products are designed to meet the financial needs of the cooperative's clients, who are also the owners of the cooperative. The product users are divided into two groups: voluntarily excluded and the involuntarily excluded. These users must overcome certain barriers for them to ultimately access these financial services or products. Although cooperatives have the potential to improve access to credit for their members, they are still faced with obstacles that have rendered their potential and sustainability questionable.

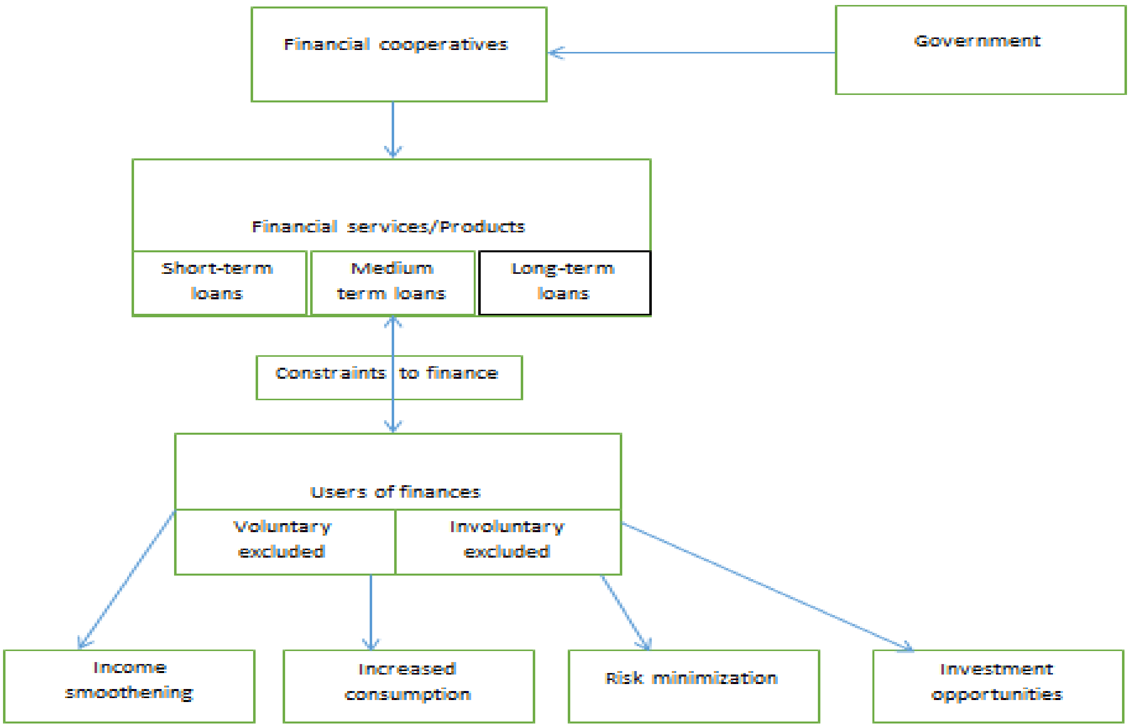

Figure 4.1: Conceptual Framework of access to financial services

Source: Author's construct (2015)

4.3 Summary

This chapter has demonstrated that the performance and sustainability of savings and credit cooperatives may be influenced by the cost providing access to financial services, which has the ultimate goal of improving the welfare of the members' needs. The performance and sustainability of savings and credit cooperatives in the financial market is defined by their provision of improved access to financial services that meet their members' needs in order to improve their welfare, rather than by profit maximisation by the cooperative. The social and the economic dimensions of sustainability are crucial in the improvement of welfare for cooperative members' needs. Variables, which are recognised through different distinct cases and the general model, are combined in a summary and their interaction with the performance and sustainability of savings and credit cooperatives.

CHAPTER FIVE
METHODS AND PROCEDURES

This chapter deals with the research methods, namely, the data collection techniques, and describes how the data analysis process was conducted. The manner in which the analysis was executed to address the research objectives is outlined in chapter 1.

5.1 Research design

This research strives to assess the role of savings and credit cooperatives in promoting access to credit. It is centred on SACCOs based in Swaziland. This study adapted a qualitative and a quantitative research design. The qualitative research design was appropriate for this study because it focuses on the relationship between variables and the development of a generalisation that has a collective validity about the role of savings and credit cooperatives in promoting access to credit in Swaziland. The quantitative research design was used to assess the level of outreach and to measure the sustainability of SACCOs, using performance measurement indicators to get an overview of how SACCOs have performed in recent years.

5.2 Study area

Swaziland is divided into four geographic regions, namely Hhohho region, Manzini region, Shiselweni region, and Lubombo region. There are 76 registered savings and credit cooperative societies in Swaziland, with a membership base of 40 507 members, and they are stratified according to the four geographic regions in Swaziland (Department of Cooperatives, 2014). The distribution of cooperatives in Swaziland is lopsided, with a majority of the cooperatives falling between two regions, namely, Manzini and Hhohho.

5.3 Sample and sampling procedure

The population of this study comprised all SACCOs in Swaziland that are actively extending credit to their members, and registered with the Department of Cooperatives. The SACCO members shared a common bond of employment, as all the members are formally employed in private companies, government parastatals and other government departments. The study population was composed of all SACCOs in Swaziland, registered and fully active as at the 30th of June 2015. A list of all active SACCOs in Swaziland was retrieved from the Commissioner of Cooperatives in the Department of Cooperatives. This list included SACCOs that were dormant and no longer serving their members but were not removed from the database. Also included are multi-purpose cooperatives that were in the process of changing into SACCOs but had not fully attainted the status of SACCOs as they were still in the transition process. This list also included SACCOs that were in the process of liquidation or already liquidated.

Table 5.1: SACCOs in Swaziland

Region of Swaziland	Number of SACCOs
Manzini	33
Hhohho	27
Shiselweni	3
Lubombo	9
Total	**72**

Source: Department of Cooperatives (2014)

The sampling frame contained only 72 registered SACCOs, as four of them were not accounted for because of their omission from the list made available by the Commissioner of Cooperatives.

5.3.1 Determination of the required sample

To determine the sample size, Slovin's formula was used. This formula is utilised to calculate the appropriate sample of the population when nothing is known about the population (Tejada and Punzalan, 2012). Due to the fact that before the data were collected, nothing was known about the population's behaviour, Slovin's formula was used to give an idea of the sample size needed to take for the assessment of the role of savings and credit cooperatives in promoting access to credit that would be reliable to generalise about the whole population of financial cooperatives.

The sample size was computed using the sample determination formula called Slovin's formula which is given as:

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

Where N = total population, n = sample size and *e* = error tolerance (Almeda *et al.,* 2010). A number of research studies have used Slovin's formula because of its simplicity (Tejada and Punzalan, 2012). Slovin's formula was suitable for this study because of the distribution of the population according to the four regions of Swaziland. Secondly, the confidence coefficient of this study will be set at 95 percent level.

$$\frac{72}{(1 + 72 * 0.05^2)} = 61$$

After using Slovin's formula, it was determined that a total of 61 savings and credit cooperatives were appropriate for the sample size to generalise about the population of SACCOs in Swaziland.

Since the proportion of the sample to be allocated to a given stratum varied from one group to another, the stratum sample size was determined using the following equation:

$$n_h = (N_h/N) * n$$

Where n_h is the sample size for stratum h, N_h is the population size for stratum h, **N** is the total population size, and **n** is the total sample size.

Table 5.2 illustrates how the 61 SACCOs used as a sample size were distributed after the sample size has been proportioned.

Table 5.2: Regional distribution of sampled SACCOs in Swaziland

Region	Number of SACCOs
Manzini	28
Hhohho	23
Shiselweni	2
Lubombo	8
Total	**61**

5.3.2 Questionnaire pilot

When the data collection process began, we discovered that there were 45 active savings and credit cooperatives from the 76 identified by the Commissioner of Cooperatives. Out of the 45 active savings and credit cooperatives that were visited, four refused to be part of the study. From the remaining 41 participants, three savings and credit SACCOs were selected to participate in the piloting phase of the questionnaire to test if it was readable and understandable for the respondents and also to test if the questionnaire was able to assist in addressing the research objectives. All the SACCOs that were used for the piloting stage were selected from the Manzini Region to mitigate transport costs and time constraints, as Manzini was the closest region to research. After the piloting phase was completed and the mistakes were identified and corrected, the data collection process was initiated with the 38 remaining SACCOs.

5.4 Data collection

Data was collected using both secondary and primary methods. Primary data were collected through the use of a well-structured questionnaire which was used to interview the SACCOs' managers and accounting clerks. Secondary data were obtained from the Commissioner of Cooperatives in Swaziland who has kept records of the SACCOs' financial statements in the database contained in the Cooperative Data Analysis System (CODAS) from 2010 to present.

Since this is a study about the role of financial cooperatives in promoting access to credit in Swaziland, data collection was performed through personal interviews with the SACCOs' managers and accounting clerks. The idea was to capture the supply side of access to credit services in the financial cooperative institutions. The SACCO managers and accounting clerks are responsible for the day-to-day operations of their societies. Secondly, they have been tasked with the development of SACCOs, and lastly, they are responsible for the monitoring and evaluation of the financial cooperatives' outreach, and assessment of the economic/financial performance and social performance of the financial cooperatives. For the above-mentioned reasons, they were able to provide a clear indication of the supply side perspective of access to credit, and about the performance and sustainability of SACCOS in Swaziland. The criteria for selecting the managers and accounting clerks were that they must be fully active in financial cooperative affairs and at least have one year of experience in that position.

Table 5.3 illustrates the distribution of all the 45 SACCOs that were visited and requested to participate in the study.

Table 5.3: Active SACCOs visited

Region	Number of SACCOs
Manzini	20
Hhohho	18
Shiselweni	0
Lubombo	7
Total	**45**

All the 45 fully active savings and credit cooperatives in Swaziland were approached to participate in the study through personal meetings and interviews with the managers and accounting clerks. However, four of the SACCOs could not participate in the survey owing to various reasons which were beyond our control. The researcher was left with 41 participants to interview for the assessments of the role of financial cooperatives in promoting access to credit in Swaziland.

5.5 Data analysis

The Statistical Package for Social Sciences (SPSS version 21) was utilised for data entry and the results were analysed using descriptive statistics comprising tables, graphs, frequencies, means and percentages for ease of interpretation.

Table 5.4 shows the analytical framework utilised in the study. The analytical framework is used to showcase the type of data (data sources) and the type of analysis that was performed in addressing the specific objectives of the study. To address the first and second objectives secondary data were utilised. To address the third objective primary data was used. All the three objectives were analysed using descriptive analysis.

Table 5.4: Analytical framework

Objectives	**Variables**	**Source of Data**	**Type of Analysis**
Objective 1: to determine the level of outreach of SACCOs in Swaziland, including the level of penetration and the quality of financial services provided	Level of outreach and penetration	Secondary data	Descriptive analysis
Objective 2: To assess the level of sustainability of SACCOs in Swaziland, including economic, financial and social sustainability	Level of sustainability	Primary and secondary data	Descriptive analysis
Objective 3: To identify the challenges faced by SACCOs in providing financial services and to propose measures for enhancing their performances	Challenges	Primary data	Descriptive analysis

5.6 Objectives assessment

The specific objectives of the study are examined as to how they will be evaluated to meet the main objective of the study, which is to assess the role of savings and credit cooperatives in promoting access to credit for their members.

5.6.1 Financial outreach

Increasing access to credit outreach by savings and credit cooperatives is important in promoting access to credit, as the number of members serviced and the average size of the loan give an indication of the demand-led growth in a cooperative's credit provision. The number of members serviced is a good indicator of market penetration, especially when compared with the national figures of the total number of cooperative participants. Moreover, with regard to market penetration, it is also vital to consider the number of female borrowers. The average size of loans offered by SACCOs to clients, in comparison with their needs, is a vital factor to consider in improving the welfare of members so that they might meet their consumption needs, investment needs and resist economic shocks.

Table 5.5 shows all eleven financial indicators that were used to assess the level of outreach and penetration by savings and credit cooperatives in Swaziland.

Table 5.5: Financial outreach indicators

Indicator	Variable
Number of branches	Number of active cooperative branches
Total number of active clients	Number of active account holders
Percentage of woman clients	Number of woman/total clients
Total assets (E)	Value of assets owned by the cooperative
Total savings (E)	Value of total savings mobilised by the cooperatives
Total number of borrowers	Number of active borrowers with outstanding loans
Total number of savers	Number of active savers with an active savings account
Total outstanding loans (E)	Value of all outstanding principle of all outstanding client loans.
Average loan balance (E)	Total loans/number of clients
Average saving balance (E)	Total savings/number of clients
Average outstanding loan balance (E)	Total outstanding loans/number of clients

Source: MIX (2005)

5.6.2 Assessment of sustainability in financial cooperatives using financial performance indicators

Savings and credit cooperatives are highly sustainable businesses, combining financial, health, environmental concerns and social purposes (ICA, 2013). Because of the nature of savings and credit cooperatives, the environmental dimension will not be analysed in this study. This analysis will use a double bottom-line approach including financial performance and social performance.

To measure the economic dimension of sustainability for financial cooperatives, the World Councils of Credit Union’s PEARLS framework, revised by Fountain (2008), will be implemented, which uses financial ratios to measure the economic sustainability of cooperatives. The appropriate indicators were obtained from the Commissioner of Cooperatives CODAS database and were utilised to calculate the six dimensions of financial sustainability, namely Protection, Effective financial structure, Asset quality, Rate of returns and cost, Liquidity, and Signs of growth. To measure protection, the ratio of net capital over assets will be utilised. Secondly, to measure the effective financial structure, gross spread and the ratio of loans over shares will be used. Thirdly, to assess asset quality, loan delinquency rate and the net charge-off over average ratio will be used. Fourthly, to measure rate of returns and cost, the ratio of operating cost over operating income and the net return on average assets will be utilised. To quantify the liquidity of the cooperative, the net capital to asset ratio will be used, and lastly, to measure the signs of growth, the number of members per employee will be utilised.

Table 5.6 shows all the six financial indicators that are adapted by the summarised PEARLS method proposed by Fountain (2008).

Table 5.6: Wendell Fountain's summarised PEARLS method indicators

What is measured	Indicator/Variable	Formula
Protection	$\frac{Net\ capital}{assets}$	Net capital= total assets – (notes receivables + inventory)
Effective financial structure	1. Gross spread 2. $\frac{loans}{shares}$	$spread = \frac{\text{operating revenue} - \text{financing cost}}{average\ performing\ asset}$
Asset quality	1. Loan delinquency rate 2. $\frac{net\ charge-off}{average\ loan}$	Loan delinquency= $\frac{deliquent\ repayments}{total\ loans\ issued}$ Net charge-off = bad debt – repaid bad debt
Rate of return and cost	$\frac{operating\ cost}{operating\ income}$ Net returns on assets	ROAA = $\frac{net\ income}{average\ total\ assets}$
Liquidity	Net capital to assets	Total current assets – total current liabilities
Signs of growth	Number of members per employee	$\frac{no\ of\ members}{no\ of\ employee}$

Source: Fountain (2008)

5.6.3 Assessment of sustainability in financial cooperatives using social performance indicators

Social performance is the ability of a financial institution to effectively implement its social mission into practice in its day-to-day operation of the business (CGAP, 2007). The concept of social performance is not just result oriented, it also includes the whole process that leads up to and determines the impact. CGAP (2007) emphasises that the process of social performance begins with a well-defined organisational mission, encompassing an analysis of its affirmed objectives, followed by the effectiveness of the system in providing services that meet these declared objectives and related impacts, involving any positive changes in the welfare of their members. In addition to this, an enriched transparency of social performance can assist financial providers to benchmark themselves and thus improve their practices in the long run (CGAP, 2007).

There are eleven core social performance indicator categories, universally acclaimed and used as a benchmark for the assessment of social performance, worldwide, and these are indicator categories. These indicator categories were developed by the MIX in conjunction with SPTF and they are used to collect social performance data from financial service providers, all around the world.

Table 5.7 shows all eleven social performance indicators and also explains what they measure.

Table 5.7: Social performance indicator categories

Indicator category	What indicators measure
1.Mission and social goal	The MFI's stated commitment to its social mission, its target market and development objectives
2. Governance	Whether members of the Board of Directors have been trained in social performance management and the presence of a formal Board Committee that monitors social performance
3. Range of products and services	Both financial and non-financial products and services offered by the MFI
4. Social responsibility to clients	The number of Smart Campaign Client Protection Principles applied by the MFI
5. Transparency of cost of services to clients	How the MFI states its interest rates
6. Human resources and staff incentives	The MFI's policy regarding social responsibility to staff. This includes: human resource policies in place, board and staff composition, staff turnover rate, and staff incentives linked to social performance goals
7. Social responsibility to the environment	Whether the MFI has policies and initiatives in place to mitigate the environmental impact of financed enterprises
8. Poverty outreach	Poverty levels of clients at entry and their movement out of poverty over time
9. Client outreach by lending methodology	The type of lending methodology(-ies) employed by the MFI
10. Enterprises financed and employment creation	The number of enterprises financed by the MFI and employment opportunities created by the enterprises financed
11. Client retention rate	The client retention rate of the MFI

Source: MIX and SPTF (2011)

5.6.4 Challenges

The ability of savings and credit cooperatives to mitigate their internal and external obstacles is important for the long-term sustainability and growth of the cooperative. The extent to which cooperatives are able to overcome their challenges contributes significantly to the resilience and sustainability of the cooperative model and also to the economic welfare of the clients. The challenges faced by savings and credit cooperatives will be used as an indicator of the factors that facilitate the promotion of access to credit by SACCOs. A list of challenges, ranging from internal to external challenges which are known to be specific to the financial cooperative model, were derived from literature and rated to determine the significance they have in the promotion of access to credit by cooperatives. A scorecard will be developed to rate the challenges faced by SACCOs in Swaziland and will range from 1 to 3 (with 1 being the highest important, and 3 being the least important, challenges).

5.7 Summary

Having knowledge about the source of data and collection procedure is critical for the interpretation of the research results. This chapter has indicated that the research for this study used both primary and secondary data collected from face-to-face interviews with the SACCOs' managers and clerks, and from the CODAS database. The sampling frame and the methods used for data collection have been discussed. The data collection and survey instruments were designed, taking into consideration the level of literacy of the cooperative managers and clerks. The basic characteristics of the sample were unknown, hence the use of Slovin's formula to determine the sample size representative of the savings and credit cooperatives in Swaziland.

CHAPTER SIX
RESULTS AND DISCUSSION: THE LEVEL OF OUTREACH OF SACCOS IN SWAZILAND

6.1 Introduction

This chapter commences by discussing the level of outreach in Swaziland, including the level of penetration and the quality of the services provided by savings and credit cooperatives. Quantitative data about the level of outreach and the level of penetration for savings and credit cooperatives was obtained from the Cooperative Data Analysis System. The level of outreach and the level of penetration for each of the 38 active savings cooperatives are summed up to come up with the average mean for each of the outreach indicators and the level of penetration for savings and credit cooperatives in Swaziland.

6.2 Level of outreach of SACCOs in Swaziland

The results concerning the level of outreach of SACCOs in Swaziland are presented in Table 6.1. The results indicate that all the savings and credit cooperatives included in this study utilise one physical access point (branch) for their clients to get assistance. The results also reveal that the average number of active members is also equivalent to the number of total borrowers and total savers, which is 631 members, with a standard deviation of 1007. The large amount of variation in the membership, savers and borrowers may be influenced by the large savings and credit cooperatives that have a huge membership base of more than 2000 active members, and the small financial cooperatives that have a small membership base of less than 100 members in their registry. Additionally, the results also indicate that the average percentage of women participating in financial cooperatives in Swaziland is 46 percent, with a standard deviation of 21. Moreover, the results illustrate that average total assets accumulated by savings and credit cooperatives in the year 2014 was E17 333 051, while the total of loans issued by the SACCOs in 2014 was E11 154 453. The results also indicated that the total savings mobilised by the SACCOs in 2014 was E13 501 341, and the total outstanding loans in the books of the SACCOs in 2014 was E12 542 230. In addition to the means noted above, the variables' standard deviations appear to be very large, which may be attributed to the large amount of variation in the SACCOs due to the large SACCOs having a large membership base and the small SACCOs having a small membership registry. The results showed that the average loan per member was E14 477, while the average savings mobilised per member was E16 969, and the average outstanding loan per member was E15 099.

Table 6.1: Level of outreach of SACCOs in Swaziland

Indicator	**Mean (n= 38)**
Number of active branches	1 (0)
Total active clients	631 (1007)
Percentage of women	46 (21)
Total borrowers	631 (1007)
Total savers	631 (1007)
Total Assets (E)	17 333 051 (30 785 167)
Total savings (E)	13 501 342 (22 198 632)
Total loans issued (E)	11 154 454 (19 020 413)
Total outstanding loans (E)	12 542 231 (21 008 176)
Average loan (E)	14 477 (13 187)
Average savings (E)	16 969 (10 086)
Average outstanding loans (E)	15 099 (10 217)

Note: the numbers in parentheses indicate standard deviations, currency units are in Emalangeni (currency unit of Swaziland). E1 = 0.01134 US$ in real exchange rate to account for inflation. Source: Survey data (2015).

6.3 Level of penetration of SACCOs

The level of penetration in the financial cooperatives' world is determined by the degree of success in attracting new members in the financial market to recognise or buy the financial product or service the savings and credit cooperative is offering (WOCCU, 2012)**.** The penetration rate of a financial cooperative is calculated by dividing the total number of fully registered and paid-up savings and credit cooperative members by the economically active population age, which ranges from 15 years old to over 60 years old (WOCCU, 2012). The level of penetration of the SACCOs is presented in Table 6.2. There were 23 988 members, fully registered and paid up, within the 38 cooperatives included in this study. From the 38 cooperatives, it was determined that the level of penetration by the cooperative model when compared with the total population is 3.09 percent. This basically means that the cooperative movement only represents 3.09 percent of the economically active population of 775 530 in Swaziland. This differs from the 4.46 percent reported by the World Council of Credit Union statistical report (WOCCU, 2012). This shows a decline in the level of penetration by the cooperative movement in Swaziland. The decline in the level of penetration on savings and credit cooperatives in Swaziland may be attributed to the number of cooperatives that have become dormant or have become liquidated in the past three years.

Table 6.2: SACCO level of penetration

Outreach	**Total**
SACCO membership (Numbers)	23 988
Economically active population (Number)	775 530
Level of penetration (%)	3.09

Source: Survey data (2015)

CHAPTER SEVEN

RESULTS: THE LEVEL OF SUSTAINABILITY OF SACCOS IN SWAZILAND

7.1 Introduction

This chapter addresses the study objective concerning the level of sustainability of financial cooperatives in Swaziland. The level of sustainability of cooperatives in Swaziland has two aspects, namely financial or economic sustainability and social sustainability. Financial/economic sustainability will be assessed using the PEARLS model (Fountain, 2008) while social sustainability will be assessed using the social performance index developed by the Microfinance Information Exchange and the Social Performance Task Force.

7.2 Financial performance analysis

Financial performance indicators were collected to create ratios which were used to provide useful information about the performance of savings and credit cooperatives in Swaziland. Through calculating performance indicators, we can determine the efficiency, viability and outreach of savings and credit cooperatives' operations. The calculation of performance ratios was used to capture information to identify potential or existing problems, which can induce changes in policies or operations, and ultimately improve financial performance.

To assess financial performance of the savings and credit cooperatives in Swaziland, key financial ratios in credit union management were utilised by using the shortened version of the PEARLS method (Fountain, 2008). This method uses eight ratios devised by Fountain (2008) to assess the performance of credit unions by using key financial ratios. Moreover, for each of these ratios, there is a "zone of acceptance" which signifies the optimal range for the financial ratio. For this analysis, the financial performance of cooperatives in Swaziland was measured over a period of four years, from 2011 to 2014. Secondary data was obtained for the CODAS database from the Ministry of Commerce, Commissioner of Cooperatives. Table 7.1 depicts the financial performance of savings and credit cooperatives from 2011 to 2014, with the zone of acceptance (Z.O.A).

Table 7.1: Financial performance of SACCOs from 2011 to 2014 with the zone of acceptance

Variable	*Z.O.A*	*2011*	*2012*	*2013*	*2014*
		Protection and liquidity			
Net capital/assets (%) 30	8-10	6	29	24	-
		Effective financial structure			
Gross spread	300-450	513	360	609	936
Loan/share (%)	65-75	1875	1974	2584	1414
		Asset quality			
Loan delinquency (%)	0-1	7	7	7	11
Net charge-off/average loan (%)	0-0.5	0	0	0	0
		Rate of return and cost			
Op. cost/Op. income (%)	30-35	382	521	937	435
Net return/Ave. assets (%)	1-2	4.4	2.6	8	8.8
		Signs of growth			
Members/employee	450-600	130	130	140	141

Source: Survey data (2015)

7.2.1 Protection and liquidity

To examine the levels of protection and liquidity of savings and credit cooperatives in Swaziland, the net capital to assets ratio was utilised. This method set the zone of acceptance at 8 to 10 percent to measure the financial strength of financial cooperatives. Strong capitalisation protects the cooperative from financial instability damage, although much of the capital is ‘wasted’, as it does not provide any benefit to the members. Liquidity is used to measure the ability of the financial cooperative to pay its financial obligations when they fall due.

Table 7.1 depicts the levels of protection and liquidation of savings and credit cooperatives in Swaziland for a period of four years, from 2011 to 2014. From Table 7.1, we can determine that the level of protection and liquidity of savings and credit cooperatives in Swaziland in the year 2011 was at 6 percent, and this was slightly below Wendell Fountain’s zone of acceptance for net capital to assets ratio, which is set at 8 to 10 percent. The low level of protection and liquidity expresses the point that the financial strength of SACCOs in Swaziland was not stable in times of financial turbulence, and moreover, the SACCOs were struggling to pay their debts when they fell due. In the year 2012, the level of protection and liquidity rapidly increased to 29.43 percent, and this level was above the zone of acceptance set by Fountain, which means that the SACCOs had excess capital at their disposal which did not benefit the members, and moreover, the SACCOs could pay their debts and still have excess money to spare. In the year 2013, the level of protection and liquidity declined slightly from 29.43 percent to 24.20 percent. This level of protection and liquidity was still above the zone of acceptance, implying that the SACCOs still had excess capital lying idle and not benefiting their members. Lastly, in the year 2014 we can ascertain that the level of protection and liquidity dropped drastically to -30.04 percent, which implies that SACCOs had excess outstanding loans, as compared with their total assets. In addition to this, the SACCOs were struggling to repay their debts when they were overdue. The drastic decline in net capital/assets was caused by the deficit in the balance of payment in Swaziland. An overall deficit of E253.3 million in the balance of payment, which was equivalent to 0.7 percent of Swaziland's GDP was recorded in 2014 (Central Bank of Swaziland, 2014). This deficit was largely due to the loss of the African Growth and Opportunity Act (AGOA) market in the last quarter of 2014. The loss of the AGOA market had a huge impact on the Swazi economy as it affected all the sectors of the economy and also had a ripple effect on all the savings and credit cooperatives associated with this sectors.

7.2.2 Effective financial structure

To examine the effective financial structure of SACCOs in Swaziland, the gross spread and loan to share ratio was utilised. We began with the examination of the gross spread, followed by the assessment of the loan to share ratio.

7.2.2.1 Gross spread

The spread ratio was utilised to examine the spread between savings deposits and the average lending rate. The gross spread exposes the balance between investing in the growth of a savings and credit cooperative in order to better serve its members in the future, and the benefits that members receive today. An optimal balance ought to be achieved to best serve the members, and the zone of acceptance is set at 300 to 450 basis points for financial cooperatives. Generally, basis points are used essentially for expressing differences in interest rates and other percentages in finance. Moreover, the derivation of basis points from percentage is that 100 basis points are equivalent to 1 percent.

Table 7.1 depicts the gross spread of savings and credit cooperatives in Swaziland for the four years from 2011 to 2014. The table shows that the gross spread of SACCOs in Swaziland was recorded at 513 basis points, which was above Wendell Fountain's set zone of acceptance for financial cooperatives. The gross spread declined to 360 basis points in the year 2012, and this was within the set zone of acceptance for financial cooperatives. In 2013 the gross spread increased drastically to 609 basis points, while in 2014 it further increased to 936 basis points. Both these spreads were above the set zone of acceptance for financial cooperatives. The high financial spread for SACCOs in Swaziland may be explained by the fact that SACCOs charge an interest rate of 2 to 3 percent per month on reducing balances.

7.2.2.2 Loan to share ratio

This ratio was used to reflect how active a savings and credit cooperative is in extending credit to its members. The zone of acceptance for this ratio was set at 65 to 75 percent for financial cooperatives. SACCOs with a lower loan to share ratio are considered to be risk-averse and less aggressive in providing a competitive lending environment, while SACCOs with a higher loan to share ratio are considered to focus on lending, and to be aggressive and committed in a providing a competitive lending market. From Table 7.1, we can determine that SACCOs in Swaziland put much emphasis in extending credit services to their members, as their loan to share ratios are extraordinarily above the zone of acceptance, which is 65–75 percent, as set by Wendell Fountain. The loan to share ratio for the year 2011 was reported to be at 1878 percent, while in 2012 it increased to 1978 percent, and in 2013 it increased further to 2584 percent, whereas lastly in 2014, it declined greatly to 1415 percent. This shows that SACCOs' management view success in lending as a vital component for the SACCOs to be a viable financial institution in future.

7.2.3 Asset quality

To study the asset quality of SACCOs in Swaziland, the loan delinquency ratio and net charge-off to average asset ratios were utilised. For our analysis, we began with the examination of the asset quality by first analysing the loan delinquency ratio, and we ended with the assessment of the net charge-off to average asset ratio.

7.2.3.1 Loan delinquency ratio

This ratio was utilised to reflect the level of enforcement in the loan repayment process of the SACCOs in Swaziland. The zone of acceptance of loan delinquency was set at one percent or less for cooperatives, and anything higher than the one percent was considered to be leniency by the savings and credit cooperative. On the other hand, a ratio of less than the one percent meant that the lending practices of the SACCOs were too stringent. From Table 7.1, we can determine that SACCOs in Swaziland are lenient in the loan repayment process, as they exhibit a loan delinquency ratio which is above the zone of acceptance set for savings and credit cooperatives. Moreover, we can determine that the loan delinquency ratio was constant at 7 percent for three consecutive years, from 2011 to 2013, and in 2014 it escalated to 11 percent. These results indicate that SACCOs' management is extremely lenient to members when it comes to them repaying their loans.

7.2.3.2 Net charge-off to average loan

This ratio reflects similar information as the ratio described above does. It reflects the diligent efforts to collect loans by a savings and credit cooperative before they are written-off as bad debt, and this may include efforts by third party collection agencies, like the banks in the form of stop orders, or the employer of a member in the form of salary deductions. The zone of acceptance for this ratio is set at 0.5 percent or less for financial cooperatives. From Table 7.1, we can ascertain that savings and credit cooperatives in Swaziland are able to recover their loans to members proficiently. The methods which they have employed to recover their loans have been effective, as the net-charge-off to average loans has been 0 percent for the four years from 2011 to 2014. Some of the methods employed by SACCOs to reduce the costs of ensuring loans were repaid included encouraging their members to voluntarily have garnishing orders on their salaries to repay their loans. The members were encouraged to go to their bank branches and set up stop orders for them to repay their loans. Another method which was used was to obtain assistance from the employers of their clients, especially civil servants, to deduct their money directly from payroll. By advocating and encouraging their clients to voluntarily use this repayment mechanisms, their costs of ensuring that their loans were repaid were significantly reduced.

7.2.4 Rate of return and cost

To examine the rate of return and cost for savings and credit cooperatives in Swaziland, operating expenses to operating income, along with net returns on average assets (ROAA), were utilised for the period of four years from 2011 to 2014. For our assessment, we began with an operating expense to operating income analysis, and concluded with the net returns on average assets analysis.

7.2.4.1 Operating expense to operating income

This ratio is used to measure the operational efficiency of the management. This ratio provides information about a SACCO's ability to provide adequate services to its members that meet their requirements, while also minimising its cost of services to maximise its consumer surplus. It demonstrates the SACCOs' expenses incurred in generating income. The zone of acceptance of this ratio is set at 30 to 35 percent for financial cooperatives. A lower ratio than the zone of acceptance means more profitability, while a higher ratio portrays less profitability. From Table 7.1, we can determine that SACCOs in Swaziland are less efficient in their operation, as they incur more expenses than the income they are able to generate. This shows that the profitability of SACCOs in Swaziland is very low, as the operating expense to income ratio was extremely higher than the 30–35 percent zone of acceptance in all the four researched periods. In 2011 it was reported at 382 percent, then in 2012 it increased to 521 percent, while in 2013 it further increased to 937 percent, and lastly in 2014, it dropped to 435 percent.

7.2.4.2 Net returns on average assets

This ratio is used to determine the profitability of a firm. It shows how effective the management is in operating the financial institution. However, this ratio can be deceptive when analysing financial cooperatives because SACCOs seek to increase this ratio by only so much as the increased profits will assist them to increase their consumers' welfare. The zone of acceptance for this ratio is set at 1 to 2 percent for financial cooperatives. From Table 7.1, we can ascertain that the net returns on average assets in savings and credit cooperatives in Swaziland were above the zone of acceptance set for financial cooperatives. In 2011 it was reported at 4.4 percent, while in 2012 it dropped to 2.6 percent, and in 2013 it increased to 8 percent, and lastly in 2014, it grew slightly to 8.8 percent. These high ratios indicate that SACCOs in Swaziland are highly profitable entities, as they report excess profits beyond the 1 to 2 percent zone of acceptance. However these ratios may be deceptive as it was rightly portrayed by the operational expense ratio that the profitability of SACCOs in Swaziland is low.

7.2.5 Signs of growth

To examine the signs of growth of savings and credit cooperatives in Swaziland, the ratio of members per employee was utilised. This ratio is used to measure the level of efficiency for personnel in providing adequate service to their members. This ratio also provides information about the economies of scale that SACCOs possess in providing their services to their members. The greater the number of members served with quality products, the lower the number of employees servicing them because the costs of providing the services are spread over a large number of members. Economies of scale can also reduce variable costs per unit because of operational efficiency and synergies. The zone of acceptance for the ratio was set at 450–600 for financial cooperatives. Too low a number indicates that a SACCO is not providing adequate service for its members, while a too high ratio shows that a SACCOs is inefficient in allowing personnel expenses to reduce its profits. From Table 7.1, we can ascertain that the member per employee ratio for savings and credit cooperatives in Swaziland is too low, with this ratio being below the zone of acceptance set at 450–600 members per employee. The ratio of member per employee was 130 from 2011 to 2012, while in 2013 and 2014 the member per employee ratio grew slightly to 140 and 141, respectively.

7.3 Social performance

To assess the level of social performance for savings and credit cooperatives in Swaziland, eleven fundamental social performance indicators were utilised which are universally recommended and are used globally. These social performance indicators were developed by MIX in conjunction with SPTF. The respondents interviewed were requested to answer questions about the SACCOs' mission and social goals, governance, the range of products and services offered, social responsibility, transparency of cost of services, human resource and staff incentives, social responsibility to the environment, poverty outreach, client outreach by lending methods, enterprises financed and employment creation, and client retention.

7.3.1 Mission and social goals

The 38 interviewed respondents were probed about their social mission, target market and development objectives to elucidate what mission and social goals they wished to achieve. The results in Table 7.2 depict the respondents' views about their social mission and developmental objectives.

Table 7.2: Preferred mission and social goals and income levels of clients

Variables	*Number (n =38)*	*Percentage (%)*	*Cumulative (%)*
	Target market		
Rural area	1	2.6	2.6
Employees only	37	97.4	100
Total	**38**	**100.0**	
	Development goals		
Financial access	8	21.1	21.1
Poverty reduction	3	7.9	28.9
Financial access and poverty reduction	27	71.1	100.0
Total	**38**	**100.0**	
	Level of income of clients		
Less than E1 999 per month	5	13.2	13.2
E2000 to E3 999 per month	7	18.4	31.6
E4000 to E9 999 per month	13	34.2	65.8
E10 000 above per month	6	13.8	81.6
All income levels	7	18.6	100.0
Total	**38**	**100.0**	

Source: Survey data (2015)

From Table 7.2, we can conclude that a majority of the savings and credit cooperatives in Swaziland use profession in the form of employment as the common bond, as 97.4 percent of them are employees-only cooperatives. We can also explicate that financial access and poverty reduction are the main development objectives which cooperatives aim to achieve, as the majority of them (71.1 percent) strive to improve financial inclusion and the empowerment of members, so as to eradicate poverty. Moreover, we can observe that a majority of the clients (34.2 percent) of SACCOs earn between E4 000 to E9 999 per month.

7.3.2 Governance

The interviewed respondents were asked about the governance of their SACCOs, and more specifically, they were probed about the Board of Directors' training in social performance and about the formation of a committee by the Board of Directors to monitor social performance. Table 7.3 depicts the respondents' responses about the level of governance in the SACCOs.

Table 7.3: Respondents' views on level of governance

Governance	*Number (n=38)*	*Percent (%)*	*Cumulative (%)*
Training of board of directors	38	100.0	100.0
Monitoring by a committee	38	100.0	100.0

Source: Survey data (2015)

From Table 7.3, we can determine that all the savings and credit cooperatives in Swaziland unanimously offer training to their Board of Directors about social performance, and form a committee to monitor social performance. After being elected to a Board of Directors, the members are given formal orientation about their responsibilities. In addition a supervisory committee is elected by the Board of Directors to monitor social performance and to also ensure that the Board of Directors is still working within its jurisdiction.

7.3.3 Range of products and services

The 38 interviewed respondents were queried about the range of products/services that they offered to their clients. The products/services were categorised into two groups, namely, credit and savings/deposit services. Table 7.4 presents the interviewees' responses about the range of products/services that they offer to their clients.

Table 7.4: Respondents' views on the rage of products/services offered

Products/services	*Number (n =38)*	*Percentage (%)*	*Cumulative (%)*
Credit services	38	100.0	100.0
Accept deposits	38	100.0	100.0
Savings services			
Voluntary savings only	1	2.6	2.6
All product mention and more	1	2.6	5.3
Voluntary, compulsory, and special purpose savings	36	94.7	100.0
Total	**38**	**100.0**	

Source: Survey data (2015)

From Table 7.4, we can observe that all the savings and credit cooperatives in Swaziland offer the same type of credit services/products in the form of long-term loans, emergency loans, medium-term loans, and short-term loans. The credit services are not classified according to the activities for which a borrower may take a loan, such as a micro-loan for household goods, SME loan, agricultural loan, education loan and housing loan. This makes it difficult for a savings and credit cooperative to monitor the usage of the loan, as to what it was requested for. Due to the transferability and fungibility of money, it becomes difficult for a financial institution to monitor the allocation of a loan. Furthermore, we can ascertain that all the savings and credit cooperatives in Swaziland make savings a prerequisite for a client to gain access to credit services. A majority (94.7 percent) of the cooperatives offer savings in the form of voluntary savings, compulsory savings and special-purpose savings, while only 2.6 percent offer only voluntary savings. A small portion (2.6 percent) offer a wide range of products in the form of withdrawable savings, voluntary savings, compulsory savings, fixed-term savings, and special purpose savings.

7.3.4 Social responsibility (Consumer protection principles)

The respondents were asked about the SACCOs' customer protection policy for their clients. The customer protection principles were probed in terms of the loan evaluation process, disclosure of prices, terms and conditions, customer care services, acceptable and unacceptable debt collection methods, customer compliance mechanisms and customer information. Table 7.5 portrays the respondents' responses about their social responsibility policy, specifically the consumer protection principles.

Table 7.5: Respondents views on customer protection principles

Customer protection	*Number (n =38)*	*Percentage (%)*
Loan evaluation	35	92.1
Disclosure of price, terms and conditions	38	100.0
Customer care service	36	94.7
Debt collection	36	94.7
Customer complaint	21	55.3
Customer information	37	97.4

Source: Survey data (2015)

From Table 7.5, we can ascertain that 92.1 percent of the savings and credit cooperatives do require a loan evaluation process to determine the borrower's capacity and affordability of the loan applied for, while a minority of 7.9 percent do not require a loan evaluation process before a loan is approved. A guarantee for payment in the form of a salary advice/slip is enough information for them to approve a loan to a member. These SACCOs use the salary advice to calculate how much the borrower is eligible to borrow and also to determine if the borrower has not reached the 33 percent living standard mark. If they are in the 33 percent zone, the loan application is usually rejected because there is no guarantee for repayment.

We can also ascertain that all the SACCOs in Swaziland uncompromisingly disclose the price, terms and conditions to their clients before a transaction will take place. Moreover, 94.7 percent of the cooperative staff members are trained about customer care service and the appropriate way to collect the SACCOs' debt from members. Only a minority (5.4 percent) do not offer client care service training and appropriate debt collection training to their staff members. This is because they do not have the financial resources to send their staff members for the training and they also assume that the members know the proper way to pay back the SACCOs' money.

Furthermore, 55.3 percent of the SACCOs have a customer complaint mechanism in place in the form of suggestion boxes and a committee selected to handle all complaints that the members might have. In contrast to this, 44.7 percent of the SACCOs do not have a complaints platform; members have to wait for the annual general meeting to voice their displeasure about the SACCOs' business.

Moreover, a majority of the SACCOs in Swaziland (97.4 percent) uphold their duty to explain to their clients how their information will be utilised and seek their permission when they require information, while 2.6 percent do not explain this to their clients.

The results for the examination of the social responsibility: customer protection principles confirm Fonteyne's (2007) statement that credit cooperatives were originally designed to ameliorate issues of information asymmetry, as a majority of the cooperatives take steps to minimise information asymmetry and opportunistic behaviour by both parties involved.

7.3.5 Transparency of cost of service to clients

The respondents were interviewed about their savings and credit cooperatives' transparency of cost of service to clients, and more specifically about the interest rate method they utilised for their microcredit products. Table 7.6 depicts the respondents' replies concerning the transparency of cost of service to their clients.

Table 7.6: Respondents' views on interest rate method utilised

Interest rate method	*Number (n =38)*	*Percentage (%)*	*Cumulative (%)*
Declining interest	34	89.5	89.5
Flat interest	2	5.3	94.7
Both	2	5.3	100.0
Total	**38**	**100.0**	

Source: Survey data (2015)

From Table 7.6, we can show that a majority of the savings and credit cooperatives in Swaziland (89.5 percent) utilise the declining interest method for all their loans, while 5.3 percent of the SACCOs use a flat rate interest method for all their loans. Lastly, 5.3 percent of the SACCOs employ both the flat interest rate and the declining interest rate methods. The cooperatives that use both methods use the declining interest method on long-term loans and a flat interest rate on short-term loans.

The transparency in the interest rate methods used by financial cooperatives reduces the possibility of information asymmetry, as all the members are well informed of the interest methods utilised by the cooperative. This accordingly reduces instances of opportunistic behaviour by the employees in overcharging interest on loans. The transparency of costs of services also confirms Fonteyne's (2007) analysis that financial cooperatives were designed to mitigate issues of information asymmetry.

7.3.6 Human resource and staff incentive

The respondents were probed about their human resource policy and also about the types of incentives that they provide to staff members for excellence. Table 7.7 reveals the respondents' responses about their human resource policy and the staff incentives that they offer to their staff members who excel.

Table 7.7: Respondents' views on human resource and staff incentives

Variables	*Number (n =38)*	*Percentage (%)*	*Cumulative (%)*
Human resource policy			
Transparent salary	10	26.3	26.3
Benefits	2	5.3	31.6
Benefits, protection, equality	4	10.5	42.1
All mentioned	16	42.1	84.2
Protection and equality	1	2.6	86.8
Salary, benefits and housing	1	2.6	89.5
Salary, benefits and protection	3	7.9	97.4
No policy	1	2.6	100.0
Total	**38**	**100.0**	
Staff incentives			
Ability to attract new client	7	18.4	18.4
Quality of interaction	1	2.6	21.1
New clients and interaction	4	10.5	31.6
Bonus	13	34.2	65.8
No incentives	13	34.2	100.0
Total	**38**	**100.0**	

Sources: Survey data (2015)

From Table 7.7 we can conclude that a majority of the SACCOs in Swaziland (42.1 percent) provide for transparent salary, benefits, protection at work, and equality in their human resource policy. Of the remaining SACCOs, 5.3 percent offer benefits only and 26.3 percent offer a transparent salary only in their human resource policy. Moreover, 10.5 percent of the SACCOs offer benefits, protection at work, and equality, while 7.9 percent offer salary, benefits and protection at work in their human resource policy. Additionally, some of the SACCOs offer 7.9 percent collectively and this includes those who have no human resource policy, those who offer protection at work and equality, and those that offer transparent salary, benefits and housing in their human resource policy, each representing 2.6 percent, respectively. However, it should be mentioned that the benefits offered by all the SACCOs only cover a pension contribution, as none of them offer their employees medical cover.

Furthermore, the respondents were queried about staff incentives which they offered to their excelling employees in terms of attracting new clients, quality of interaction, outreach to women, and client retention, as well as other types of incentives that they provided to their staff for excellence. Moreover, we can observe that a majority of the SACCOs either have no incentive scheme at all or they only provide a bonus at the end of the year as an incentive to their staff, as they both contribute 34.2 percent each. About 18.4 percent of SACCOs offer an incentive to their staff for attracting new clients only, and 10.5 percent the SACCOs offer an incentive for quality of interaction and ability to attract new members, while only 2.6 percent of the SACCOs offer an incentive for quality of interaction to their members. However, it should be mentioned that the bonus is only offered on the years in which the cooperative has performed exceptionally well, as a reward from the Board of Directors to the staff members. Moreover, it should also be noted that some of the SACCOs that have no incentive for their staff members do offer a reward to their clients for attracting new members to the cooperative.

7.3.7 Social responsibility

The respondents were asked about the type of social responsibility that they are engaged in. Firstly, they were queried about social responsibility for the environment in the form of an environmental policy, and then they were queried about any social responsibility to the communities in which they operated in. Table 7.8 portrays the responses of the interviewed SACCOs' managers and accountant clerks.

Table 7.8: Respondents' views on social responsibility activities

Variables	*Number (n =38)*	*Percentage (%)*	*Cumulative (%)*
Social responsibility to the environment			
No social responsibility	38	100.0	100.0
Social responsibility to the community			
Community concern	9	23.7	23.7
Donations	9	23.7	47.4
No social responsibility	20	52.6	100.0
Total	**38**	**100.0**	

Source: Survey data (2015)

From Table 7.8, we can determine that none of the savings and credit cooperatives in Swaziland have an environmental policy. The justification for the lack of an environmental policy is that the activities in which the cooperatives perform have no direct impact on the environment, as they do not produce a product which has an influence on the ecological system. However, they do partake in environmental awareness activities when the mother body SASCCO organises an event.

Additionally, we can observe from the Table 7.8 that a majority of the cooperatives do not participate in any social responsibility events in their societies, as 52.6 percent responded that they do not have a social responsibility commitment. Their main reason for the lack of a social responsibility commitment is that they are still small cooperatives that are growing, therefore they cannot afford to sponsor or donate to any community activity. On the other hand, 23.7 percent of the SACCOs did mention that they have a community concern programme that they are involved in. They usually buy food and blankets for the elderly in some communities as their social responsibility efforts. Moreover, others mentioned that they occasionally assist in the building of houses for disaster victims or for poverty stricken households in the country. Another 23.7 percent did mention that they do offer donations as their social responsibility efforts. They donate to any social cause where they can, if they are requested to. This result concurs with Bunger's (2009) observation that cooperatives may donate money and efforts to their community.

7.3.8 Poverty outreach

The interviewed respondents were asked about their poverty outreach measure among their clients. Firstly, they were queried about their cooperative's ability to measure their clients' poverty levels and then they were asked if they had any products which were specifically designed to target the poor in their cooperative. Table 7.9 illustrates the responses of the respondents about their poverty outreach.

Table 7.9: Respondents' views on poverty outreach

Variables	*Number (n =38)*	*Percentage (%)*	*Cumulative (%)*
	Measurement of poverty		
Measures level of poverty	24	63.2	63.2
Does not measure	14	36.8	100.0
Total	**38**	**100.0**	
	Products for the poor		
Has products for the poor	3	7.9	7.9
Does not have products	35	92.1	100.0
Total	**38**	**100.0**	

Source: Survey data (2015)

From Table 7.9, we ascertain that a majority of the SACCOs (63.2 percent) do measure the level of poverty of their clients. They utilise clients' incomes to measure the level of poverty of the clients, as they are encouraged to produce their pay slips whenever they apply for a loan, so that they can assess a client's level of indebtedness. On the other hand, 36.8 percent of the SACCOs in Swaziland do not measure their members' levels of poverty prior to accepting their loan applications.

Moreover, we can indicate that a majority of the savings and credit cooperatives have not developed products that are specifically designed to target their poor clients. This includes 92.1 percent of the cooperatives that have no products specifically for the poor. On the other hand, 7.9 percent of the SACCOs have developed special savings and credit products for their poor members who can save as little as E50 per month and take up soft-loans of E1000 to be re-paid in three months. This is a soft loan for any personal financial needs and does not require any proof or reason for the loan. The interest rate for this loan is set at 10 percent. Moreover, other products that have been developed for the poor include a savings account where a member can open an account with as little as E100 and can also save as little as E100 every month and an investment plan where the members are encouraged to save E63.60 to join the investment plan. These products are designed to assist members that are usually affected by the 33 percent law and are unable to get normal loans because they have access to only 33 percent of their salaries.

7.3.9 Clients outreach by lending method

The respondent were asked about the method of lending which they utilised to provide loans to their clients and the amount of outstanding loans that resulted from each method of lending. Table 7.10 displays the respondents' replies on their client outreach by lending method.

Table 7.10: Respondents' views on clients outreach by lending method

Lending method

Variables	*Number (n =38)*	*Percentage (%)*	*Cumulative (%)*
Individual method	38	100.0	100.0
	Total outstanding loans		
Variable	*Number*		*Mean*
Individual outstanding loans (E)	38		12 542 231 (21 008 176)

Note: The numbers in parentheses indicate standard deviation, currency units are in Emalangeni (currency units of Swaziland). E1 = 0.01134 US$ in real exchange rate to account for inflation.
Source: Survey data (2015).

From Table 7.10, we can observe that all the SACCOs in Swaziland unanimously use the individual loan method, mainly because this makes it convenient for them to track the individual that owes them money. Moreover, we can indicate that the mean outstanding balance for the SACCOs is E12 542 231, with a standard deviation of (21 008 176). The large variation in the outstanding loans may be influenced by the large SACCOs that have a large membership of more than 2000 active members, and the smaller SACCOs with a small membership of less than 100 members in their registry.

7.3.10 Enterprise finance and employment creation

The interviewed respondents were asked about the enterprises which were financed by the savings and credit cooperative, and about the number of people employed in the enterprises financed by the SACCOs. Table 7.11 reflects the results of the interviews concerning the enterprises financed and employment creation.

Table 7.11: Respondents' views on enterprises financed and employment creation

Variables	*Number (n =38)*	*Percentage (%)*	*Cumulative (%)*
Enterprises financed (non)	38	100.0	100.0

Employment creation (non)	38	100.0	100.0

Source: Survey data (2015)

From Table 7.11, we can determine that there are no SACCOs which presently finance any enterprises in Swaziland, as all the cooperative unanimously responded that they do not have any enterprises being financed. The main reason for the lack of enterprises financed by SACCOs is the fact that SACCOs do not offer a business loan in their products/services. However, they do admit that some of their the clients have taken very large loans, claiming they are going to start up enterprises, but they do not have a follow up mechanism to verify whether that money was invested according to what it was borrowed for. This has resulted in the SACCOs not having a database of all the business ventures they have assisted in developing. Another reason that has led to the shortage of enterprises financed by SACCOs is that the SACCOs are not encouraged to invest in business enterprises, due to fear of loss of the member's money. Because SACCOs are non-profit entities that maximise the opportunities for satisfying members' needs by providing access to financial services, running a business in their name would jeopardise their members' money in cases of failure business ventures. It can be pointed out that SACCOs are restricted to lending only to members as per their principles. However, they do frequently lend indirectly to businesses, because many loans are taken out by members to operate their businesses.

This result confirms the observation of Goddard *et al*. (2008) that financial cooperative are risk averse, as they are reluctant to finance other ventures that might increase their non-interest income, mainly because their employees typically do not have the financial sophistication to engage in complex investment schemes. Moreover, Goddard *et al*. (2008) add that they fail to invest sufficient capital to truly maximise their members' welfare.

Moreover, we can determine that, since there are no enterprise ventures being financed by the SACCOs, it is clear that no employment creation opportunities have been facilitated by the SACCOs. Furthermore, we can determine that none of the SACCOs had created employment opportunities for people by investing in business enterprise ventures. The lack of business enterprises being financed by the SACCOs does not, however, mean that the SACCOs do not have any other investments that they are engaged in. They do, nonetheless, invest in safer investment options, like purchasing public shares from Old Mutual Finance, Stanlib, or Stanbic Bank, to supplement their interest revenue.

7.3.11 Client retention

The respondents were asked about the client retention rate of their SACCOs. They are asked to report the number of members they had on their record books at the beginning of the year, and the number of clients they had at the end of the year. In addition to this information, they were requested to report the number of new clients they were able to recruit in the year 2014. Table 7.12 illustrates the outcome of the respondents' responses.

Table 7.12: Respondents' views on client retention

Variable	*Number*	*Mean*
Borrowers beginning of year	38	617.47 (982.86)
Borrowers end of year	38	620.24 (992.39)
New borrowers	38	3.58 (135.44)

Note: The numbers in parentheses indicate standard deviation.
Source: Survey data (2015)

From Table 7.12, we can ascertain that the client retention of SACCOs it very small, with the SACCOs recruiting an average of 3.58 members per annum, with a standard deviation of (135.44). The low rate of client attrition may be influenced by the massive decline in SACCOs' membership, as they are faced with a migration of members away from the SACCOs due to retrenchment, retirement and forced resignations because they took the bank consolidations and now they are earning only one-third of their salaries due to indebtedness. These bank consolidations stipulate that the bank will settle all of the client's debts on his/her behalf in return the client will owe the bank. What happens is that the bank will come up with a payment plan for the client that leaves him/her with only 33 percent of their salary which is the living expense. Now since the client can only access one-third of their salary, they are unable to save regularly with the SACCOs. Moreover, the client cannot pay their subscriptions therefore they are forced to resign from the cooperative so that they can claim their savings for them to maintain their livelihood. The low attrition rate of the SACCOs in Swaziland may be influenced by the SACCOs' losing more existing members than new members which they are able to attract by recruitment to the savings and credit cooperative movement. The large variation in the number of new borrowers per annum may be influenced by the large SACCOs that have a large membership of more than 2000 active members and the smaller SACCOs with a small membership of less than 100 members in their registry.

CHAPTER EIGHT

RESULTS: CHALLENGES FACED BY SACCOS IN SWAZILAND

8.1 Introduction

This chapter of the study will focus on endeavouring to answer the objective concerning the challenges that are faced by savings and credit cooperatives in Swaziland. The 38 savings and credit cooperative managers and accounting clerks were interviewed and requested to rank the challenges that they are constantly faced with in order of importance (1= highest, 2= medium and 3 = lowest). The results were portrayed using bar graphs to identify the most pressing challenges faced by the cooperatives, and the least serious challenges.

8.2 The legislative reform in Swaziland

The legislative reform of the regulation of cooperatives in Swaziland has been in the spot light over the past few years, as this has been viewed as comprising one of the challenges that have influenced the way and the culture in which savings and credit cooperatives function in the country. Figure 8.1 indicates that a majority of the respondents interviewed (47.4 percent) viewed the cooperative legislative reform of Swaziland as a medium concern. They were indifferent about all the cooperatives laws that have been enacted in the country.

However, the results also indicated that 31.6 percent of the respondents had a negative perception about the cooperative legislative reform of Swaziland, as they viewed it as being among the highest challenges that they are faced with. Their justification for being highly concerned about the cooperative legislative reform in Swaziland was based on the passing of the Financial Service Regulatory Act of 2010, which has detached SACCOs from the Ministry of Commerce, which they had worked with in the past and was responsible for monitoring them, and gave a full mandate to the Financial Service Regulatory Authority as the main supervisory and monitoring body. This legislation has thus brought about confusion within the financial cooperative movement, as they now have to report to two separate entities, being the Commissioner of Cooperatives and the Financial Service Regulatory Authority. The misunderstanding has been fuelled by the clash between the Cooperative Society Act of 2003 and the Financial Service Regulatory Act of 2010.

Lastly, the results of the study show that 21.1 percent of the respondents view the cooperative legislative reform of Swaziland as the least serious concern in the challenges that they are faced with in their operations. They believe that adhering to the laws enacted by the government of the country is more important for them in becoming successful, as opposed to complaining about the laws, because that is counter-productive for their development goals.

Before the enacting of the Financial Service Regulatory Act of 2010, cooperatives were regulated and monitored in the Ministry of Commerce, Industry and Trade under the Commissioner of Cooperatives. The Commissioner was tasked with the enforcement of the Cooperative Society Act of 2003, to assist in the creation of a conducive environment for cooperative growth, register and deregister cooperative and also handle the liquidation and dissolution of all cooperatives (The Cooperative Society Act, 2003). During this time SACCO's would send their audited statement to the commissioner for large cooperatives and the small ones who could not afford auditors would be assisted in their auditing by officers at Commissioner of Cooperatives (Department of Cooperatives, 2014).

However, in a bid to implement sensible requirements of solvency and stability, the Financial Service Regulatory Act of 2010 was passed to regulate all non-banking financial institutions including financial cooperative (Financial Service Regulatory Authority, 2013). This Act gave the Financial Service Regulatory Authority (FSRA) the mandate to regulate and foster sensible supervision of financial service providers including financial cooperatives. The FSRA was tasked to foster the stability of Swaziland financial service providers, to ensure the safety and soundness of financial service providers, to ensure the highest standards of conduct of business analysis and to ensure the fairness, efficiency and orderliness of the Swazi non-bank financial sector and also protect stakeholders (Financial Service Regulatory Authority, 2013). With the introduction of FSRA, SACCOs were required to send quarterly reports of their financial statement (Financial Service Regulatory Authority, 2013).

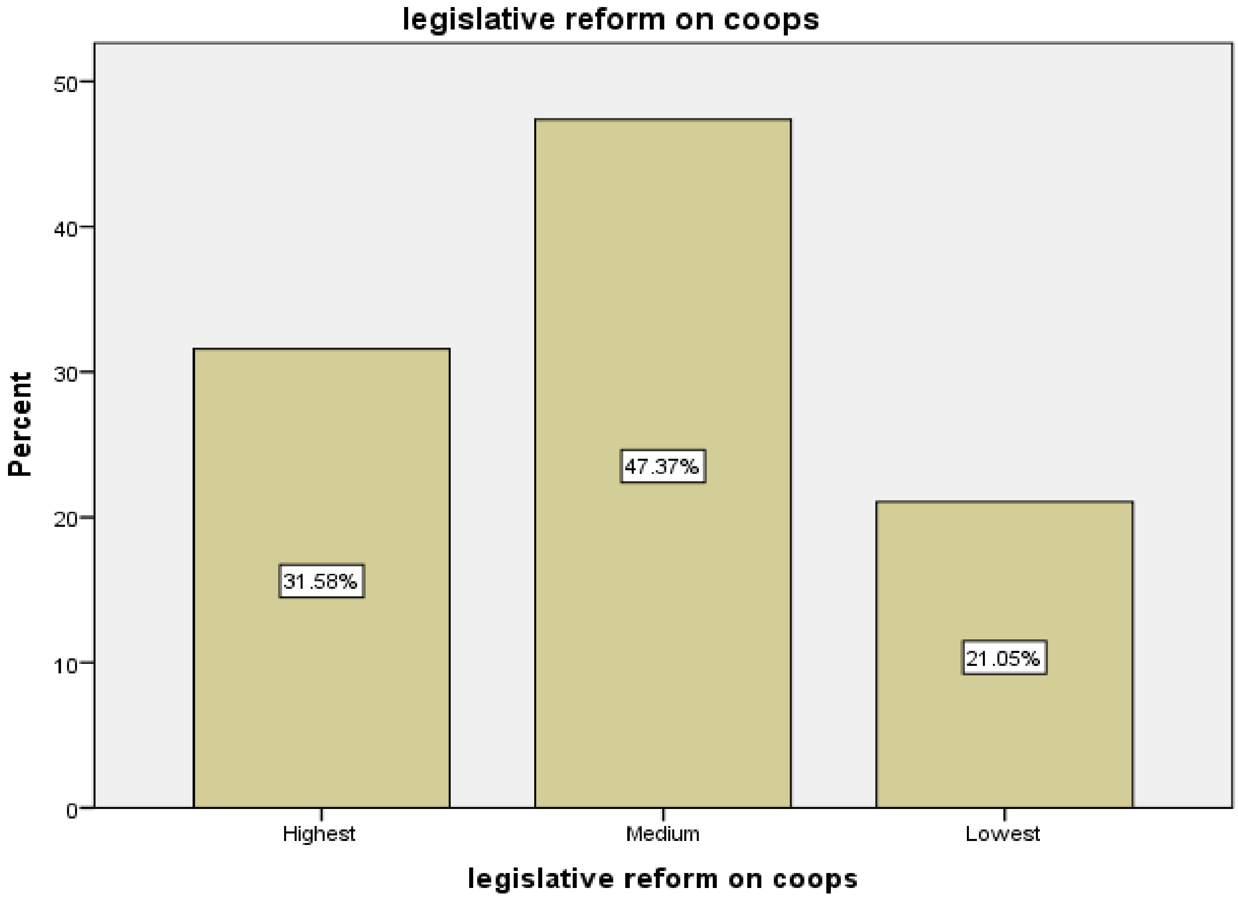

Figure 8.1: Respondents citing cooperative legislative reform of Swaziland as a challenge
Source: Survey data (2015)

8.3 Monitoring and Supervision of SACCOs in Swaziland

The monitoring and supervision of savings and credit cooperatives has been viewed as comprising one of the challenges that affect the functions of SACCOs. In Swaziland, there are mixed feelings about the level of monitoring and supervision that savings and credit cooperatives are subjected to. Figure 8.2 indicates that the bulk of savings and credit cooperatives in the country are fully satisfied with the level of monitoring and supervision of SACCOs, as 39.5 percent of the respondents viewed monitoring as the lowest challenge. The high level of satisfaction with the monitoring and supervision of SACCOs might be attributed to the easy accessibility of regional officers that the savings and credit cooperatives are assigned to. The savings and cooperative managers and clerks know who they are assigned to as their regional correspondent, and they also receive assistance they require in times of need. On the other hand, the results also show that 34.2 percent of the respondents felt indifferent about the level of monitoring and supervision in the country. This indifference might be attributed to the fact that they are able to produce all the monthly and quarterly reports that are required of them.

Nevertheless, the results indicate that 26.3 percent of the financial cooperative respondents are not happy with the level of supervision and monitoring in the country. They view the monitoring and supervision as a high challenge for them, as they have to report to two separate entities in the form of the Commissioner of Cooperatives and the Financial Service Regulatory Authority. This has made their work cumbersome, as they have to produce two separate reports to two different regulators. These results are contrary to CGAP (2005), which found that regulation and supervision were among the highest challenges that cooperatives are faced with, whereas the majority of the respondents in this study were highly satisfied with the level of regulation and supervision in Swaziland.

However the level of satisfaction displayed by the SACCOs managers/clerks can further be scrutinized. The SACCOs staff may be content because they are not effectively monitored and supervised. They are able to do their own thing with the member's money even if it is not financially sound to make those decisions. Therefore, to draw a conclusive picture about the monitoring and supervision of SACCOs, it would be necessary to get the opinion of the members, who are also the clients to determine if it is efficient.

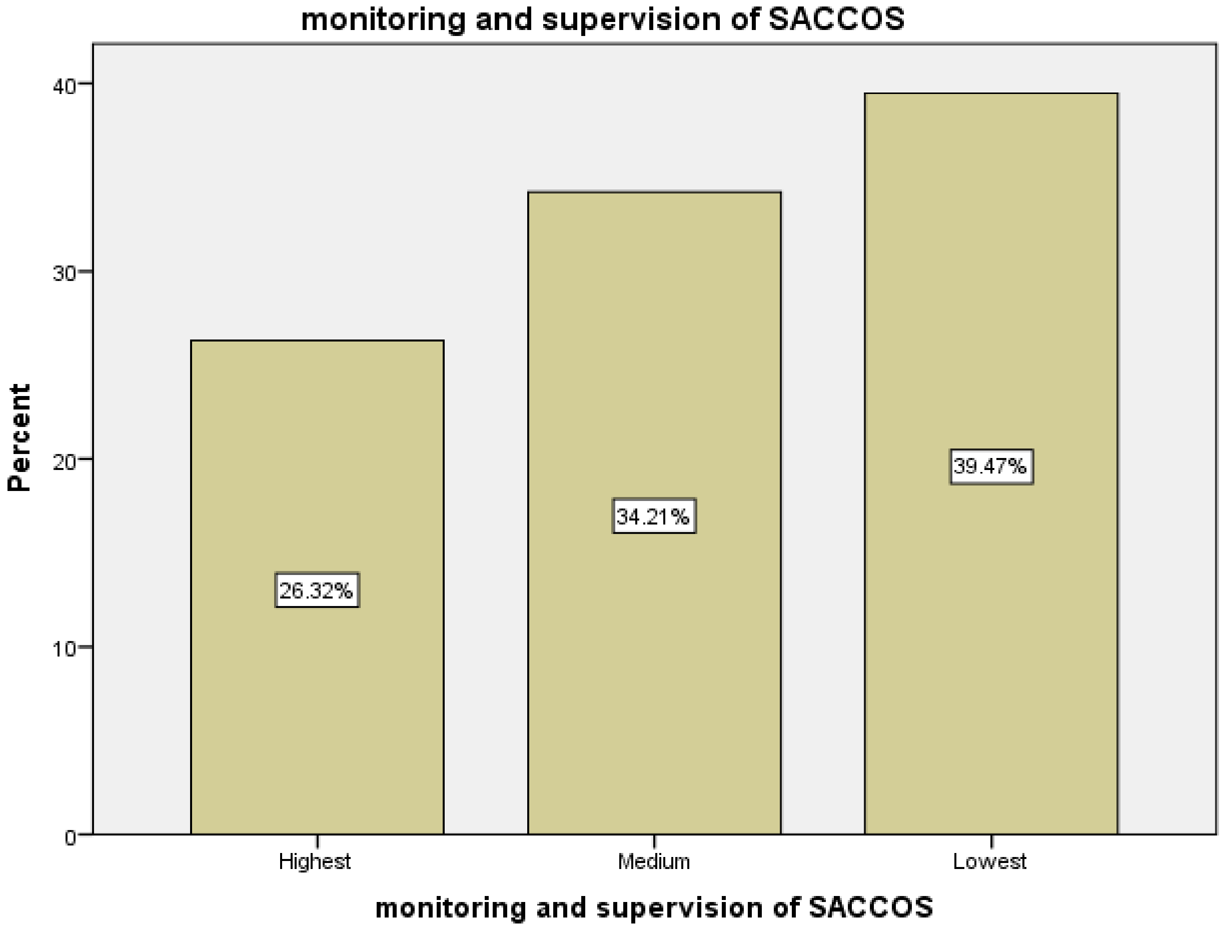

Figure 8.2: Respondents citing monitoring and supervision of SACCOs as a challenge in Swaziland

Source: Survey data (2015)

8.4 Governance of SACCOs

The system of governance selected by a savings and credit cooperative can cause challenges in the functioning of the cooperative. A cooperative that has a strong governance structure in terms of accountability is able of overcome all the challenges and function in a productive manner for it clients. Figure 8.3 illustrates that there are mixed perceptions about the governance and accountability of the members and Board of Directors in savings and credit cooperatives. From Figure 8.3, it can be determined that 39.5 percent of the respondents interviewed saw the governance and accountability of the managers and Board of Directors as being a medium challenge. They are indifferent about the system under which the cooperative is governed.

On the other hand, 34.2 percent of the respondents have total faith in the governance of their financial cooperative, as they viewed governance and accountability as being the lowest challenge. The Board of Directors and the managers are able to co-exist and there are no issues of low accountability within their cooperative. This comes as a result of the Board of Directors showing their full support for the hired managers and accounting clerks, and they do not interfere with the decisions of the managers and clerks in the day-to-day operations of the SACCOs.

However, 26.3 percent of the SACCO respondents indicated that they were constantly affected by governance issues, as they reported these as being the highest challenge. Their governance issues came as a direct consequence of the clash of interests between the hired managers and clerks and the appointed Board of Directors in the day-to-day functioning of the cooperative. Another issue that has been viewed as fuelling governance as becoming a huge challenge is the lack of accountability within the cooperative, among both the members and the Board of Directors as a whole.

These results can further be interrogated to determine CGAP (2005), finding that weak governance is the most common challenge in most SACCOs in Africa. It is difficult to conclude that because the managers and the board of directors are able to co-exist and do not interfere in the managers decision, the level of governance is good. This can cause more reasons to further investigate the governance and accountability of SACCOs, as it can be questioned whether the board of directors fully understands the repercussions of the manager’s decisions. Secondly it can be questioned if the board has colluded with the manager and this has compromised the Board of Directors' governance and accountability towards the manager because they stand to benefit from his/her decisions. Therefore it would be difficult to draw a conclusive picture about the governance of SACCOs, as the client's point of view is not considered despite the huge role they play in the governance and accountability of the SACCOs.

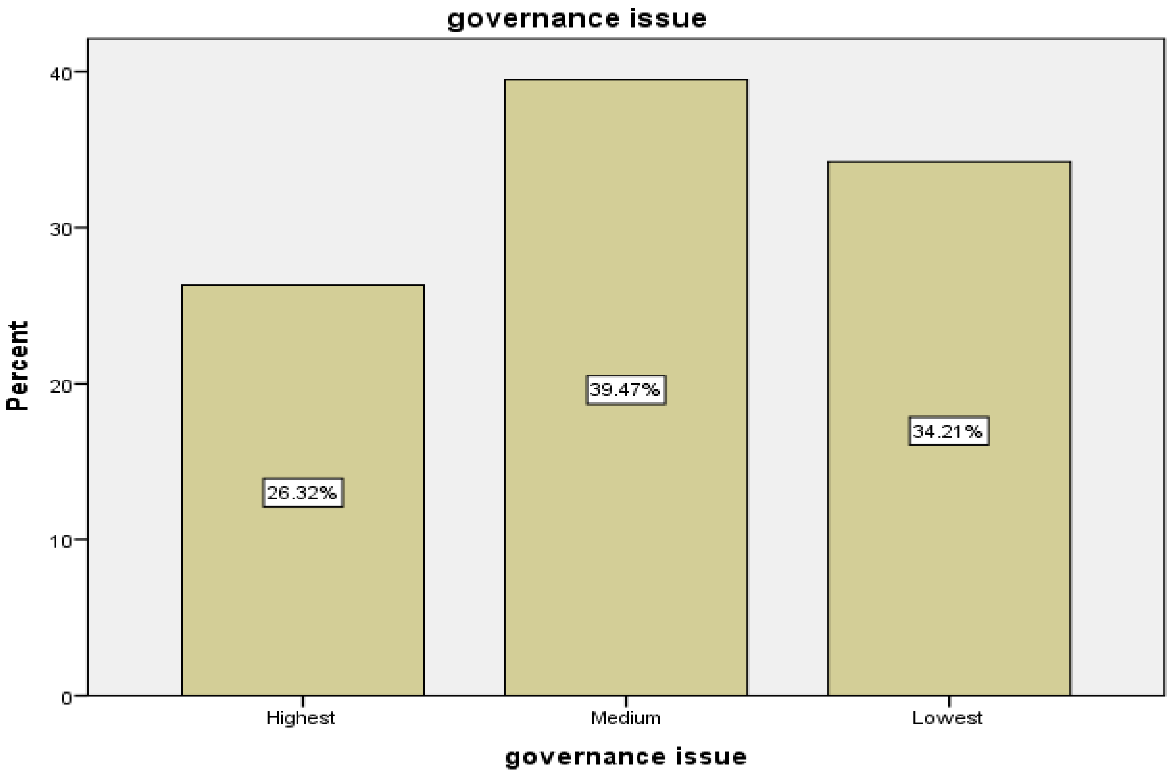

Figure 8.3: Respondents citing governance of SACCOs as a challenge in Swaziland
Source: Survey data (2015)

8.5 Low level of skill: The need for training and human resource development

Low level of skills, manifested in the need for training and human resource development, is viewed as being one of the factors that can influence the success or failure of a cooperative. Savings and credit cooperatives with highly trained personnel and members are able to function properly and mitigate all the challenges they are faced with. Figure 8.4 shows that a majority of the respondent cited training and human resource development as being among the highest challenge they are faced with. Moreover, 50 percent of the respondents acknowledged that there was an urgent need for training, especially for the members as they still needed to be trained about the importance of financial management. Organising the training for the members is another challenge that the cooperatives are faced with because the members are spread throughout the four regions of the country and it would prove cumbersome for them to do the training region by region.

However, 34.21 percent of the respondents were indifferent about the need for training and human resource development for their members, as they view it as a medium challenge which does not require any urgent intervention. They believe that their members have the basic knowledge of financial management and are able to use their loans and savings in a productive way. Moreover, 15.8 percent of the respondents interviewed mentioned that they had no need for training and human resource development, as they viewed it as the least serious challenge. They were confident in their members' abilities to manage their money efficiently, as they are regularly given training about financial management and are encouraged to spend their revenue wisely.

These result concurred with the UN (no date) and Van Der Walt (2013) who found that lack of training is among the highest challenges that a majority of cooperatives are forced to deal with. This was also the case in Swaziland, as a majority of the respondents (50 percent) acknowledged that the need for training was the highest challenge that they are faced with in their operations. They recognised that they need to turn their immediate attention to this constraint, as it is affecting their success and sustainability. The need for training and human resource development may be viewed as an indication of weak supervision of the SACCOs. The legislator is supposed to enforce and encourage the training and development of both staff and clients so that the efficiency of the SACCOs in their mandate can be increased. The investment of the SACCOs in the financial literacy of their members throughout the four regions of Swaziland may seem like a costly and cumbersome activity. However it is much needed as it is part of the cooperative's mission to train, educate and disseminate information to its clients as one of the cooperative principles.

Figure 8.4: Respondents citing low level of skills: need for training and human resource development as a challenge for cooperative

Source: Survey data (2015)

8.6 Competition from commercial banking institutions

The competition between savings and credit cooperatives and other financial institutions exemplifies the global economy, in which the business environment is very aggressive and business organisations have to adapt to these changes. The modern consumer has the power of choice and is very hard to satisfy. Savings and credit cooperatives have to find ways to stay relevant to their target market by providing them with the products and services they require, and thus continue to be competitive in the financial market. The challenge of competition from other financial institution keeps the SACCOs on their toes to stay innovative and continually strive to improve their products and services and the quality of the products they offer.

Figure 8.5 demonstrates the level of competition which savings and credit cooperatives are faced with. From Figure 8.5 we can ascertain that the vast majority of the respondents (71.05 percent) viewed competition from banks as being the highest challenge they are faced with. This challenge grew as a direct consequence of the consolidations that have been created by banks to attract new members by bailing them out of their debts. Since a majority of their members have taken these consolidations from the banks, they now earn only 33 percent income on their salaries. These consolidations restrict the members from acquiring loans from other financial institutions, especially the SACCOs, because the banks calculate the 33 percent statutory living income in their repayment scheme assessment. The 33 percent statutory income statute makes it difficult for these clients to obtain loans because, by law, financial institutions cannot deduct below the 33 percent mark from the client’s salary if they owe more than the 33 percent limit. This has created a serious challenge for cooperatives because more and more members are forced to resign their membership from cooperatives because they are no longer able to pay their monthly subscriptions to increase their savings, therefore they can no longer receive any further services from the cooperatives. These cooperatives view competition from the banks as being an urgent problem that they need to mitigate in order for them to stay competitive and relevant to their main clients.

However, the results also show that 13.16 percent of the respondents viewed competition from the banks as a medium challenge and they are indifferent about it. These financial cooperatives are exposed to the 33 percent statutory income challenge because of competition from banks, but it is not a persistent problem as they are still able to retain a majority of their clients. Moreover, 15.79 percent of the respondents interviewed viewed competition from the banks as a low challenge that does not require their immediate attention. They believe that the challenge from banks is productive; it pushes savings and credit cooperatives to continue improving their products and services to capture more clients. In addition to this, they know that it is important for the SACCOs to work with commercial banks, as they continually encourage their members not to pay at their offices but to pay at the bank and bring the proof of the transaction to the office. The payments are deposited at the SACCOs bank account for security reasons, so that there is no cash lying around in the office to invite criminals. This is also done to minimise instances of mismanagement of clients' money by staff, as staff members may receive money from clients and fail to acknowledge received money. The bank receipts are used as proof of payment because the staff does not handle any cash. So, there are no instances where the client can claim to have paid on a particular date and did not receive a receipt or instances where clients met staff members outside the office and gave them money to pay on their behalf when they reach the office. Furthermore, these SACCOs pride themselves in educating their members about financial management so that they do not fall into debt.

These results concurred with SACCA's observation that competition from formal banks was the highest challenge that SACCOs are faced with, as banks are taking away their customers with the same products that they are providing. This is also the case in Swaziland, as the majority of the respondents (71.05 percent) acknowledged that the stiff competition provided by the banks had resulted in them losing some of their clients.

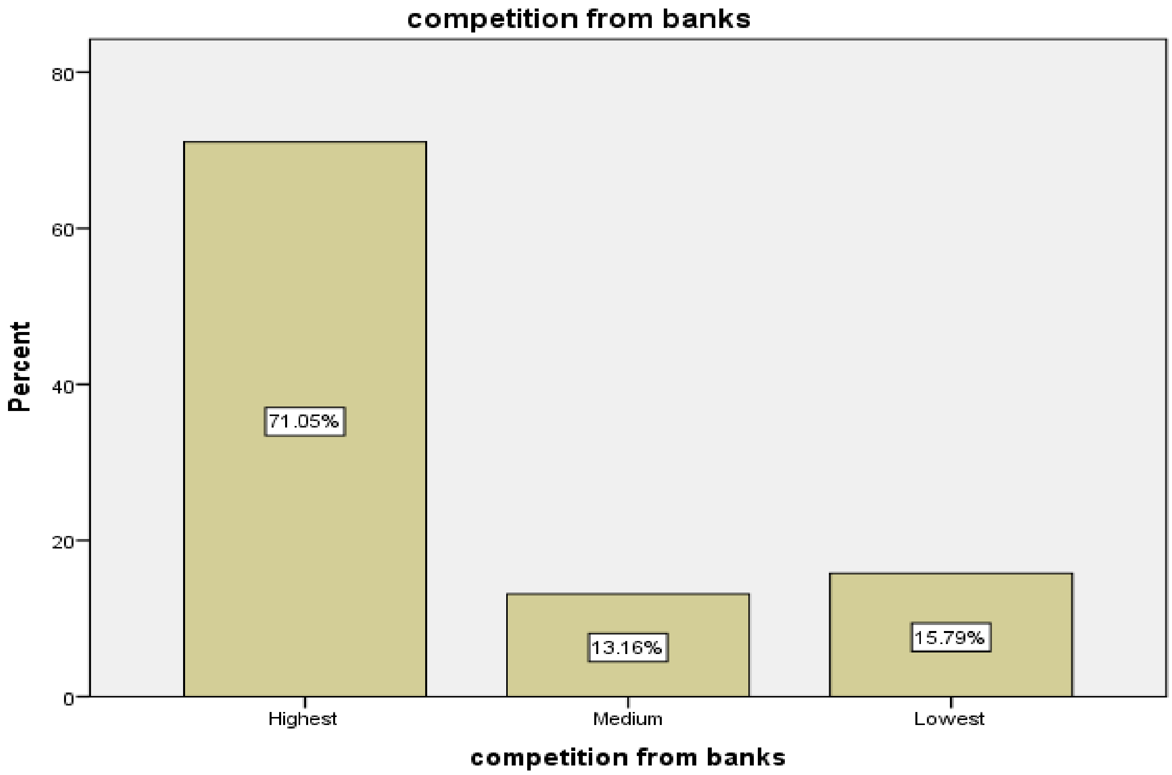

Figure 8.5: Respondents citing competition from banks as a challenge for SACCOs in Swaziland

Source: Survey data (2015)

8.7 Public awareness and membership growth

Public awareness and membership growth are important for the growth and sustainability of financial cooperatives. A cooperative that is unable to attract new members will not grow in its level of outreach and market penetration. The ability to market the cooperative and attract new members from the public who have similar common bonds is vital for the success of a cooperative. Failure to attract new members to join the savings and credit cooperative has the potential to regress the progress of the cooperative. Figure 8.6 depicts how cooperatives perceive public awareness and membership growth as a challenge for them.

From Figure 8.6, we can ascertain that a majority of the respondents interviewed (55.26 percent) viewed public awareness and membership growth as a medium challenge. This is not a challenge that needs immediate intervention from the SACCOs, thus they are indifferent about it. Moreover, 23.68 percent of the respondents acknowledged that public awareness and membership growth was the lowest challenge they have encountered, as they have the proper marketing and recruitment strategies in place to attract new members into joining the savings and credit cooperative. Some of their recruitment strategies involve involuntary recruitment, as it is mandatory in some companies for all the company's employees to become members of a particular savings and credit cooperative, as soon as a new employee is employed by that company.

However, 21.05 percent of the respondents viewed public awareness and membership growth as being among the highest challenges that their cooperatives are faced with. They have limited opportunities to market and recruit new members. The main challenge they faced was the insufficient opportunity for them to go around, marketing the cooperative so that they might attract new members to recruit into the cooperative. Cooperatives that have employees spread out throughout the four regions of Swaziland find it very challenging for them to go around the four regions of Swaziland to market and recruit new members because such an exercise is a large expense for them.

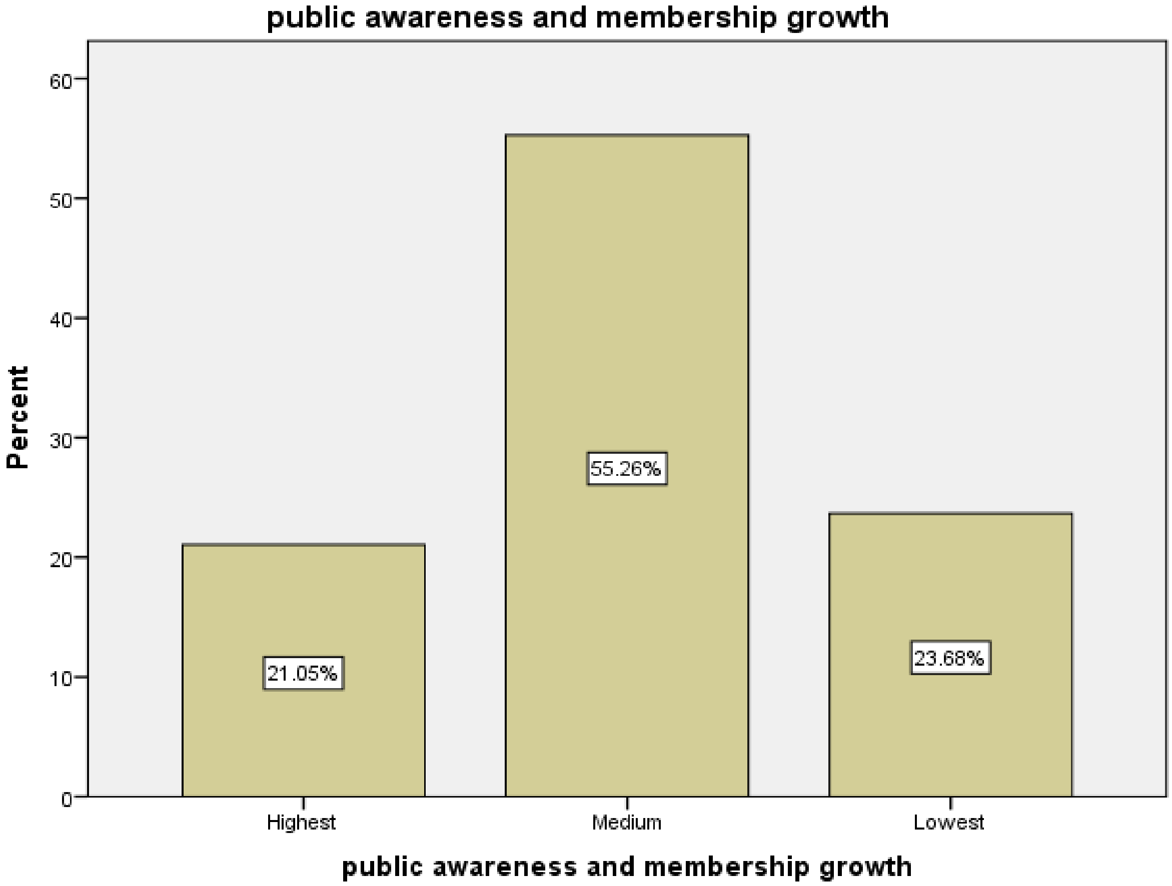

Figure 8.6: Respondents citing public awareness and membership growth as a challenge for SACCOs in Swaziland

Source: Survey data (2015)

8.8 Access to new technology

The ability to gain access to new technology will increase the speed and the efficiency at which a task is performed. The introduction of new technology, such as the internet and personal computers, software and applications has rapidly increased the level of efficiency in all our activities. In today's fast-paced world, the internet has made it possible to communicate our ideas faster and to market our products to potential users much easier.

Figure 8.7 shows that there is a varied response in the way in which savings and credit cooperatives view access to new technology as a challenge in their operations. Figure 8.7

illustrates that 39.47 percent of the respondents viewed access to technology as a medium challenge, and they are indifferent about access to technology, as they are able to function effectively. On the other hand, 36.84 percent of the respondents viewed access to technology as a low challenge. They are able to access new technology to maximise their efficiency in their daily operations. They have been able to acquire computers, internet service, and database software to effectively manage their books, and the combination of all these technological tools reduces their service time when they deal with customers and thus increases the efficiency of their record management system. However, 23.68 percent of the respondents viewed access to technology as a serious challenge in their day-to-day operation operations, as they still used old, manual record system methods of bookkeeping. Their cooperatives have not invested in new technology to increase their efficiency and therefore they still use an outdated paper filing method for their daily operations.

These results were inconsistent with the findings of the UN (no date) that lack of access to new technology was among the highest challenges that are faced by savings and credit cooperatives. This is not the case in Swaziland, as only a minority of the SACCOs (23.68 percent) acknowledged that they did not have access to technology and that this was among the main constraints for them, while the vast majority viewed it as a medium challenge or the least serious challenge in their operations. Therefore, we can acknowledge that SACCOs continually struggle to compete with commercial banks partly because of their inferior technology, including systems, software and applications to improve their efficiency in providing their services to members. Increased investments in the latest technologies in the market can assist cooperatives to remain relevant in today’s technological world and also assist them in bridging the gap in the competition between cooperatives and commercial banks.

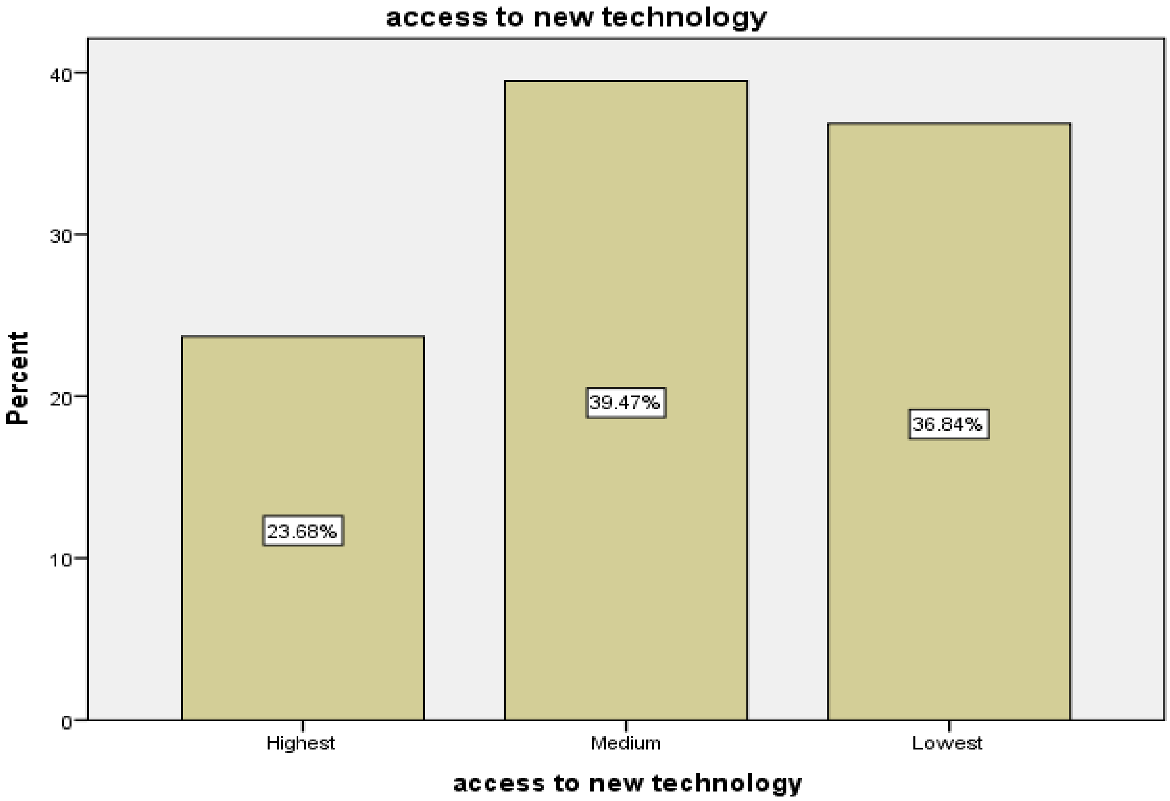

Figure 8.7: Respondents citing access to new technology as a challenge for SACCOs in Swaziland

Source: Survey data (2015)

8.9 The menu of products provided by members

The menu of products provided by savings and credit cooperatives is designed to meet the members' needs. Products are developed to attract target clients to join the SACCOs, but if the clients do not get the products that they want or need from the SACCOs, they always find a way to get these somewhere else. The menu of products offered by a SACCOs play a pivotal role in marketing the image of the cooperative to attract new members to join the SACCOs. Client-centric financial products have the ability to attract more people to join the cooperative and can also be used as a marketing tool to attract more members.

Figure 8.8 indicates the extent to which the respondents perceive their SACCOs' menu of products as constituting a challenge in attracting new members. Figure 8.8 shows that 42.11

percent of the interviewed respondents viewed limited products and services as being a medium challenge, although they were indifferent about the menu of products that they are offering to their members. Furthermore, 39.47 percent of the interviewed respondents viewed the menu of products that they provided as being the lowest challenge, while they strongly believed that all the products that they are providing are designed for the members to mitigate their financial needs. Moreover, they are open to the idea of designing new products to meet members' dynamic needs because they are fully aware that if they are unable to provide these products, their clients will get them elsewhere.

However, a minority (18.42 percent) of the respondents viewed the menu of products that they provide as being among the highest challenges they are faced with in their day-to-day operations. They cited the number of clients serviced as a constraint on their ability to increase the menu of products offered because of the small membership base. For this reason, they are only able to provide the traditional financial services, and not any other financial services that would make them competitive with other financial institutions, and so allow them to retain their clients.

These findings are not conclusive to dispute the observation by CGAP (2005) that a limited menu of products was among the highest challenges that a majority of financial cooperatives are faced with. This is due to the fact that it is the clients views that determine the relevance of the menu of products provide to members. However, due to the fact that we only interviewed staff members only without considering the clients' concerns, we cannot conclude that the products provided by the SACCOs satisfy their members' needs.

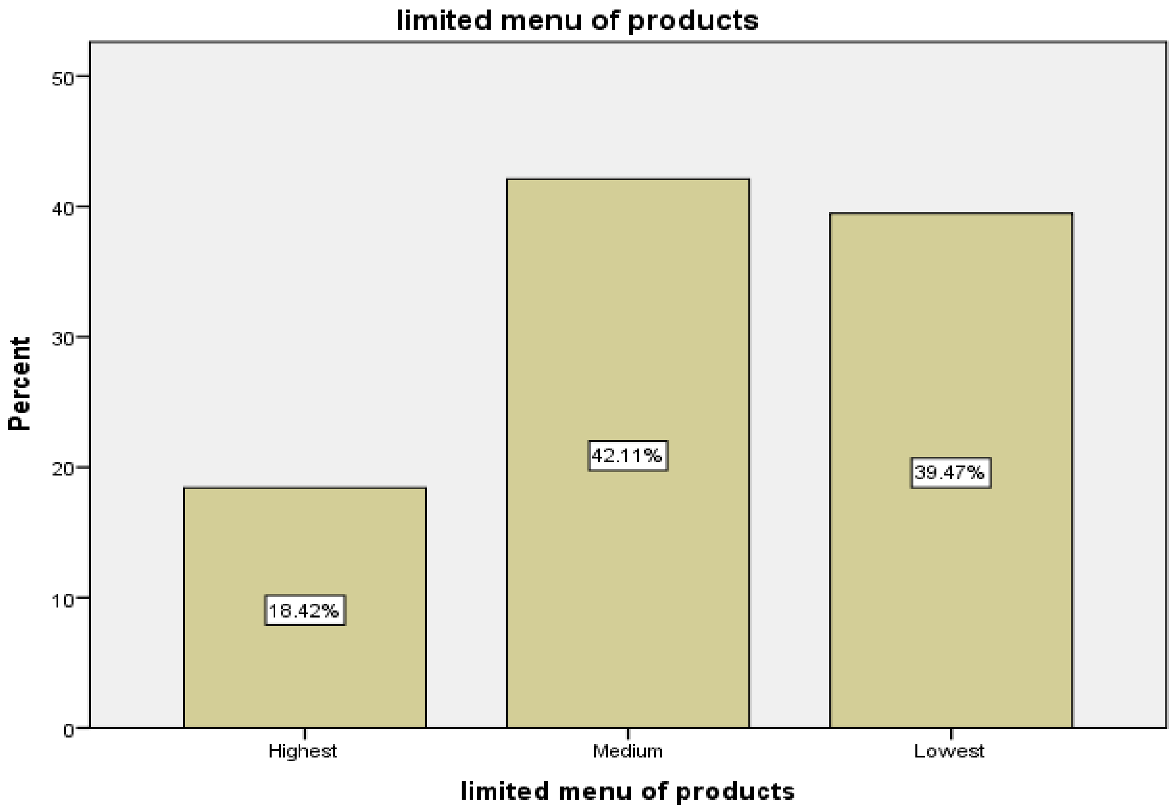

Figure 8.8: Respondents citing limited menu of products as a challenge for SACCOs in Swaziland

Source: Survey data (2015)

8.10 Lack of an internal conflict management system

Conflict management is vital to the smooth flow of business, because conflict can be detrimental and cause division within a savings and credit cooperative. Conflict between the manager and the Board of Directors can have an adverse effect on the operations of a SACCO.

Figure 8.9 depicts the extent to which the respondents perceive that the lack of an internal conflict management system has created challenges in the operations of their savings and credit cooperative. A majority of the respondents (55.26 percent) viewed the lack of a conflict management system as the least serious challenge. They have a conflict management system in place and it is very rare for them to experience conflicts within their operations. The Boards of Directors trust their appointed managers and give them flexibility to perform their duties without any interference from the Board. This has thus created a positive environment for the managers to work in and has thereby provided a high level of trust with the members.

The lack of a conflict management system was observed by 26.32 percent of the respondents as being a medium challenge, and they are indifferent about it. Conflict management is not a serious concern that needed their immediate attention. However, 18.42 percent of the respondents viewed the lack of a conflict management system as being among the highest challenges that they are constantly faced with. The conflicts come in different forms for them, as members are often at each other’s throats, they often argue about the direction which the SACCO should be taking, and there are often conflicting interests within the members or the Board with the managers. This has resulted in an unfavourable atmosphere within the cooperatives, as members are divided in what they want.

This outcome was incongruous with Van Der Walt’s (2013) observation that the lack of an internal conflict management system within cooperatives was among the highest of challenges faced by cooperatives. In Swaziland, this was not the case as a majority of cooperatives (55.26 percent) viewed the lack of the internal conflict management system as being the lowest challenge they are faced with. They do have internal conflict management systems in place to resolve any conflicts that may arise, as and when the financial cooperative is performing its functions to the members.

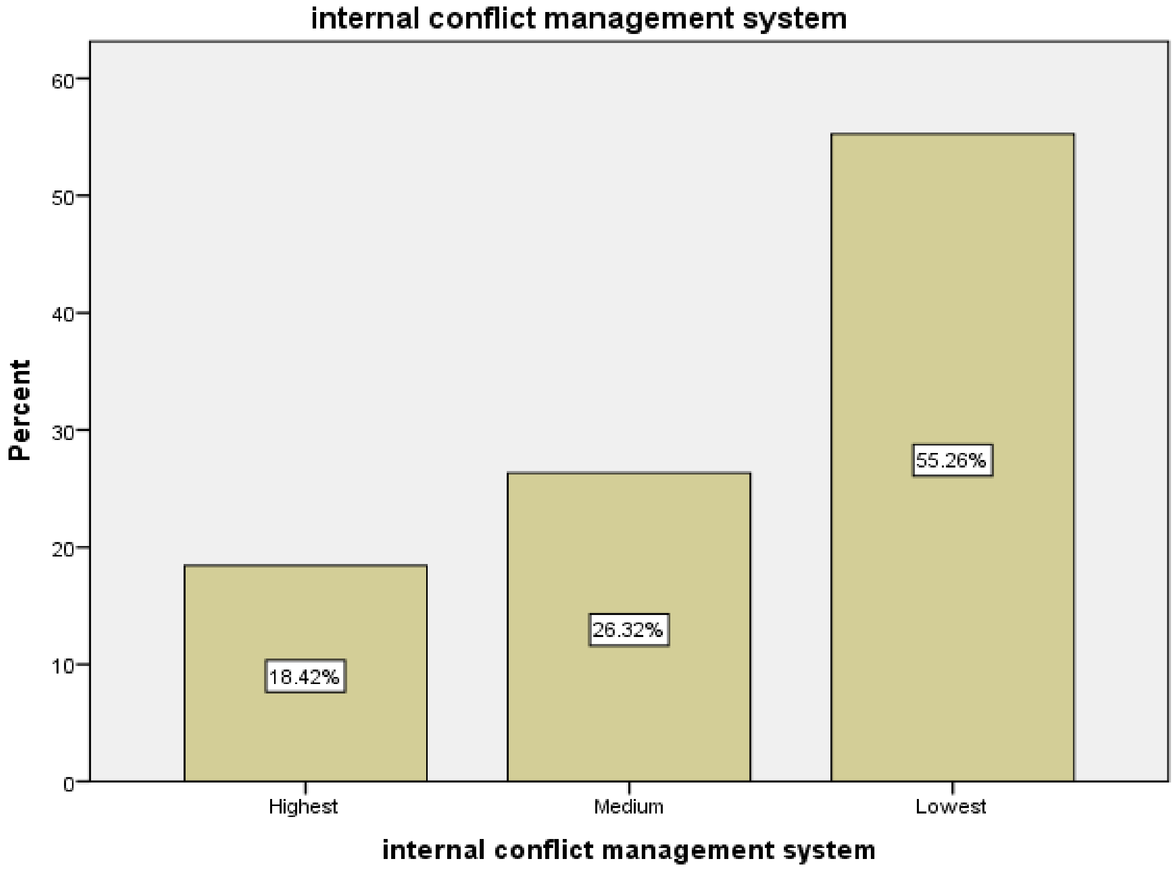

Figure 8.9: Respondents citing lack of an internal conflict management system as a challenge for SACCOs in Swaziland

Source: Survey data (2015)

8.11 The threat of HIV/AIDS to committed SACCOs members

The threat of HIV/AIDS can have an adverse effect on the operations of a SACCO, as the untimely demise of committed members of the cooperative can affect the rates of default by members and attrition of the SACCO. The high prevalence level of HIV/AIDS in Swaziland has seen influential people lose their lives prematurely, thereby having a huge effect on society as a whole, as some of them are the sole bread winners in their households.

Figure 8.10 reflects how the interviewed respondents perceive the threat of HIV/AIDS to devoted members of the SACCOs as constituting a challenge to their operations. A majority of the respondents (55.26 percent) viewed the threat of HIV/AIDS as being the least serious challenge, as their members are aware of the ways to protect themselves from this disease, since awareness campaigns are prevalent everywhere about HIV and AIDS. Those who are already diagnosed with the disease do know that they can prolong their lives and live a normal life, if they start taking treatment. Moreover, the time of ignorance about the disease has passed, as people are now actively learning about the disease.

On the other hand, 31.58 percent of the respondents were indifferent about the threat of the HIV/AIDS disease to their devoted members because they know that people die every day, but it is difficult for them to determine the cause of death as they do not have access to a deceased client's medical records, so they cannot determine how many of their members have died as a direct consequence of the HIV/AIDS pandemic. However, a minority of the respondents (13.16 percent) perceived the threat of HIV/AIDS to their devoted members as being a major challenge that they are faced with, and it requires immediate intervention. Although it is difficult for them to determine what was the direct cause of the untimely loss of their members, they have lost members in suspicious circumstances, and they attribute their sudden demise to the consequences of HIV/AIDS.

These results were in contrast with the observation of the UN (no date) that the threat of HIV/AIDS was the highest challenge that most cooperatives are faced with. In Swaziland, this is not the case as a majority of the cooperatives (55.26 percent) perceived the threat of HIV/AIDS as being the lowest challenge that they are faced with. Their members are well informed about the threat of HIV/AIDS and they know how to protect themselves from the disease

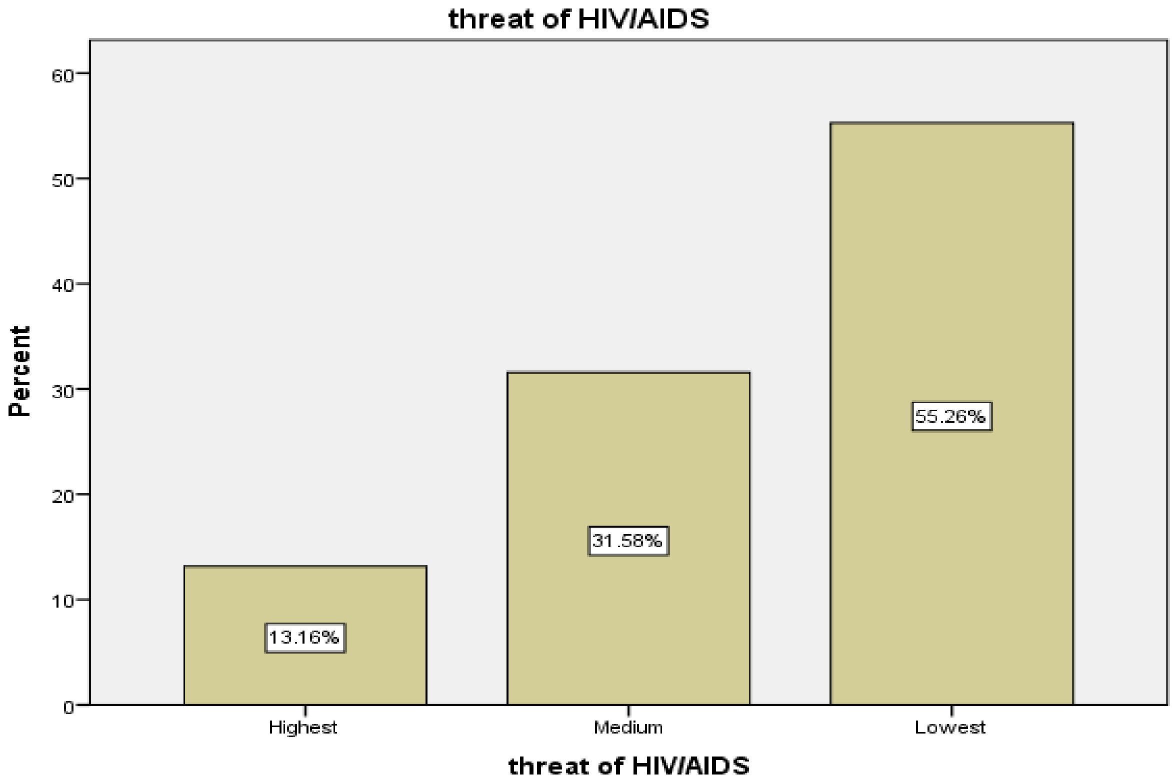

Figure 8.10: Respondents citing the threat of HIV/AIDS on devoted SACCO's members as a challenge for SACCOs in Swaziland

Source: Survey data (2015)

8.12 The introduction of the Financial Service Regulatory Authority

The introduction of the FRSA as the non-commercial financial service regulator in Swaziland has been met with mixed feelings, as some applaud the legislators for introducing such a regulatory mechanism for the non-bank market, while others express the bitterness which they have towards this regulatory mechanism.

Figure 8.11 reflects how the respondents perceive the introduction of FSRA as a monitoring and regulatory body of the non-banking financial service provider and thus as a challenge to their activities. From Figure 8.11, we can determine that 39.47 percent of the respondents viewed the introduction of FSRA as a huge challenge. They perceive FSRA as the financial police, more than as an entity put in place to assist them to increase their productivity and prevent the loss of members' money. They are bitter about the way FSRA is operating and view it as imposing an added responsibility on them because they now have to worry more about the requirements of FSRA than about providing services to their members. They are also greatly bitter about the one percent levy which FSRA has imposed on all interest, and moreover, they feel that financial cooperatives should not be included in the same monitoring bracket as moneylenders because financial cooperatives are non-profit entities with a mandate for maximising the satisfaction of members' needs. However, the results from the graph in Table 8.11 also indicate that 36.84 percent of the respondents are indifferent about the introduction of FSRA, as they view it as medium challenge.

On the other hand, 26.68 percent of the respondents viewed the introduction of the FSRA as a necessary measure and they applaud the regulators for making it possible for them to have such a monitoring mechanism. They support the work that FSRA is doing in the non-banking sector, as now the Board of Directors and managers are supervised to ensure that they are not misusing members' money for their personal benefits by scheduling unnecessary meetings to claim sitting allowances. Moreover, the presence of FSRA protects members' money to ensure that a blunder, like the white elephants of SASCCO, does not ever occur again because millions of peoples' hard-earned money was lost with the SASCCO building investment in the early 1990s.

These findings are in support of the SACCA (2010) finding that the introduction of FSRA has been seen as being among the highest challenges which financial cooperatives are faced with. A larger group of the respondents were in support of this statement, as 39.47 percent of the respondent interviewed acknowledged that the introduction of FSRA has created a high challenge for them in their functioning and has brought about confusion in the financial cooperative sector.

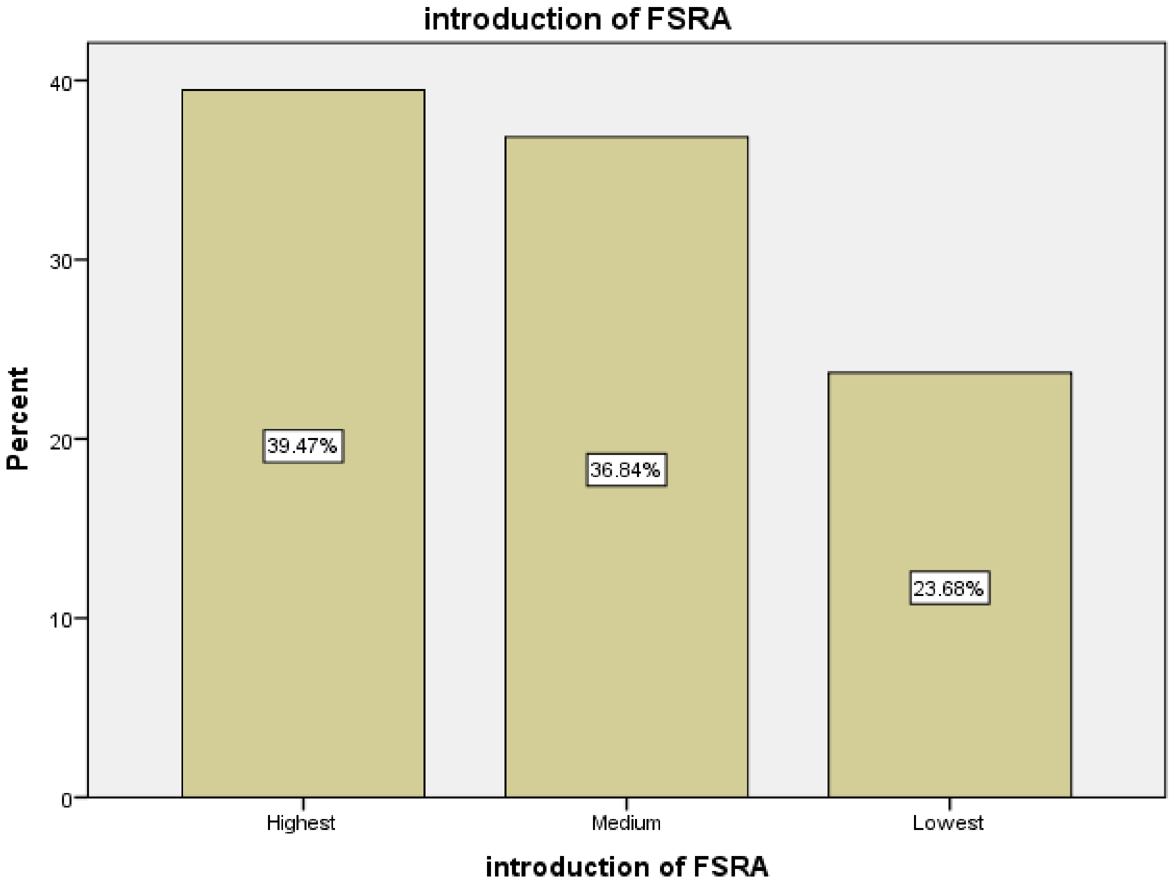

Figure 8.11: Respondents citing the introduction of FSRA as a challenge for SACCOs in Swaziland

Source: Survey data (2015)

8.13 The effect of retrenchment and retirement of members

The loss of regular income due to retrenchments and retirements can have an adverse effect on the functioning of a savings and credit cooperative. Retirement and retrenchment has caused active members to resign from the savings and credit cooperatives because of the ending of their employment tenure. The effects of retrenchment and retirement have been met with mixed feelings within the SACCO movement, as some employment tenures are contract based, while others are permanent positions, depending on the employers.

Figure 8.12 reflects how the interviewed respondents perceive the effects of retrenchment and retirement as being a challenge for them. From figure 8.12, it is clear that those who view retrenchment and retirement as a major challenge, and those who view it as a medium challenge, are equal in number, as they both represent 34.21 percent. The 34.21 percent that view retirement and retrenchment as a major challenge are those who work on a contract basis, because as soon the members' contracts end, they are forced to deregister those members as a consequence of the loss of their constant source of income. Many of these SACCOs have had to deal with restructuring phases in their companies which have resulted in early retirements or the retrenchment of pivotal members. The 34.21 percent that perceive retirement and retrenchment as a medium challenge in most cases recruit members every year, so the loss of members is compensated by the addition of new members which they induct into their savings and credit cooperatives. They are indifferent about the effect of retirement and retrenchment because there is always a new pool of members for them to absorb into their SACCOs.

Furthermore, 31.58 percent of the respondents viewed retrenchment and retirement as the least serious challenge. They have the privilege of having permanent employment in their companies, and cases of retrenchment are not common for them. Additionally, they are also privileged enough to have a recruitment exercise every year to enable them to attract new members to join their cooperative. They also have gone the extra mile to encourage all their retirees not to resign from their cooperatives, as they have created special products to motivate them not to resign from the SACCOs. The products dedicated to the retirees include a savings account where a member can save as little as E100 monthly, due to their reduced source of income. These SACCOs have developed these products because they understand that the income levels of the retired members have greatly declined. This enables retired members to continue accessing financial services from the SACCOs.

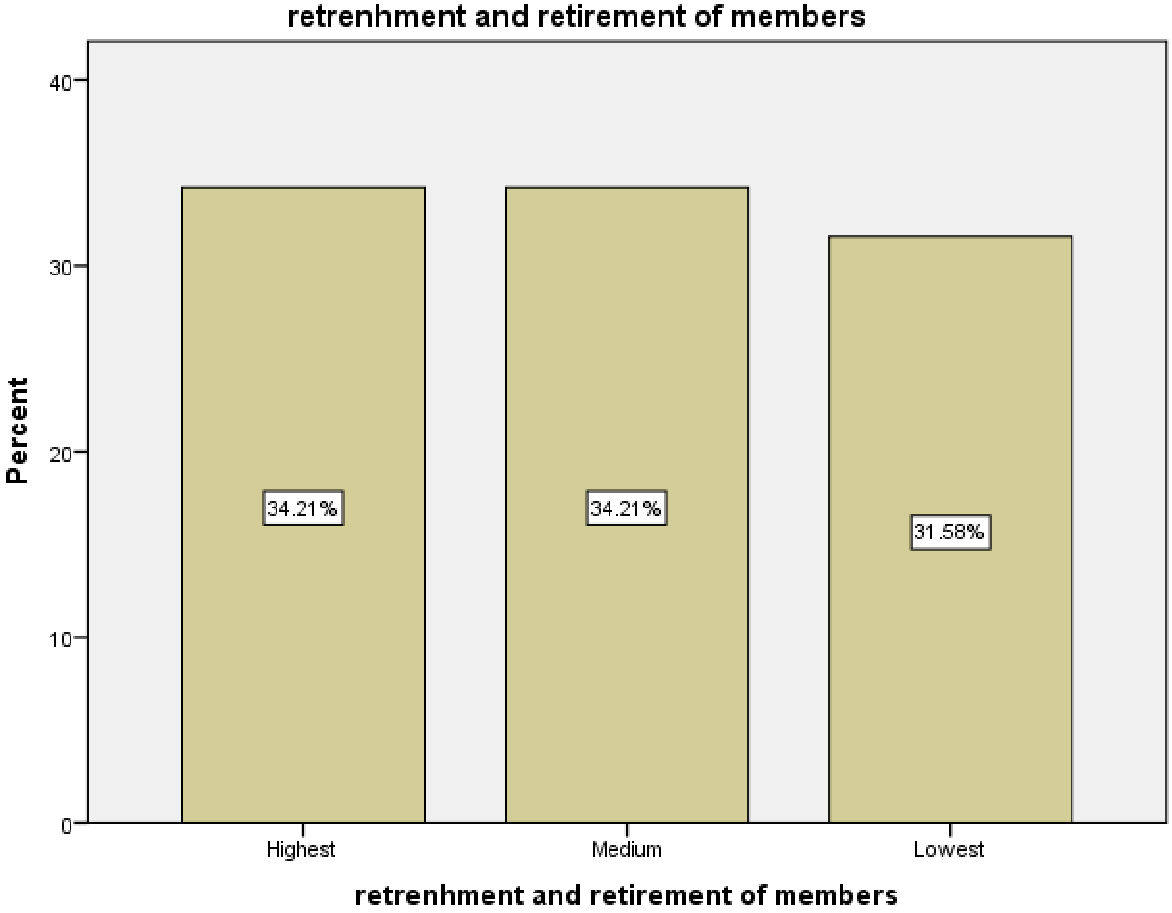

Figure 8.12: Respondents citing the effect of retrenchment and retirement of members as a challenge for SACCOs in Swaziland

Source: Survey data (2015)

8.14 The slow rate of decision-making attributable to the democratic nature of cooperatives

Savings and credit cooperatives are democratic by nature, which means that, for a majority of the major decision to be implemented, the members must have voted on this democratically and agreed on it. The democratic nature of cooperatives renders them a unique entity where the members, who are also the main clients, have every right to make decisions on the direction which the cooperative should take. This quality of cooperatives has been viewed as a challenge by others, because it slows the rate at which decisions have to be taken and implemented within the cooperative. The slow decision-making process can be attributed to the bureaucratic structure of the cooperatives. Moreover, the democratic decision making in cooperatives is viewed to arrive at an expense of the speed and quality of the decision making needed to thrive under rapidly changing circumstances (Fonteyn, 2007).

Figure 8.13 reflects how the interviewed respondents perceive the slow rate of decision-making attributable to the democratic nature of the cooperative as being a challenge to them. The results in Figure 8.13 indicate that 39.47 percent of the respondents viewed the democratic nature of the cooperative a serious challenge. Their Board of Directors have given their managers full mandates to execute daily operations decisions on their behalf without the need to consult with them. The board and members are only involved in the tough, technical decisions that require their stamp of approval. This allows managers to focus on operational matters and improve the rate of decision-making within the cooperative. However, this system of governance gives the manager the power to execute decisions on behalf of the board, without their clearance, and has the disadvantage that the board becomes a passive receiver of information and the organisation becoming a management driven entity (Sivertsen, 1996).

On the other hand, 34.21 percent of the respondents viewed the slow rate of decision-making attributable to the democratic nature of cooperatives as being the highest challenge they are faced with in their operations. This is because of the bureaucracy that is involved in the decision-making, as the manager has limited powers to make decisions on behalf of the Board of Directors. These managers must always request the board's clearance before any decision is taken. It may take weeks or even months before a decision is made if the board decides to involve the membership in making that decision. This makes the cooperative model seem rigid, as the managers are restricted from doing their job because he or she has to constantly get clearance before making any decision. Lastly, 26.32 percent of the respondents viewed the slow rate of decision-making attributable to the democratic nature of cooperatives as being a medium challenge, and they are indifferent about it. They believe that it is the way in which cooperatives are supposed to function and they have no problems with it.

These results were consistent with the observation by McKinsey and Company (2012) that the slow rate of decision-making due to the democratic nature of cooperatives was among the highest challenges that cooperatives are faced with. This was the case in Swaziland, as a majority of the respondents (63.53 percent) perceived that the slow rate of decision-making attributable to the democratic nature of cooperatives was a serious challenge.

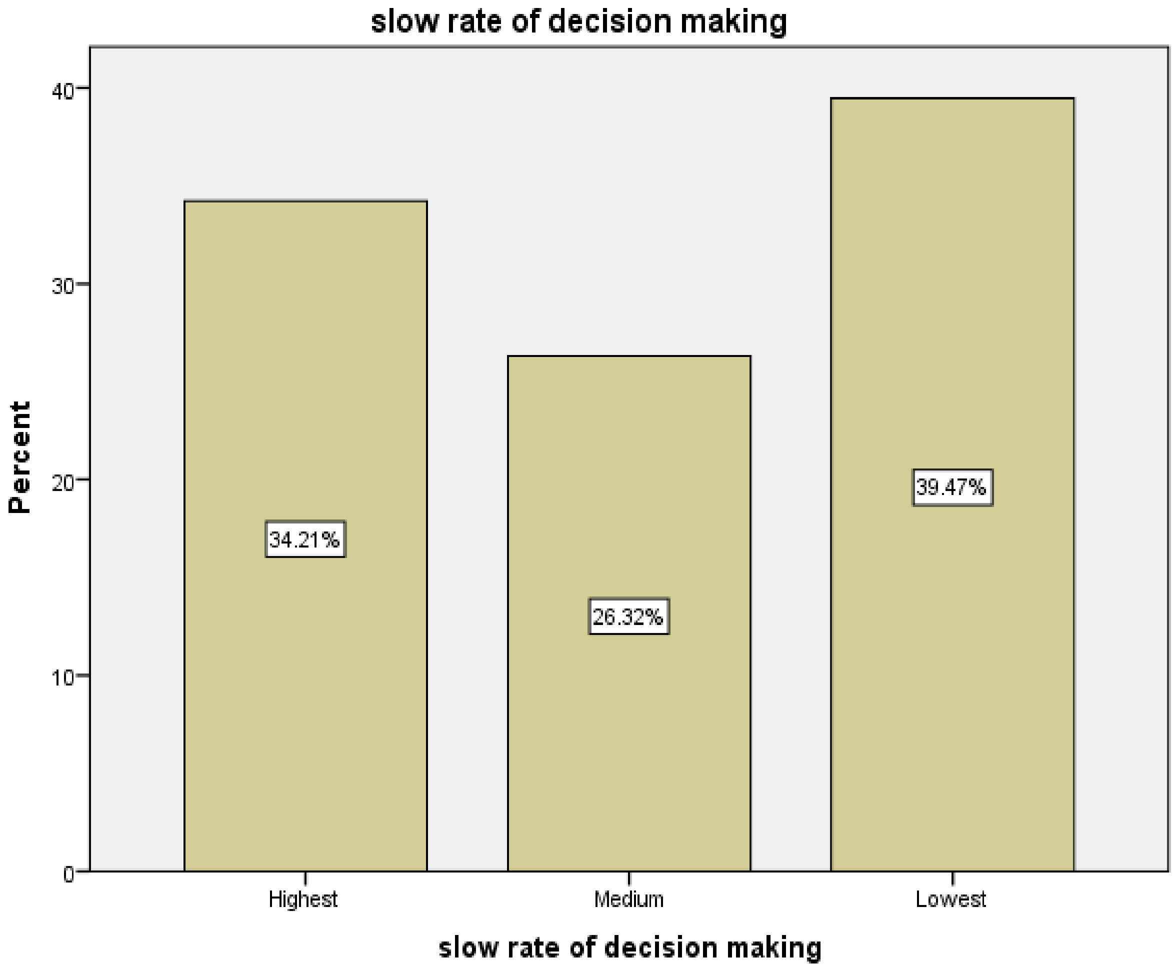

Figure 8.13: Respondents citing the rate of decision-making as a challenge for SACCOs in Swaziland

Source: Survey data (2015)

CHAPTER NINE
SUMMARY, CONCLUSIONS AND POLICY IMPLICATIONS

In this chapter, the main subjects of discussion and concepts that are covered throughout the study are reconsidered with the intention of reconnecting the narrative and argument presented by the study. Relevant conclusions are deduced and the policy implications that emerge from the findings presented in the study are explored.

9.1 Summary of the study

9.1.1 Background

Access to financial services in most developing countries has lagged behind the developed countries, with countries like Swaziland showing a clear image of the severe consequences of the insufficient access to financial services. The shortage of financial services in Swaziland has seriously impacted on the economy, with 44.4 percent of the population being financially excluded from both formal and informal financial service providers.

In spite of the constraints of financial exclusion for low-income earners, the savings and credit cooperative model has been regarded as being one of the financial innovations that can be utilised to combat the challenge of insufficient access to financial services for low income earners. Savings and credit cooperatives are considered as a vehicle to cultivate a culture of saving for low-income earners that lack access to formal financial services from commercial banking institutions.

The inception of the savings and credit cooperative movement in Swaziland dates back to the early 1970s with the formation of the Control Cooperative Union, which, however, failed to live up to its expectations. Then the resurgence of the savings and credit cooperative movement began when government and parastatal organisations began to utilise their profession as the common bond for members.

Despite the revival of the savings and credit cooperative movement in Swaziland, there has been scepticism about the work of savings and credit cooperatives in facilitating access to financial services. Most of the criticism has been directed at the failure of some of the projects that have been undertaken by the cooperative movement in Swaziland.

In light of the literature about the role of savings and credit cooperatives, some aspects of promoting access to credit have been under-researched. In particular, the role of savings and credit cooperatives in promoting access to credit has received much less attention in applied economics studies of rural development. There is an increasing enthusiasm for the cooperative model as providing a tool for increasing access to financial services for the poor and low-income earners. Among the reasons for the interest in the financial cooperative model, is its potential to improve access to financial services and its resilience shown in the economic downturn of 2007–2008.

Although literature has shown mixed perceptions about the role of savings and credit cooperatives, very few applied economics studies have tested the role of savings and credit cooperatives in promoting access to credit. Furthermore, those studies that have been implemented to assess the role of financial cooperatives in promoting access to financial services have concentrated on information diffusion.

9.1.2 Purpose of the study

The purpose of this study was to access the role of savings and credit cooperatives in promoting access to credit. The specific objectives of this study were (a) to determine the level of outreach for savings and credit cooperatives in Swaziland, including the level of penetration and the quality of financial services provided; (b) to assess the level of sustainability of savings and credit cooperatives in Swaziland, including economic, financial and social sustainability; (c) to identify the challenges faced by savings and credit cooperatives in providing financial services and to propose measures to enhance their performance.

To the researcher's knowledge, this is the first study to assess the role of savings and credit cooperatives in promoting access to credit in Swaziland within the cooperative movement framework that integrates performances and sustainability of savings and credit cooperatives and also to assess the challenges that hinder their performance in the provision of services.

9.1.3 Research methods

Empirical analysis was based on primary and secondary data collected in a survey of 38 savings and credit cooperatives. These SACCOs were selected from the four regions (Hhohho, Manzini, Shiselweni and Lubombo) of Swaziland. Survey instruments were designed to elicit detailed information about the role of savings and credit cooperatives in promoting access to credit. The method of data collection involved face-to-face interviews with the respondents.

A combination of financial analysis methods was employed to analyse the data. To analyse the financial performance of the savings and credit cooperatives, financial outreach indicators were utilised to measure the level of outreach and penetration. To analyse the sustainability of savings and credit cooperatives, the PEARLS method was used to analyse the financial/economic sustainability dimension, while the social performance indicators were utilised to analyse the social sustainability dimension. Moreover, to analyse the challenges faced by the savings and credit cooperatives, frequencies were utilised.

9.2 Major findings of the study

9.2.1 Level of outreach for SACCOs in Swaziland

The study found that savings and credit cooperatives have made a significant contribution in promoting access to financial services in Swaziland, and it appears that they are smaller and more occupational oriented. They have managed to provide a large amount of savings and credit services to their members at an affordable price. However, SACCOs in Swaziland have a low level of penetration, at 3.09 percent. Moreover, they have struggled with the amount of outstanding loans which they have accumulated annually, as they are above the amount of loans issued and savings mobilised. This shows that savings and credit cooperatives are facings some difficultly in collecting their debt from the members on time, as they are lenient in their debt collection methods.

9.2.2 The level of sustainability of SACCOs in Swaziland

The results indicate that savings and credit cooperatives in Swaziland have not yet reached financial sustainability, as they underperformed for the four years from 2011 to 2014, as measured by using the international financial cooperative standards set by Wendell Fountain's summarised PEARLS method to assess the financial performance of cooperatives. These results showcase the fact that savings and credit cooperatives in Swaziland have not yet reached financial sustainability, as they have failed to meet the zones of acceptance for protection, effective financial structure, assets quality, rate of return and cost, liquidity, and signs of growth. The Swazi SACCOs have only managed to meet the international requirements consistently with regard to net charge-off to average assets alone, while the other indicators are either above or below the set zones of acceptance for cooperatives. This confirms that savings and credit cooperatives in Swaziland still have a long way to go to be economically and financially sustainable.

Moreover, the results indicated that savings and credit cooperatives in Swaziland are not designed as a tool to assist the poor with irregular income to improve their livelihood; they are centred on the common bond of occupation and are also intended for modest earners with constant sources of income. They are only concerned about the empowerment of their members through financial inclusion and poverty reduction.

Furthermore, the study found that savings and credit cooperatives are facing substantial struggles in motivating the employees to increase their efficiency, since their human resource policies and staff incentives are not clearly defined, as they vary from cooperative to cooperative. This showcases the main reason why savings and credit cooperatives are struggling to attract top talent with financial competence in managerial or clerical positions that could transform their institutions. Additionally, top talent management could also assist these savings and credit cooperatives in developing financial products that would assist the members in financing their enterprise ventures, as currently, a majority of cooperatives have no enterprises financed either by them or their members. This highlights their lack of competence in business management, as well as the risk-averse nature of SACCOs' managers when it comes to enterprise financing.

9.2.3 Challenges faced by SACCOs in Swaziland

The study found that the greatest challenges faced by savings and credit cooperatives in Swaziland included low levels of skills, exhibited by the need for training and human resource development. The need for financial management training for the membership has manifested in the level of indebtedness that most cooperatives members have been exposed to, as they are earning one-third of their salaries because they are repaying loans. A majority of them have fallen into debt because they are unable to manage their financial resources and have been forced to take loan consolidations because they do not understand the terms of the consolidated loans that they have agreed to.

Another challenge that has proved to be cumbersome for savings and credit cooperatives has been the increasingly strong competition from commercial banks which have also developed the same products which are typically offered by financial cooperatives. The competition between financial cooperatives and commercial banks is, however, beneficial for the customer. This challenge is necessary because it increases the relevance of savings and credit cooperatives, as they are forced to become more innovative to create new products that meet their clients' needs in order retain their members' loyalty and stay relevant, while becoming competitive in the financial market. This also ensures that the members will stay loyal to the cooperative because if their products are not relevant to the members' needs, the members will get them elsewhere, wherever they are offered. This therefore shows that the members are not fully satisfied, whether with the interest charged by the cooperatives or with the menu of products which are offered to them, and that is why they are seeking other financial institutions to meet their financial needs.

Moreover, the results indicate that savings and credit cooperative in Swaziland are currently facing a major challenge with their client retention. This is directly linked to the challenge of retirement and retrenchment, especially for those companies that offer employment on a contractual basis. The slow rate of client retention is a direct result of the cooperatives being unable to recruit enough members to replace the members that have left the savings and credit cooperatives.

In addition to the above challenges, the study found that other major challenges faced by savings and credit cooperatives in Swaziland were the introduction of the financial service regulatory authority, and retirement and retrenchment. The introduction of the Financial

Service Regulatory Authority was a necessary mechanism to be put in place, as it provides the mechanism for savings and credit cooperatives to be supervised by an institution that is technically competent. However, it has caused much confusion in the operations of SACCOs, as they now have two regulators monitoring them, and moreover, their workload has been doubled as they now have to report to two separate entities which somehow removes them from their main focus of providing services to their members. The additional regulatory burden increases the operational cost for savings and credit cooperatives and also limits the time of staff to attend to customer services, retention, and education efforts. This challenge is not a serious challenge, as it is influenced by the transition process due to the restructuring of the cooperatives movement. SACCOs used to work with the Commissioner of Cooperatives and now they are working with a new institution which carries out monitoring and supervision. This is a normal reaction, as it is always difficult to adapt to changes, and in time they will get used to the structural changes and conform to the regulations set by FSRA.

Furthermore, the results indicated that retirement and retrenchment have caused a cumbersome challenge for savings and credit cooperatives in Swaziland, as some of them have lost influential members through company restructuring processes that have imposed early retirement and retrenchment of their crucial members. The companies that offer contractual employment have also caused uncertainty in the long-term growth of most SACCOs, as the end of the employment tenure signifies the loss of the member. This challenge has a direct influence on the client retention of a savings and credit cooperative, as some SACCOs are losing more members than they are able recruit, and this has drastically resulted in the slow growth rate and development of SACCOs. The ability to replace retrenched and retired member also influences the share capital accumulated by the cooperatives, as the loss of members decreases the number of shares bought by members.

9.3 Recommendations

Based on the results of the study, the following recommendations are made for the improvement of the role of savings and credit cooperatives in promoting access to credit services. These recommendations are based on the fact that a majority of these savings and credit cooperatives in Swaziland have shown financial capacity to implement these recommendations and develop client-centric products that will increase the level of outreach and sustainability in the long run.

9.3.1 Improving the level of outreach and penetration for SACCOs

- *Savings and credit cooperatives should start developing and marketing products that meet their members' needs to increase their level of penetration*. For instance, they could create housing loan scheme where the cooperative would buy the building material on behalf of the members, if they provide the necessary proof in terms of building material quotations and builder's fee. This would also assist in terms of monitoring the use of the loan and also reduce the transferability of money applied for as a housing loan. Furthermore, they could create a product such as withdrawable savings, which would allow members to deposit and withdraw once after three months. This would enable them to charge a fee on all the transactions that the member conducts when using that account. Moreover, withdrawable savings in the form of checking accounts would minimise the problem of members having to resign from the savings and credit cooperative in order to get back the money they have saved up with the SACCOs, where they do not want to take a loan, but are in need of money.

- *Savings and credit cooperatives should diversify, from the common bond of occupation alone and include the bonds of ordinary community membership to increase their outreach and penetration*. This would remove the access barrier of discrimination by occupation to people that are interested in joining the savings and credit cooperative and it would also allow admission of spouses of members that would like to join, but do not have access to join because they do not have the required occupation. In addition to this, the diversification could protect the cooperative from systemic risks that are sector related, like retrenchment and company closure, because the savings and credit cooperative would have other members from other sectors to continue servicing.

9.3.2 Improving the level of sustainability for savings and credit cooperatives

- *To reduce the amount of outstanding loans by members, full payment instalments should be deducted directly from a member's salary, or a bank debit order should be set up by the member*. Where members have a non-pay status, or their earnings are substantially lower than normal, and full loan payment cannot be collected from their salary, interest must continue to accrue on the unpaid loan balance until the loan is paid fully. Moreover, for medium- and long-term loans that require collateral, the foreclosure process should be implemented on the asset offered as collateral, if a member defaults on the loan more than twice.

- *To improve the sustainability of savings and credit cooperatives in terms of financial performance, top talent managers and accounting clerks that have competence in financial management should be hired*. They can apply their knowledge of accounting and finance to improve the financial position of the financial cooperatives in terms of levels of protection, liquidation, effective financial structure, asset quality, rate of return and costs and signs of growth. For financial cooperatives to improve their financial position, they also need technically competent managers and office clerks that are able to identify and seize new opportunities, which the SACCOs could utilise to increase their income and further provide quality services to their members.

- *The human resource policy and staff incentives should be directly linked to the overall financial performance of the savings and credit cooperative.* Savings and credit cooperatives should clearly define their human resource policies and staff incentives so that they might be able to attract top talent managers and accounting clerks to work for them. They must have a human resource policy with a transparent and well-defined salary scale, based on market salaries, accompanied by benefits (medical insurance, pension benefits), protection at work (safety, anti-harassment) and equality (anti-discrimination, equal pay for men and woman with equivalent skill levels). This will enable them to become competitive in the financial market and attract highly skilled people to improve their financial position. Secondly, the SACCOs should consider developing performance-based incentives for excellence of service for their staff to motivate them to carry out their duties diligently and efficiently. This could include annual rewards for attracting of new clients, quality of interaction with clients based on a client feedback mechanism, client retention/drop-out rate, and portfolio quality. This would further enhance the morale of staff to strive for excellence in customer service.
- *Savings and credit cooperatives should start financing enterprises of their own and also encourage their members by introducing business-related financial products, such as business start-up loans where they assist a member to set up and run a business.* For savings and credit cooperatives to increase their income external to loan interest, it is important for them to invest in business enterprises. Moreover, they should develop

business loan products for their clients who would like to venture into business enterprises. These loans should be designed so that a business can pay for itself and that is why SACCOs need technically gifted and financially competent managers to identify these business opportunities and utilise them. These business loans would make SACCOs as competitive as other financial institutions, like commercial banks and micro lenders, because they would be able to recapture those clients who have turned to banks or micro lenders when they wanted to start their businesses. This would remove the handicap of SACCOs losing their clients to other clients because they do not offer certain products in their product menu.

9.3.3 Mitigating the challenges that are faced by saving and credit cooperatives to improve their services

- *Savings and credit cooperatives should dedicate a certain portion of their annual budget to educating their members, instead of depending on the educational committee alone to provide training for their members to ease the challenge of lack skills identified by the need for training and human resource development*. They could set calendar dates for their members where they would hold weekend training or seminars about financial management and financial independence, given by various finance experts. This training would assist the members to learn about financial literacy, which would enable them to use their financial resources efficiently for the effective procurement and utilisation of their finances in a profitable manner.

- *Savings and credit cooperatives should evolve and adapt to current times by hiring top talent management that are visionary and patriotic in their approach to mitigate the challenge of strong competition from commercial banks.* These visionaries and patriots would be able to be innovative and develop new products by studying the current market situation and utilising the cooperative movement's comparative advantage over their counterparts, the commercial banks, so as to make them equally competitive. Banks will always be fierce competitors to SACCOs, as they are not going anywhere, it is time that SACCOs started investing their resources in educating themselves on how banks are utilising their resources to attract new members and also utilise those similar strategies.

- *Savings and credit cooperatives must encourage their members not to resign from the cooperative after they have retired, and create special products that accommodate the retirees to allay the challenge of low client retention, coupled with retirement and retrenchment*. Furthermore, the cooperatives' boards should devise strategic plans on how to better advertise and market the cooperatives so that they are able to recruit new members to replace those that have resigned from the SACCOs.

- *The Commissioner of Cooperatives and the FSRA should find a way to work together so that they can ease the transition process for the SACCOs to moderate the introduction of the FSRA as a challenge for savings and credit cooperatives in Swaziland*. Both institutions should meet each other, half-way, in this transition of monitoring and supervision. Moreover, FSRA should help the SACCOs' managers and clerks by educating them on their requirements and expectations of them so as to mitigate the information asymmetry issue within the cooperatives movement. FSRA can also assist reducing the financial burden of the SACCOS training on educating the SACCOs about their requirement and expectation. Transparency in information and clarity of objectives will enhance the working relationships of both the financial cooperative institutions and the FSRA. Currently, SACCOs are intimidated by the changes, so it would help if FSRA eases their fears by reassuring them that they are there to assist SACCOs, as opposed to them being viewed as financial police.

9.4 Limitations of the study and recommendations for future research

This section summarises some of the limitations of the study and suggests further research. The study investigated the role played by savings and credit cooperatives in facilitating access to credit, using a combination of financial performance indicators and social performance indicators. There are many performance indicators that could be utilised to assess the performance of financial institutions; however, the study elected to use the PEARLS method, which is a method that was developed to assess the financial performance of savings and credit cooperatives. However, there are other financial performance indicators that might be utilised to perform the same task of assessing the performances of savings and credit cooperatives. More research needs to be undertaken, using other financial performance indicators to assess the role of savings and credit cooperatives in promoting access to credit. There is also a need for a more detailed study to be undertaken to assess the role of financial cooperatives in promoting assess to credit services using the other financial performance indicators, and also using a dataset from the FSRA, as for the duration of this study, FSRA had limited data only covering 2013 and 2014. Future research might attempt to investigate the impact that the FSRA has had on the performance of financial cooperatives in Swaziland since its inception.

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APPENDIX

Appendix: Research instrument

UNIVERSITEIT VAN PRETORIA
UNIVERSITY OF PRETORIA
YUNIBESITHI YA PRETORIA
Faculty of Natural and Agricultural Sciences

FINANCIAL COOPERATIVES SURVEY

This survey is in fulfilment of a Master's Degree in Agricultural Economics and Agribusiness Management specialty in Agricultural Finance at the University of Pretoria. In order to fulfil the requirement of the above course, I am required to undertake a research project. This survey is aimed at assessing the performance and sustainability of financial cooperatives in promoting access to credit to its members: a case study of Swaziland's SACCOs. I hope the information generated will enhance the process of improving access to credit for SACCOs members and also improve the SACCOs' performance and sustainability in providing credit services to its clientele. Your help in answering these questions is very much appreciated. Your response will be kept COMPLETELY CONFIDENTIAL. You indicate your voluntary consent by participating in this interview: may we begin?

Questionnaire No: _________

SECTION 1: FINANCIAL COOPERATIVES IDENTIFICATION

Name of the Cooperative	
Region where it is based	
When was it established	
Name of respondent	
Job position of respondent	

How long have been working in the current position	
How long have you been involved in the cooperative	
Cell phone number of respondent	
Email address of respondent	

On a scale where 1 = Not knowledgeable and 5 very knowledgeable, please indicate with (X) the extent to which you are knowledgeable about financial cooperatives performance and sustainability.	**1**	**2**	**3**	**4**	**5**

SECTION 2: LEVEL OF OUTREACH ACHIEVED AMONG TARGETED CLIENTELE

2.0. We would now like to know about the level of outreach the financial cooperative have achieved among it targeted clientele.

Outreach indicators	**Value**
Number of branches	
Total number of active clients	
Percentage of woman clients	
Number of voluntary savers	
Total number of borrowers	
Total assets (E)	
Total savings (E)	
Total outstanding loans (E)	
Total loans issued (E)	
Share capital (E)	

SECTION 3: MEASUREMENT OF SUSTAINABILITY USING FINANCIAL PERFORMANCE

3.0. We would now like to know about the financial performance of the financial cooperative in the past 5 years so that we can be able to use it to measure the sustainability of the financial cooperative.

Performance indicator	2010	2011	2012	2013	2014
Total assets					
Total shares issued					
Outstanding loans (Accounts receivable)					
Inventory					
Total loan issued					
Loans overdue (delinquent loans)					
Operating cost (Total expense)					
Operating income (Surplus income)					
Total current assets					
Total current liabilities					
Total income (Gross income)					
Bad debt (write-off)					
Repaid bad debt					
Number of members					
Number of employees					

SECTION 4: MEASUREMENT OF SUSTAINABILITY USING SOCIAL PERFORMANCE

We would like to know about the social performance of the cooperative so that we can be able to measure the level of social sustainability.

SOCIAL PERFORMANCE INDICATORS	
1. Mission and social goals	

Which of the following clientele represent your target clientele? Please rank them in order of importance. Select only those that apply	Woman [ ] Adolescence and youth (below 18) [ ] Clients living in urban areas [ ] Clients living in rural areas [ ] Company employees [ ] Others (please specify) [ ]
Which of the following development goals is the cooperative specifically perusing through it provision of financial and non-financial services. Rank them in order of importance and select those that apply.	Improve access to financial services [ ] Poverty reduction [ ] Employment generation [ ] Development of start-up business [ ] Growth of existing business [ ] Health improvement [ ] Others (please specify) [ ]
What is the level of income of the clients that the cooperative is aiming to reach?	Less that E 1 999 a month [ ] E 2000 to E 3 999 a month [ ] E 4000 to E 9 999 a month [ ] E 10 000 and above a month [ ] No specific target [ ]
2. Governance	
Have the member of your board of Directors ever been trained about social performance	Yes [ ] No [ ]
Does your Board of Directors have a formal committee to monitor social performance	Yes [ ] No [ ]

3. Range of products and services	
Indicate which range of credit services does your cooperatives offer:	Microloans for microenterprises [ ] Microloans for household/consumption needs [ ] SME loans [ ] Loans for agriculture [ ] Loans for education [ ] Housing loans [ ] Others (please specify) [ ]
Does the cooperative take deposits? If the cooperative doesn't take deposits please skip to the next question, but if it does please indicate the savings products offered	Yes [ ] No [ ] Checking account [ ] Voluntary savings account [ ] Compulsory savings account (cash collateral) [ ] Fixed term deposit [ ] Special purpose savings account [ ] Others (specify) [ ]
4. **Social responsibility (Consumer protection principles**)	
The loan approval process requires evaluation of borrower repayment capacity and loan affordability. Loan approval does not rely solely on guarantees (whether peer guarantees, co-signers or collateral) as a substitute for good capacity analysis.	Yes [ ] No [ ]
Prices, terms and conditions of all financial products are fully disclosed to the customer prior to sale, including interest charges, insurance premiums, minimum balances, all fees, penalties, linked products, third party	Yes [ ] No [ ]

fees, and whether these can change over time.	
Staff is trained to communicate effectively with all customers, ensuring that they understand the product, the terms of the contract, their rights and obligations. Communications techniques address literacy limitations (e.g., reading contracts out loud, materials in local languages).	Yes [ ] No [ ]
Acceptable and unacceptable debt collection practices are clearly spelled out in a code of ethics, book of staff rules or debt collection manual.	Yes [ ] No [ ]
A mechanism to handle customer complaints is in place, has dedicated staff resources, and is actively used. (Suggestion boxes alone are generally not adequate.)	Yes [ ] No [ ]
Customers know how their information will be used. Staff explains how data will be used and seeks permission for use.	Yes [ ] No [ ]
5. Transparency of cost of service to clients	
How does the cooperative state the interest rate of its representative microcredit products	Declining interest method [ ] Flat interest method [ ]
6. Human resource and staff incentive	
Please indicate which of the following, if any, are included in your human resources policy**:**	Transparency on salary (clear salary scales) [ ] Benefits (Medical insurance, Pension contribution) [ ] Protection at work (safety, anti-harassment) [ ] Equality (anti-discrimination) [ ] Others (specify) [ ]

Please indicate whether your cooperative has staff incentives related to any of the following areas:	Ability to attract new clients from target market [ ] Outreach to woman [ ] Quality of interaction with clients [ ] Client retention/drop-out [ ] Others (specify) [ ]
7. Social responsibility to the environment	
Please indicate what kind of environmental policies, if any, has the cooperative put in place:	
8. Poverty outreach	
Does your cooperative measure the poverty levels of your clients?	Yes [ ] No [ ]
Please list any product(s) or service(s) (financial or non-financial) offered by your institution that is specifically designed to target the poor:	
9. Client outreach by lending methodology	**Total outstanding loans**
Individual loans	
Group lending	
10. Enterprises financed and employment creation	**During the reporting period (2014)**
Number of microenterprises financed	
Number of start-up microenterprises finance	
Number of people employed in the financed microenterprises	
11. Client retention	**Total active borrowers**
Number of active borrowers at the end of 2014	

Number of active borrowers at the beginning of 2014	
Number of new borrowers in 2014	

SECTION 5: CHALLENGES FACED BY FINANCIAL COOPERATIVE

5.1 We would now like to know about the challenges that are faced by financial cooperatives in Swaziland. Please prioritize the challenges that you believe are important challenges facing financial cooperatives. (Cross your priority 1 = HIGHEST, 2 = MEDIUM and 3 = LOWEST importance).

Challenges faced by financial cooperatives	**Highest**	**Medium**	**Lowest**
Legislative reform on cooperatives	1	2	3
Governance issues: accountability	1	2	3
Inadequate monitoring and supervision of SACCOs	1	2	3
Need for training and human resource development	1	2	3
Competition from commercial banks	1	2	3
Lack of public awareness and membership growth	1	2	3
Lack of access to new technology	1	2	3
Limited menu of products provided by SACCOs	1	2	3
Lack of an internal conflict management system	1	2	3
The threat of HIV/AIDS on staff and devoted members	1	2	3
The introduction of the Financial Service Regulatory Authority	1	2	3
The retrenchment and retirement of devoted SACCOs members	1	2	3
Slow rate of decision making because of the democratic nature of coops	1	2	3

5.2 What other challenges do financial cooperatives face in Swaziland?

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THANK YOU FOR TAKING THE TIME TO SHARE WITH US YOUR IDEAS AND OPINIONS. YOUR ASSISTANCE IS HIGHLY APPRECIATED.