



# **An evaluation of the financial performance and corporate governance of Savings and Credit Cooperatives in Zimbabwe**

Mudimba Leonard

Faculty of Commerce and Law, Department of Accounting and Auditing, Zimbabwe Open University, Harare, Zimbabwe.

## **Abstract**

*This study is an evaluation of the financial performance and corporate governance structures of Savings and credit cooperatives (SACCO), a case study for the Women Network Savings Credit Cooperative Society in the Zimbabwe Republic Police, Bulawayo Central District in Zimbabwe. The research set out to determine the relationship between corporate governance and financial performance of the SACCO. A sample of 48 was drawn from a population of 688 participants. comprising of 680 SACCO members, 4 Ministry of Youth and 4 National Association of Credit Savings Union of Zimbabwe (NACSCUZ) officials respectively. Questionnaires were distributed using drop and pick method to the 40 SACCO members and the interview was also used on Ministry and (NACSCUZ) officials. Data was collected and analysed using qualitative data analysis method. Findings revealed that the SACCO was found to comply less with corporate governance guidelines. corporate governance and financial performance were found to be strongly positively correlated. The study concluded that less compliance with corporate governance explain the relatively poor financial performance of this SACCO. The SACCO was therefore advised to create awareness amongst the members regarding their rights as well as encourage the SACCO to adhere to corporate governance principles, process and procedures among others.*

**Key words:** Banking services, Corporate governance, Financial performance, National Association of Credit Savings Union of Zimbabwe (NACSUZ), Savings and Credit Cooperative (SACCO)

## **1. Introduction**

Savings and Credit Cooperative Societies (SACCOs) are important in the provision of financial and banking services to low income households who for economic reasons cannot be covered by the activities of formal banks and financial institutions due to lack of collateral security usually required by formal banking institutions.

SACCOs performs three major functions in relations to its members and general economic development of the country. In particular, these functions are collecting savings from its members, giving loans to its member's borrowers and giving financial and nonfinancial advice to its members in order to facilitate SACCOs members utilize well the micro loans they have borrowed from SACCOs. In some cases, some government and private institutions may also give financial assistance to SACCOs in order to enable them to give micro loans to more SACCO members. In turn members of SACCOs are expected to use the borrowed funds for the intended projects. These are mainly financing of microeconomic members activities such as trade, agriculture, small scale manufacturing industries, service sectors such as saloon businesses and in some cases Sacco members borrow SACCO loans to finance their non economic activities such as payment of school fees and payment of medical fees. Since members borrow SACCO funds to finance their respective micro investments, it is important that there should be a close cooperation between SACCOs, borrowers and professional experts in various fields such as banking, marketing, commerce, economics, finance, agriculture, trade and engineering among others. These professionals will provide valuable advice to SACCO members on how to run their micro projects financed by micro loans borrowed by members. At the same time, the government is also expected to establish a conducive monetary policy, fiscal policy, trade investment policy, wage-income redistribution policy, which will in general facilitate better performance of SACCO member's micro projects financed by Sacco's loans.

Savings and Credit Cooperatives Society (SACCOs) in Zimbabwe have not performed creditably well and hence have not played the expected vital and vibrant role in the economic growth and development of Zimbabwe. This situation has been of great concern to the government, citizens, operators and the organized private sector groups. Year in year out, the government and even local levels through budgetary allocations, policies have signified interest and acknowledgement of the crucial role of the SACCOs sub-sector of the economy and hence made policies for energizing the same. Just as it has been a great concern to all and sundry to promote the welfare of SACCOs, it has also been a great cause of concern to all, the fact that the vital sub-sector has fallen short of expectation. The situation is more disturbing and worrying when compared with what other developing and developed countries have been able to achieve with their Micro-finance institutions. It has been shown that there is a high correlation between the degree of poverty, hunger, unemployment, and economic well being (standard of living) of the citizens of countries and the degree of vibrancy of the respective country's micro-finance. If Zimbabwe was to achieve an appreciable success towards attaining the Millennium Development Goals for 2020, one of the sure ways would be to vigorously pursue the development of its

SACCOs. Some of the key Millennium Development Goals like having the proportion of people living in extreme poverty, suffering from hunger, without access to safe water, reducing maternal and infant mortality by three-quarter and two thirds respectively and enrolment of all children in primary school may be a mirage unless there is a turnaround of our SACCOs' fortunes sooner than later. The time is now to do something surgical to the situation of our SACCOs given the aggravating level of poverty in Zimbabwe and the need to meet up with the Millennium Development Goals.

The Women Network Savings and Credit Cooperative Society was established in 2008 by the Zimbabwe Republic Police with an objective to empower women police officers. The cooperative falls under workers cooperative category. Its membership on inception was drawn from all women police officers within Bulawayo's Central District. Currently the SACCO membership stood at 680 fully subscribed. Like any other Savings and Credit Cooperative Society in Zimbabwe, this SACCO had been dogged by a myriad of challenges mainly; capitalisation, liquidity, portfolio risk and poor corporate governance among other challenges which has driven the researcher's motivate to carry out an evaluation on the SACCO's financial performance and corporate governance structures.

## **1.2 Statement of the research problem**

Although Savings and Credit Cooperatives Society (SACCOs) have been regarded as the bulwark for employment generation and technological development in Zimbabwe, the sector nevertheless has had its own fair share of neglect with concomitant unsavoury impacts on the economy. The Women Network Savings and Credit Cooperative Society has been experiencing cash-flow problems due poor corporate governance and portfolio risk management. Its financial position is weak that it cannot meet the rising cost of hiring caliber of staff, training of members and elected leaders. The SACCO is also faced by a high level of delinquency on loans it advanced to its members. As a result of the problems this SACCO faces, there is an out cry from members that there were not able to access loans from their SACCO defying the major objective of its existence.

## **1.3 objective**

The objective of the study is to make an evaluation of the financial performance and corporate governance structures in the Savings and Credit Cooperative Societies in Zimbabwe.

## **2. Literature review**

The study was guided by the following literature review

## **2.1 Meaning of SACCOs**

According to the RBZ's National Micro Finance Survey conducted in March 2006, SACCOs are user owned and managed organizations ranging in size from a handful to several thousand members, organized on the basis of the workplace among formal employees, markets usually among vendors or around a specific product. Mutesasira et al (1999) defined SACCOs as organisations governed by its members, elected from within the membership unpaid volunteer officers and directors to determine the policies under which the SACCOs operates. Voting is one-member-one-vote, regardless of the size of the member's savings or loan balances (Goddard, McKillop, and Wilson, 2008). According to Branch and Baker (1998) member ownership and control is a key to Savings and Credit Cooperative Societies. Savings and Credit Cooperative Societies (SACCOs) have always been socially minded and democratic financial institutions and traditionally savings led institutions. However, these vary in strengths and could easily be impediments to effective governance. Savings and Credit Cooperative Societies require expanding and competing in the financial marketplace.

## **2.2. Main governance challenges.**

According to the RBZ National Micro Finance Survey (2006) SACCOs are usually governed by a volunteer board of directors elected by and from the membership. Labie & Périlleux (2009) assert that one of the governance conflicts in Savings and Credit Cooperative Societies is the "moral hazard" conflict between "net borrowers" and "net savers". Some clients have more loans than savings, and vice versa creating a division within membership in terms of "net borrowers" or "net savers" and yet they are all members with same right to influence the management of the structure through the one person-one vote system. This creates conflicts; first, the net borrowers can dominate; in this case, the board may tend to prefer too favourable conditions in the providing of loans such as advancing loans to high risk borrowers and interest rates charged on the loans which can affect the viability SACCOs and secondly the net savers can dominate; in which case, the board may create too restrictive conditions for allowing credits in order to protect their savings.

The assertions of Labie & Périlleux (2009) were in line with the observations of the CGAP Report (2005). According to the CGAP (2005) it is difficult for board members to balance the contradictory interests of net borrowers and savers. Borrower domination is unhealthy because net borrowers have few incentives to ensure prudential discipline or profitability, unlike net savers who are most interested in protecting their deposits and earning an attractive rate of return. Although "one person, one vote" decision-making is meant to ensure equality of user rights and responsiveness of service, many members do not exercise their control because they

wield little individual influence. As a result, in some cases, community elites or net borrowers are able to dominate the structure for their own benefit. Branch and Baker (1998) looked at governance challenges in SACCOs from a different perspective that is, SACCO owners also doubling as customers. Borrowers want low loan interest rates, low transaction costs and lax discipline while savers demand high deposit interest rates and strong prudential disciplines. The savers would wish to see the SACCO's viability strengthened by profitability and protected by financial discipline, while the borrowers' would wish better terms contrary to the savers' interest. Management decisions may favour one group or the other, depending on the SACCO's business/social mission, the nature of the membership, and the balance of borrowers and savers serving on the Board of Directors. Kyazze (2010) agrees with Branch and Baker (1998) saying that the tendency for SACCO leaders to manage the SACCOs in favour of borrowers rather than savers is a key challenge. This is why some SACCOs want to keep interest on loans low and pay little interest on savings.

However, Branch (2005) maintained that borrower domination is unhealthy because net borrowers have few incentives to ensure prudential discipline or profitability, unlike net savers who are most interested in protecting their deposits and earning an attractive rate of return.

The Microfinance network report (2000) observed that Savings and Credit Cooperative Societies boards comprised client members, most of whom were net borrowers whose focus could be more on reducing lending interest rates than on the institution's wellbeing. According to Desrochers, Fisher & Gueyie (2003) the challenge is to ensure that choices made by the managers match the mission of the organization. They add that the "free-riding" behaviour of all members is often propelled by the one person-one vote principle hence no one member has enough influence to really care to check the others and the fact that members' shares are not tradeable on the stock exchange and therefore, there is no market mechanism to value the quality of the management and bring pressure for better management.

According to Staschan (2003) weak governance, transparency and management knowhow are widely known to plague many SACCOs as opposed to the relatively solid nature of regulated institutions. Shaw (2006) noted that good corporate governance practices for Savings and Credit Cooperative Societies were still lacking and insufficient in terms of their development and implementation, affirming that the few co-operative codes adopted so far have been modelled on the codes designed for investor-owned companies, only adding in further provisions concerning membership but not substantively reworking them, making it appear as though corporate

governance issues facing co-operatives remain in large measure the same as those for investor owned firms. Cuevas & Fischer (2006) pointed out that governance issues may also be brought about by the growth of a co-operative which inevitably expands or dilutes ownership and managers become subject to weaker controls resulting in rent-seeking behaviour and wasteful expenses. This tendency is reinforced by the fact that co-operatives have frequently faced weak external competition through subsidized financing from government and NGOs which has also enabled inefficient managers to survive. SACCOs in developing countries are typically constrained by the lack of autonomy from government interference, anachronistic legal frameworks, and lack of an appropriate regulatory framework as well as poor supervisory capacity of the entity responsible for supervising them. Legal frameworks often prevent the adoption of better corporate governance practices.

Regulatory frameworks often lack the prudential regulations that are critical for regulating financial institutions, and supervisory agencies often lack the skills and the financial resources to effectively supervise Savings and Credit Cooperative Societies (Nair, 2007). The RBZ Survey (2006) also cited lack of adequate participation in decision-making structures by members as another governance challenge facing SACCOs in the developing world resulting in dominance of the co-operative by community elites who then use the funds to secure their own position. The more diverse and diffuse the members base is, the more risk there is that members stop identifying themselves with the Savings and Credit Cooperative Societies, thereby more easily adopting a free-riding attitude, which may result in lower scrutiny and weaker corporate governance.

### **2.3 Relationship between corporate governance and financial performance.**

Corporate governance has been identified to have a significant impact on the performance of firms (Coleman & Osei, 2007), (Dittmar & Mahrt-Smith, 2007). However, according to Hermalin and Weisbach (2003) there does not seem to be consistent evidence to support the fact that board size or composition affects performance. According to Kairu (2009) an appraisal of the performance of the Savings and Credit cooperative Societies by the parliamentary committee on finance, revealed that SACCOs are faced with numerous operational hurdles including poor governance and regulatory issues emerging as key challenges. Wright (1999) observed that most stakeholders, including government officials, were wary about their future SACCOs due to their poor performance and inherent governance problems.

Ssemwanga (2009) however noted that good governance had enabled Zimbabwe to witness some levels of acceptable progress in terms of how SACCO matters are managed and made to grow. SACCOs like Masvingo

and Public Service Cooperative Society responsible for credit and savings mobilisation from mostly teachers and other civil servants were funding small business enterprise activities, school fees and medical as well as personal consumption loans to members in the country which have been able to register high returns on their investments over the past years and embraced the practice of good SACCO governance before they were also became dormant.

Lack of involvement of the membership in the affairs of the institution regularly provides opportunities for the board, management and their friends to take loans without living up to their repayment duties (the IMF Report, 2001). In addition, some SACCOs had illiterate committee members who lacked basic skills to effectively supervise operations and were defrauded by management who took advantage of their ignorance (IMF report, 2001). Many SACCOs also report concerns about connected party loans. These are loans to officers themselves or their close relatives and business associates. It is therefore not practical to entirely rule out loans to board members and their families and associates because of the nature of SACCOs (Bald, 2007).

### 3. Research methodology

The researcher used the descriptive survey method where questionnaires were used in the collection of data. According to Chilisas and Preece (2005:93), a descriptive survey research is “research that gathers information to describe a population with respect to identified variables.” It systematically gathers information about a situation, an area of interest, a series of events, people’s attitudes, opinions, behaviours, interests or practices. In this study, the total population is 688 comprising of 680 members of Women Network SACCO members, 4 Ministry of Youth Officials and 4 NACUZ officials from which a sample was drawn. The researcher adopted stratified and the purposive sampling designs were used to obtain the sample size of 40 respondents for the study.

### 4.0 Data presentation, analysis and interpretation

#### 4.1 Responses from questionnaires

**Table 4.1: Responses on the level of compliance with corporate Governance’s guidelines in SACCOs**

Responses	Frequency	Percentage
All board members are SACCO members	15	31%
Board members tenure has limit	10	21%
Board members attend meetings regularly	5	10%

Board members encourage dialogue between board members and management	4	8%
CEO double as chairperson	1	2%
<b>Total</b>	<b>35</b>	<b>73%</b>

**Source: Research survey data**

Out of the 35 respondents, 15(31 percent) stated that, all board members were SACCO members, 10(21 percent) pointed out that, board members tenure has limit, 5(10 percent) indicated that, board members attend meeting regularly while 4(8 percent) pointed that board members encourage dialogue between board members and management. The remainder of 1(2 percent) believed that, the CEO double as chairperson.

The result for question 4.1 seems to reveal that the SACCO complies with SACCO corporate governance guidelines except for that its CEO doubles as chairperson. This dominant personality phenomenon has become one of corporate governance aspects of concern nowadays as noted by Forker (1992). Duality of CEO should be avoided is if the SACCO has to be able to distinguish between roles of decision making and decision-monitoring to reduce confusion.

**Table 4.2 Relationship between corporate governance and financial performance in the SACCO**

Responses	Frequency	Percentage
There is strong relationship	34	71%
There is no relationship	1	2
<b>Total</b>	<b>35</b>	<b>73%</b>

Source: Research survey data

The question was asked to establish whether there was any relationship between corporate governance and financial performance. The result seems to suggest that, there was a strong positive relationship between corporate governance and financial performance. Thus, this was implying that poor corporate governance practices are associated with poor financial performance, and vice versa. It can further be deduced from the result that, the only important predictors of financial performance of the SACCO were corporate governance change and risk as opposed to length of operation. Corporate governance was found to have a significant positive effect on financial performance.

**Table 4.3: Responses on members input in the management of SACCO**



Responses	Frequency	Percentage
Yes	15	31%
No	20	42%
<b>Total</b>	<b>35</b>	<b>73%</b>

Source: Research survey data

Out of the 35 respondents 15(31 percent) stated that, members have input in the operation of the SACCO, while 20(42 percent) concurred that, they do have any input in the operation of the SACCO. It seems a number of members were not exercising their rights fully in the operation of their SACCO the rights which they have to exercise to ensure the smooth running of the SACCO.

#### 4.2 Interview analysis for Ministry of Youth and NACUZ officials

**Table 4.4: Showing requirements for SACCO registration.**

Responses	Frequency	Percentage
Registered in accordance with the laws of Zimbabwe	4	8%
<b>Total</b>	<b>4</b>	<b>8%</b>

Source: Research survey data

Out of the 4(8 percent) respondents who were interviewed, they were of the view that, SACCOs are required to register under the Cooperative Societies Act Chapter 24.05.

This question was asked to establish the level of the regulatory framework for SACCOs. The results showed that Zimbabwe SACCOs are registered in accordance with Zimbabwe laws under the Cooperative Act Chapter 24:05. This Act regulates SACCO' formation, registration and details of its objectives as well as how they are managed. SACCOs are regulated and supervised by the Ministry of Youth Development, Employment Creation but according to the RBZ Survey (2006), Ministry of Youth and NACSUZ; these SACCOs are monitored by the National Association of Credit Savings Union of Zimbabwe (NACSCUZ).

**Table 4.5: Number of SACCOS operational today coming from economic challenges that has seen our economy dollarized**

Responses	Frequency	Percentage
Eighty percent collapsed	4	8%
<b>Total</b>	<b>4</b>	<b>8%</b>

Source: Research survey data

The 4 respondents interviewed representing 8 percent of the sample size, pointed that, 80% of SACCOs in Zimbabwe collapsed. This implies that, in Zimbabwe only 20 percent of the registered SACCOs are still operational. The results from this question seems to have pointed that, the number of SACCOs operational today has depleted due to a variety of challenges such as recapitalisation, poor management and lack corporate governance, high level of delinquency and poor portfolio risk management. Respondents seemed to support Brogi (2008) who stated that, the governance system of financial intermediaries is all the more important because these institutions are mainly in the business of risk acceptance. However, many firms are yet to implement practices for better risk management (Kleffner *et al*, 2003). Tandelilin (2007) who also maintains that implementation of good corporate governance is not only concerned about better expected return but is also concerned about better managing of risk. The results also explained the status of missing SACCOs in Zimbabwe and that 80% of the SACCO in Zimbabwe collapsed as a result of fraud and mismanagement by board executives and management.

**Table 4.6: Showing level of compliance by SACCOs to set regulations**

Responses	Frequency	Percentage
Level of compliance is high	1	2%
Level of compliance is low	3	6%
<b>Total</b>	<b>4</b>	<b>8%</b>

**Source: Research survey data**

Out of the 4 respondents interviewed, 1(2 percent) pointed that, the level of SACCO compliance to set regulations was high, while 3(6 percent) stated that, the level of compliance was low. The low level of compliance could be explained by 80% of SACCOs which had collapsed due to fraud, mismanagement and corporate governance challenges.

The question was asked to establish level of compliance by SACCOs. It appears from the results that, there was a high level of delinquency in as far as SACCO compliance was concerned. 80% of registered SACCOs in Zimbabwe collapsed due to lack of compliance among other factors such as poor corporate governance, fraud as well as mismanagement.

## 5. Conclusion and recommendations

The study concluded that, the SACCO has two positions of CEO and Board chairperson being occupied by one person. This implies that the board members in this SACCO may not be that effective. This is in line with the

views of Jensen (1993), Stiles & Taylor (1993). It also confirms the conclusions of Mugabi (2009) who observed that most SACCOs suffer from the founder syndrome with the founders wanting to manage the SACCOs as their own thereby occupying the two positions and even the third as the treasurer resulting into a situation which is beyond duality. The study also concluded that, managers who double as board chairpersons were actually impeding independence. Thus, due to this it can be concluded that, the less compliance with corporate governance guidelines could partly explain the governance challenges being faced by this SACCO. The study found out that, corporate governance has been found to be strongly positively correlated with financial performance, implying that poor corporate governance practices are associated with poor financial performance, and vice versa

### **Recommendations**

The study strongly recommended that: SACCOs should ensure that the principles of corporate governance as advocated by the various institutions like the RZB, NACUZ and WOCCU among others are implemented and enforced at all times. The board members of this SACCO should ensure they get copies of these documents or that they are availed to them for purposes of supervision and monitoring of the SACCO activities. Secondly the SACCO should undertake awareness campaigns in order to create awareness among members on their rights and the institutional structure, roles of the different committees and the board as well as encourage active member participation in the activities of the SACCO for instance voting in the Annual General Meeting. This will enable the members to critically assess the way their institution is being managed. Lastly the government, should adequately resource the SACCOs regulatory authorities by adequately allocate funds from the fiscal purse to enable them to adequately monitor SACCOs operations. This would go a long way in promoting SACCOs activities and protection of SACCOs members' investments. This would also help in the growth of the sector.

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