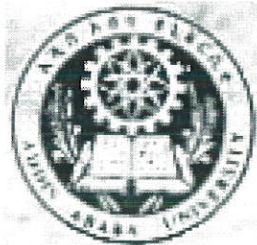


*** LOAN PROVISION, DEGREE OF COLLECTIBILITY AND
REASON FOR DEFAULT: A CASE STUDY IN WISE
SAVING AND CREDIT COOPERATIVES UNION FOR
WOMEN**

**A RESEARCH PROJECT SUBMITTED TO THE SCHOOL OF
GRADUATE STUDIES OF ADDIS ABABA UNIVERSITY IN
PARTIAL FULFILLMENT
OF THE REQUIREMENTS FOR MASTERS
DEGREE IN ACCOUNTING & FINANCE**

BY

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ADDIS ABABA UNIVERSITY
SCHOOOL OF GRADUATE STUDIES

**Loan Provision, Degree of Collectiblity and Reason for
Default: A Case Study in WISE Saving and Credit
Cooperatives Union for Women.**

By Meron Merkuriaw

January 2008

Approved by board of examiners

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STATEMENT OF DECLARATION

I Meron Merkuriaw, declare that this study entitled as “Loan Provision, Degree of Collectibility and Reason for Default: in case of WISE Saving and Credit Cooperatives Union for Women”, is my own work. I have carried out independently the research work with the guidance and support of the research advisor. This study has not been submitted to any degree/diploma in this or any other institution. It is done in partial requirement of the Msc Degree in Accounting and Finance.

Meron Merkuriaw: _____

Date: _____

STATEMENT OF CERTIFICATION

This is to certify that Meron Merkuriaw has carried out her research work on the topic entitled “Loan Provision, Degree of Collectibility and Reason for Default: in case of WISE Saving and Credit Cooperatives Union for Women”.

This work is original in nature and is suitable for submission for the award of Msc. in Accounting and Finance.

Ato. Abebe Yitayew (Asst Professor): _____

Date: _____

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ACRONYMS

WISE	Women in Self Employment
SACs	Saving and Credit Cooperatives
SAC	Saving and Credit Cooperative
MFIs	Microfinance Institutions
SME	Small and Medium Business Enterprises
NBE	National Bank of Ethiopia
NGOs	Non-Government Organizations

ABSTRACT

This paper entitled “Loan Provision, Degree of Collectibility and Reason for Default in case of WISE Saving and Credit Cooperatives Union for Women” examined the loan provision, collection procedures as well as the default rate of this SAC.

Today a number of Saving and Credit Cooperatives(SACs) are established to give a saving and loan service to clients and much emphasis is given for those women who wants to run SME. WISE’s major clients are women who would have an impact on changing their own life as well as their families. The study attempted to identify and assess the loan provision criteria’s, collection procedures, the reason for default, the impact of interest on the cooperatives and clients, and last but not the least the benefits and challenges of the SAC under WISE.

Data for the study was collected through questionnaire, interview and discussions with four cooperatives members and credit officers who are situated in Nefas Silk sub-city.

Results of the study indicate that in order to give loan to a woman WISE have set criteria’s so as to decrease the default rate. A woman has to save money and has to provide a business plan in order to be given the requested loan, after being a member of the SACs. The study revealed that the level of education of the borrowers reduces the default rate in turn facilitates heavily the collection procedures. The study also indicates that the interest charged has a great impact on clients which makes them to reduce the amount of loan they want to take.

CHAPTER ONE

INTRODUCTION

1.1. Background of the Study

The provision of credit has increasingly been regarded as an important tool for raising the incomes of urban as well as the rural populations, mainly by mobilizing resources to more productive uses. As development takes place, one question that arises is the extent to which credit can be offered to the poor to facilitate their taking advantage of the developing entrepreneurial activities. The generation of self-employment in any activities requires investment in working capital. However, at low levels of income, the accumulation of such capital may be difficult. Under such circumstances, loans, by increasing family income, can help the poor to accumulate their own capital and invest in employment-generating activities.

Commercial banks and other formal institutions fail to provide for the credit needs of smallholders, however, mainly due to their lending terms and conditions. It is generally the rules and regulations of the formal financial institutions that have created the legend that the poor are not bankable, and since they can't afford the required collateral, they are considered uncreditworthy. Hence despite efforts to overcome the widespread lack of financial services, especially among smallholders in developing countries, and the

expansion of credit in the rural areas of these countries, the majority still have only limited access to bank services to support their private initiatives

The failure of specialized financial institutions to meet the credit needs of such enterprises has underlined the importance of a needs oriented financial system for urban as well as rural development. So the need for the informal financial institutions arises. The experience from informal finance sector shows that the poor, especially women, often have greater access to informal credit facilities than to formal sources.

One of the informal financial institution which give service for urban as well as rural people specially for those who are poor is the Saving and Credit Cooperatives.

Saving and Credit cooperatives (SACs) stand for the provision of saving and credit services to their members. SACs are member owned controlled and capitalized organizations. They mobilize savings from members and return those to members in the form of loans. SAC societies in Ethiopia operate within the framework of the Proclamation No. 147/98. According to the proclamation, a minimum of ten members is required to form a cooperative society. In Ethiopia the employees of Ethiopian Road Authority established the first SAC in 1950(E.C). Next to this was the one founded by the employees of the Ethiopian Airlines in 1956 (E.C).

During the command economic system, proclamation No. 138/70 provided authority for promotion and organization of SACs to the National Bank of Ethiopia (NBE). The

replacement of Proclamation No. 138/70 by 147/98 has created an enabling environment for the promotion of genuine SACs. At this stage, however, most of the SACs are not yet transformed to the requirement of the new legislation. The new legislation requires all the SACs to be organized on share capital base and operate according to the other norms stipulated by it.

The study is about one of the cooperative unions in Addis Ababa under the name of Women in Self-Employment (WISE) Saving and Credit Cooperatives Union for Women. WISE is a secular, indigenous, nongovernmental organization established in 1997(E.C) and legally registered with the Ministry of Justice. WISE is dedicated to the elimination of the facets of urban poverty and the realization of sustainable livelihoods among the poor urban women. Having started its operation in 1998, the organization is currently working with poor self-employed women in Addis Ababa in five operational areas namely; Nefas Silk, Lafto, Kirkos, Akaki Kality and Addis Ketema Sub Cities in their efforts to achieve self-reliance, exercise rights and improve the quality of their lives. The union has 15 cooperatives under it and there are more than 4,000 members. The major focus area is the economic, social, and political empowerment of women and the attainment of gender quality. Action Aid Ethiopia is the long term partner of WISE, providing funding for financing its programs since its inception in 1997. Recently WISE has also established partnership with Concern Ethiopia.

1.2. Statement of the Problem

Even though, Saving and Credit Cooperatives (SACs) help those who have no access to the financial services of formal financial institutions (they bank the unbankable); in addition, they also contribute a lot to reduce the negative impact of local money lenders in areas they operate in, however, it is encircled by so many deep-rooted problems. A number of studies on saving and credit institutions in several countries have revealed that the majority of those have encountered serious loan recovery problems.

Today, it is quite clear that credit and saving cooperatives are facing serious and fundamental problems. Issues at the centre of these problems include such basic concepts as the nature and aim of the cooperative, as well as its structural and the principles on which it operates. Even worse, among the majority of members of credit and saving cooperatives throughout the world and, in particular, among their administrators, there is a lack of understanding of everything connected with the processes by which this particular form of cooperative operates. Another key problem is the credit and saving cooperative's ability and, in practice, its failure to initiate projects for increasing revenues, both via the use of accumulated savings and by acting as a channel for transferring outside sources of finance to its members. The above mentioned problems transparent that credit and saving cooperatives around the world do not properly satisfy their members' needs. In most cases, in fact, the members of the cooperatives, including their administrators, are quite unaware and quite unable to comprehend the problems in question.

The fifteen Cooperatives which are under WISE tries to achieves their objectives, by providing saving and credit, education and training to their members to achieve a better culture, in turn increasing the standard living of their members. Even though they are very crucial to the informal sectors at large, however, there are problems which hinder the cooperatives to achieve their objectives. One problem is concerning the requirement that has to be provided for receiving a loan, the other one is the interest rate that the cooperatives charge. In Saving and Credit Cooperatives, the greatest interest rate risk occurs when the cost of funds goes up faster than the institution can or is willing to adjust its lending rates. The cost of funds can sometimes exceed the interest earned on loans and investments, resulting in a loss to the sector. The interest cost is considered to be low since it doesn't be able to cover 100% of the operating costs. But for the members this cost is considered to be high since the interest they receive on their saving is very less than the interest they pay on loans. This in turn discourages member's motive to deposit as well as to borrow. Therefore the reason to undertake this research is to assess the loan provision and degree of collectibility and to identify the main reasons that lead to default.

1.3. Research Questions

This research paper tried to see the problems by addressing the following questions:

- ✓ What is the existing loan provision? Does it consider the members interest or not?
- ✓ What are the requirements that have to be fulfilled by the members to receive a loan?

- ✓ Does the interest rate charged by the cooperatives cover major costs and what is its impact on members?
- ✓ Even though the cooperatives claim that they don't ask their members for collateral, what about the saving they hold, can't it be considered as collateral?
- ✓ Is there a group lending, if there is what are the factors involved?
- ✓ What are the loan collection procedures of these cooperatives and the impact on the members?
- ✓ Even though, the degree of collectibles for SACs is high, what are the reasons behind and the effect on members, because most of the members pay loans by selling their house furniture's and so on.
- ✓ And what are the main reasons for default, and how it is accounted for.

1.4. Objective of the Study

The general objective of the paper is to examine the credit provision and collection criteria in the WISE Saving and Credit Cooperatives Union for Women. The specific objectives are as follows;

- To examine the loan criteria's and its impact on the members.
- To examine the collection procedures adopted by the cooperatives and its impact on the members.
- To examine the impact of interest rate charged by the cooperatives on both the cooperatives and their members.
- To examine the savings that the members are required to have before taking a loan.

- To assess the collectibility rate in turn also the default rate and its impact on the members.
- To assess the benefits and challenges of the cooperatives.
- In general to assess any problem associated with saving and credit functions of the cooperatives and to recommend possible solutions based the analysis that will be made.

1.5. Significance of the Study

Saving and Credit Cooperatives provide services for those who cannot be able to receive services through the formal financial institutions. They provide service for those who cannot fulfill the requirements provided by the formal; because of this they increase the people standard of living by giving them a chance to start a new beginning, a journey which has a good impact on the economy as well.

The significances of this study are:

- To shed light on the advantages and problems of Credit and Saving Cooperatives.
- To assess the impact of loan provision and collection procedures on the members.
- To extend a little bit knowledge about SACs
- To give solution to the problems
- To be a reference for further research.

1.6. Scope of the Study

The finding of the research would have been more satisfactory if it were able to cover all saving and credit cooperatives of WISE in Addis Ababa, but due to time and the scatteredness of the members, the study is limited to the four saving and credit cooperatives which are located in Nefas Silk sub city. In addition, the study is also delimited to identifying factors involved in loan provision, collection and default aspect of the cooperatives.

1.7. Research Design and Methodology

1.7.1 Population and Sampling Technique

- Currently the number of cooperatives established by WISE has reached 15, with a total membership of more than 4,000. 10 of the cooperatives are located in Nefas Silk sub city, from the 10 cooperatives 4 of them are selected randomly for the study. The type of sampling techniques applied is simple random sampling, which is used to select sample co-operatives and members
- Since the members of the cooperatives are homogenous in nature, 100 members from the 4 cooperatives are selected to fill the questionnaires.
- WISE has a total of 46 staff, of which 11 are trainers, 5 are working as credit officers, and 12 are on the payroll of the saving and credit cooperatives and the rest working in management, finance and administration positions. Of these

employees 5 credit officers, who are assumed to have a contact with saving and credit are selected for interview and to fill the questionnaires distributed.

1.7.2 Types of Data Collected

This study is mainly based on primary data and supported by secondary data when available. The sources of primary data are the employees as well as members of the cooperatives.

Secondary data are collected from the cooperatives personal files, websites and reports from the union.

1.7.3 Methods of Data Collection

Data were collected using primary data gathering tools of questionnaire, personal interview, and the researcher's onsite observation. Questionnaires that contain both open and closed ended questions are prepared and distributed to staff members and to members of the cooperatives selected randomly. Interview is also prepared and administered again to both employees and members of the cooperatives.

1.7.4 Data Analysis Method

Findings, which reflect a high magnitude of the problem, were selected from interview, observation and questionnaires. And, the raw data are analyzed, presented, and interpreted to give solutions for the research problem. Some of the data were summarized and presented in tables and graphs. Percentages for these data are calculated in order to facilitate the analysis and to make it presentable for the readers.

Since the data collected is more of qualitative in its nature; it is presented by using descriptive analysis.

1.8. Limitation of the Study

The study focuses on the saving and credit cooperatives that are under WISE union. Even though the union has 15 cooperatives under it, it is limited to only 4 cooperatives. Due to time and information constraint it was impossible to assess the entire cooperative under WISE since the cooperatives are scattered in different areas it would be difficult to reach those people. In addition, even though the loan services provided are business, education and house loan, for the reasons that the latter two are recently devolved and which are still under study, the study is only about the business loan which contains the largest portion of the total loan. And the other constraint encountered was members were not willing to be interviewed and also to fill the questioners which had an impact on the researcher time and last but not least the research is limited by financial constraints.

1.9. Organization of the Study

The paper is made to have four chapters. The first chapter consists of the background section, the research objectives, significance of the study, the methodology, and the scope and limitation of the study. The second chapter presents a review of the related literatures. The third chapter describes findings of the data analysis. The last chapter which is chapter four presets the conclusion and discusses the recommendations drawn from findings of the data.

CHAPTER TWO

LITERATURE REVIEW

I. Introduction

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

Formal sources are provider of finance who are subject to banking laws of the country of operation and are engaged in loan extension to customers and diversified financial intermediators. In the Ethiopian context, the formal finance sources are Commercial Banks (private or publicly owned), Development Bank of Ethiopia and Construction Bank of Ethiopia.

Semi-formal sources are those providers of finance that are mostly registered NGOs and Micro Finance Institutions with special character. Micro Finance Institutions (MFIs) originally were established in the form of rural finance providers. In recent years microfinance institutions have become one of the most important instruments in development policy. The idea of microfinance arose in the mid- 1970s when Mohammad Yunus started a pilot scheme lending small amounts of money to villagers in Bangladesh who, due to a lack of collateral, had no access to conventional loans. Encouraged by high

repayment rates, he founded the Grameen Bank to run such schemes on a larger scale.

Today the Grameen Bank lends to more than 2 million people.

The informal sector captures the residual sources of finance Credit and Saving Cooperatives, money lenders, Iquibs, Idirs and others. (Wolday 2002)

1.1. Main Features of Formal and Informal Sector Enterprises

Characteristics	Formal Sector	Informal Sector
Entry barriers	High	Low
Management	Bureaucratic	Family based
Capital	Abundant	Scarce
Work hours	Regular	Irregular
Wage labor	Normal	Limited
Incentives	Large	Small
Prices	Often fixed	Often negotiable
Financial services	Banks	Personal, informal
Customer relations	Impersonal	Personal
Fixed assets	Large	Negligible
Advertising	Necessary	Little or none
Government subsidy	Often large	None
Markets	Often export	Rarely export

(Santos: 1979)

1.2. Reasons for the Formation of Informal sources

Most of the informal sectors are unable to access financial resources from formal financial intermediaries such as banks due to any of the following reasons: (Stiglitz 1990).

- Smaller size of the transactions
- Lack of Collateral
- Inexperience, illiteracy or innumeracy of the borrower.
- Physical remoteness of many of the informal sector enterprise.
- Mobility of many informal sector enterprises.
- Lack of bookkeeping or an appropriate compliance framework.
- Lack of general information about to borrower and of predictability of the surrounding transaction.

As a result a bank as source of finance for the informal sector is very limited. We can identify potential sources of finance for the informal sector in five categories;

1. Formal banks
2. Microfinance institutions
3. Saving and Credit Cooperatives
4. NGOs and government projects.
5. Semi-formal and informal sectors.

1.3. The Informal Sources

Unlike the formal sources and semi formal sources the informal sectors do not constitute a neat category. It include sources such as Credit and Saving unions, “Iquibs”, money lenders, friends and relatives and also credit suppliers. Informal sources provide fiancé to the most micro and small enterprises operating outside the formal financial system. Informal sources are important source of initial as well as working capital requirement of micro and small enterprises.

The sources under informal sector include:

- a. Credit and Saving Cooperatives:** are user-owned financial intermediaries which principal services are saving and credit. Other services are also given by SACs like money transfers, payments services and insurance. Members typically share a “common bond” (i.e., geography, employer) and may join together to form second-tier associations.
- b. Iquib:** are pervasive in Ethiopia, they are system of rotating savings among close friends, relatives or co-workers. In Iquib all members pay set amount of in a regular intervals weekly, bi-weekly or monthly to a common pool (Wolday 2002:6). This pool goes to each member usually randomly, but some variations allow for bidding. While in some Iquibs mutual trust offsets the risk that early recipients will drop out, others require for personal guarantees.
- c. Money Lenders:** money lending covers a wide range of credit management that differs across countries interest ranging zero to as many as 100% per month. Due to the high cost of borrowing micro and small enterprises use money lenders as a last resort (Gebrehiwot and Wolday, 2003)

Friends and relatives are most important alternative source of finance own saving in Ethiopia. They usually extend finance as non-interest bearing loan based on intermediate knowledge and trust of each other making the need for security in the form collateral or guarantee low.

d. Trade Credit Suppliers: are significant sources of informal credit in an enhanced credit trading system. They supply either input or cash advances to small business operators. Firms may receive trade credit either as a substitute for a complement to bank credit. (Gebrihowt and Wolday, 2003). Trade credit has an attractive feature of not being guaranteed by mortgage assets which is advantageous for enterprises lacking collateralized assets.

1.4 Operations of the Informal Sectors

Literature claimed that due to lack of collateral, lack of knowledge and understanding credit policy, poor households have to seek for their credit from the informal sources. Actually, many segments of rural population participate in informal arrangements. Since the formal sectors don't provide consumption loans, all credit needs for consumption are satisfied by the informal lenders. The rural poor borrow from relative, friends, and neighbors and if they are rationed out by these sources of credit, they have to rely on moneylenders and traders for their emergency consumption such as illness, funeral, and wedding. Since the formal market is characterized by low nominal interest rates and high transactions costs, while the inverse is true for the informal market, those who require small loans even for production efficiently borrow from the informal markets. With these

small loans, a rational farmer would rather borrow from the informal market. The operation of informal financial markets can be described briefly as follows: (ibid)

1.4.1 Group Lending

Group-based lending, as the term already indicates, requires individuals to organize themselves into groups in order to gain access to financial services from a program. Sometimes, governments own and run these programs; in other cases international institutions, local and foreign NGOs are involved in reaching poor borrowers. Normally, group-based lending works as follows. Loans are made to individuals, but all members of the group are held responsible for the loan repayment (joint liability principle). In some programs loans are given strictly for a certain period of time (usually a year), while in other programs the members are allowed to decide the loan terms themselves. Repayments are made on a weekly or monthly basis; this is done at group meetings or directly to the branches of the microfinance institution. Nowadays, worldwide many programs use group-based lending to forward loans to the poor.

The Grameen Bank, which was first established in Bangladesh, is the pioneer in group-based lending. At the Grameen Bank borrowers are grouped voluntarily into groups of five; they receive training on how the credit program works and start saving before they apply for a loan. The clients are mainly women, and loans are usually used for micro manufacturing, services and retail trade.

Group Lending in Saving and Credit Cooperatives

Credit and Saving cooperatives as financial institutions originated in Germany in the nineteenth century. Cooperatives are operated democratically with each member having one vote. The two organs of a cooperative are the general assembly and the management committee. The committee is assigned by the general assembly and has to promote and oversee that banking operations run smoothly. Moreover, it implements internal regulations and policies established by the general assembly. Equity is contributed by members, and leadership is voluntary and unpaid, although professionals can be hired for everyday administration and management tasks. The equity contributions provide the institution with its capital and can be the basis upon which the amount a member can borrow is determined. While credit cooperatives are typically initiated with capital contributions from their members, they may also mobilize deposits. Some credit cooperatives also depend on external funds.

Credit cooperatives rely on their management committees to analyze loan requests and to grant and recover loans. Credit committees make use of local knowledge and information in the process of accomplishing these tasks. Cooperatives provide relatively larger amounts and for longer periods of time, when compared to the microfinance approaches discussed above. Some credit cooperatives require collateral, others do not; instead they ask the borrower to bring another member as cosigner. If the borrower fails to repay, the cosigner is fully liable and has to repay on behalf of his colleague. Relying on self-financing enhances the perception among members that they have a stake in the

institution, which may thus contribute to peer monitoring and enforcement and good repayment performance (Hailu Wendafrash, 2005).

Group-based lending: positive contributions

Group-based lending contracts effectively make a borrower's neighbors' co-signers to loans, mitigating problems created by informational asymmetries such as adverse selection, moral hazard and enforcement.

Thus, in group-lending programs the functions of screening, monitoring and enforcing repayments is to a large extent transferred from the bank agent to group members.

One of the advantages of group-based lending is the mitigation of adverse selection problem, which in turn reduces the problem of credit rationing and brings the safe borrowers back to the credit market. In the process of group formation group members are expected to screen each other. Theoretical and empirical studies show that people try to investigate each others behavioral integrity and creditworthiness with the help of existing social networks before they allow others to join their group. Through peer screening they try to prevent irresponsible and credit risky individuals from joining their group.

Another advantage of group based lending is the mitigation of the moral hazard problem. This is an incentive rather than a selection problem. After members have received a loan they have to monitor each other to make sure that every member has invested the loan in a safe project

Individual-based lending

The informal sources have also developed models that can provide financial services to individual borrowers. These institutions successfully combine mechanisms from the formal and informal lending sectors. They use different mechanisms, which help them reduce adverse selection and moral hazard problems, such as frequent and close contact with individual clients, to provide credit products tailor-made to specific needs.

Ledgerwood (1999) summarizes the mechanism used by the individual based lending institutions as follows

- ✓ . These institutions screen potential borrowers using character references.
- ✓ They provide small loans with flexible loan terms and loan sizes based on individual needs.
- ✓ They increase loan size progressively through time.
- ✓ Future access to credit is based on prompt and complete repayment of loans.

II. History of Cooperatives

Credits are community-based banks organized according to cooperative principles. Credit unions proved they could meet demand for financial services that banks could not: from professional, middle class and poorer people. Those that served poorer urban and rural communities became an important source of microfinance.

The first credit and saving cooperatives were established in the mid - 19th century, mainly in Germany. Two men are considered as the founding fathers of the credit cooperative movement: Herman schultze- Delitsche, who established a credit cooperative

for minor artisans and the urban middle classes, and Freidrich Reifeisen, the founder of the rural credit cooperative. In Italy, Luigi Luzzatti established credit cooperatives which combined the principles established by his two German predecessors. After the consumer cooperative, the credit cooperative is the most common type of cooperative to be found in the modern world, including the Third World. This form of cooperative has been established in both rural and urban districts by labor unions and other organizations, including government bodies.

The language related to credit unions can be confusing. In spite of the word 'credit' in their name, even the earliest credit unions usually offered both savings and credit services and often payment and insurance services as well. And they were known by (and are still known by) a wide range of names, for example: 'people's banks', 'cooperative banks' and 'credit associations'. (Wikipedia, the free encyclopedia.htm)

Co-operatives exist in a variety of sectors like: agriculture, consumers, and handicrafts among others.

Co-operatives have played a greatest role in economic and social development of different countries, since its existence before 160 years. As revealed through practice, co-operatives are an appropriate instrument for rural development. The co-operatives can alleviate both economic and social problems in the rural area by pulling the scattered resources together and then directing it for the benefit of members through participatory and effective management.

The modern co-operative movement in Ethiopia has emerged during the Feudal System and it was during this time that the farm workers co-operative decree and Later on a proclamation were enacted. With all shortcomings, this legal ground gave inputs for co-operative development in the country. During the Dergeue regime, tremendous efforts were exerted to organize different types of co-operatives in line with proclamation No.138/1983. During this time, co-operatives were mainly organized to transform rural economy to the socialist style rather than benefiting their members. In this process, internationally accepted co-operative principles were violated which consequently led to the dissolution of co-operatives and devastation of their properties during the transition period. (Dagneu Gessesse, 2004)

However, the recent enactment of co-operative society proclamation No.85/94 and No.147/98 created fertile ground for restructuring the previous co-operatives and organizing new ones, inline with the new market oriented economic policy of the government.

2.1. The Nature of the Credit and Saving Cooperative

What do credit cooperatives have to offer? Apart from avoiding the difficulty, red tape and sometimes even outright impossibility of obtaining credit from a bank, the answers are many. The credit cooperative satisfies the requirements of its members without undue complications. Thus, it provides them with interest on their respective shares and rewards for participating in its operation. The credit cooperative helps to-prevent or over come

poverty. It furthers members' education, as well as a spirit of mutual aid and self-reliance. This form of cooperative also encourages productive activity by providing credit required by its members and, in particular, leads to a greater understanding of democracy and the democratic process. What then, is the credit and saving cooperative? (Saving and Credit Cooperatives: A New Conceptual Approach By Zvi Galor www.coopgalor.com)

2.1.1 The Saving Aspect

It is a cooperative which encourages its members to save money and enables them to obtain loans they may require for various purposes from their accumulated savings. This definition provides an indication of the two main tasks of the cooperative. The first task is to enable members to save their money on a regular basis, or according to their needs. The member saves his/her money within the framework of the cooperative. Knowing that he/she will receive a suitable return for his effort, in the form of interest on his savings. Accordingly, in order to encourage savings, it is desirable to pay members interest at a higher rate than that obtainable at any other type of financial institution. The member will then realize that it is preferable to save with his/her own cooperative. Cooperatives in many countries make the mistake of paying interest on their members' savings at a lower rate than that offered elsewhere. (ibid)

2.1.2. The Credit Aspect

The second task of the cooperative is to grant loans to its members. Loans are granted from the members' accumulated savings. Obviously, not all the members can take out loans, or obtain them immediately or simultaneously. Members are granted loans in accordance with their seniority within the cooperative and the amount of their savings. Generally speaking, the size of loans granted from the cooperative's fund is governed by the liquidity regulations of the country in which it is located. Clearly therefore, the size of loans granted to members does not exceed the total of their savings. But there are some exceptional cases where the cooperative serves as an intermediary for obtaining additional credit for members. This subject will be discussed more extensively later. The member pays the (cooperative) fund interest on the credit he receives. The rate of interest will be lower than that at other, commercial financial institutions, for this is part of the service the cooperative provides to its members. The interest rate is calculated according to a simple formula: the total interest paid on the loans granted by the fund must cover the total amount of interest paid to members on their savings as well as the fund's total operating cost. Clearly, the more efficiently the fund is managed, the smaller the difference between the interest charged on loans and the interest paid to members on their savings - a factor which also encourages members to save more. (ibid)

How Do Savings and Credit Cooperatives Increase Microfinance Outreach?

- ✓ Reach clients and areas unattractive to banks
- ✓ Provide savings services to their members
- ✓ Start locally, without major external support

- ✓ Use small savings accounts as a stable, relatively low-cost funding source
- ✓ Make loans at lower interest rates than other micro credit providers (if well-run and efficient) (www.coopgalor.com)

2.2. Challenges faced by Saving and Credit Cooperatives

Governance Weaknesses

- Elected directors and contracted managements' interest may diverge from the interest of the members
- Tendency of borrowers to dominate the boards of directors

Inadequate Regulation and Supervision

- Savings and credit cooperatives are often supervised by government agencies that do not have strong financial skills and political independence
- Supervision delegated to an outside body does not work if that body is controlled by the savings and credit cooperatives being supervised

Limited Menu of Products

- Traditional savings and credit cooperatives offer only one type of loan product, with no variation by risk levels
- These loans are not flexible enough to meet members' diverse credit needs
- However, many savings and credit cooperatives are introducing a greater variety of credit products and use better tools to assess and manage risk

Damage Done by External Credit, External Funds

- May decrease incentive to mobilize deposits

- May skew incentives toward net borrowers
- Are frequently not managed as carefully as members' own money
- Should be limited in relation to members' deposits and internal management capacity (www.cgapdirect.org)

2.3. Safeguarding the Real Value of Member's Savings

An important objective of credit and saving cooperatives is to safeguard the value of member's savings in real terms. As previously mentioned, credit and saving cooperatives have to pay their members interest at rates higher than those paid by commercial financial institutions. But this is not the whole story.

Most countries suffer from inflation, and the annual rate of inflation is usually higher than the rate of interest, which credit cooperatives pay to members on their savings. As a result, the real value of members' savings is eroded. Most people are unaware of this and lose money every year. In some countries, savers receive interest of 10% per annum, while the prevailing rate of inflation may be as high as 50% or even 100% annually. In such a case, therefore, it is not difficult to calculate how much members are losing on their savings. A savings fund run by those who are unaware of this problem is effectively failing to carry out one of its most important goals - maintaining the value of its members' savings. (Zvi Galor, www.coopgalor.com)

2.4. The Credit and Saving Cooperative as a system for financing Production

In the Third World, the credit cooperative very often refrains from granting credit, particularly when it is intended for productive purposes. We have already discussed this problem and the damage caused, whereby the cooperative will not allocate any of its financial resources as credit to members. Now, we will try to examine the more specific aspect of credit allocations for production in particular.

Credit is the source of all stages of agricultural production. The cost of credit and its scarcity is a major thorn in the side of most of the world's farmers. In many Third World countries, cooperatives will just not grant their accumulated money as credit for financing production. It is a distortion of the basic principle behind the credit and saving cooperative and forces farmers to take loans from the banks or moneylenders. (Zvi Galor www.coopgalor.com)

2.5. Major Risks to Credit and Saving Union

Many risks are common to all financial institutions. From banks to unregulated informal sectors, these include credit risk, liquidity risk, market or pricing risk, operational risk, compliance and legal risk, and strategic risk. Most risks can be grouped into three general categories: financial risks, operational risks and strategic risks, as in Table below.

Table: Major Risk Categories

Financial Risks	Operational Risks	Strategic Risks
Credit Risk Transaction risk Portfolio risk	Transaction Risk Human resources Risk Information & technology risk	Governance Risk Ineffective oversight Poor governance structure
Liquidity Risk		Reputation Risk
Market Risk Interest rate risk Foreign exchange Risk Investment portfolio risk	Fraud (Integrity) Risk Legal & Compliance Risk	External Business Risks Event risk

Financial institution managers (and regulators) review these risks in light of i) the institution’s potential exposure to loss, ii) the quality of internal risk management and information systems, and iii) the adequacy of capital and cash to absorb both identified and unidentified potential losses. In other words, management determines whether the risk can be adequately measured and managed, considers the size of the potential loss, and assesses the institution’s ability to withstand such a loss. (Risk Management Framework, GTZ July 2000)

2.5.1 Financial Risks

The business of a financial institution is to manage financial risks, which include credit risks, liquidity risks, interest rate risks, foreign exchange risks and investment portfolio

risks. Most informal institutions have put most of their resources into developing a methodology that reduces individual credit risks and maintaining quality portfolios. Microfinance institutions that use savings deposits as a source of loan funds must have sufficient cash to fund loans and withdrawals from savings. Those institutions including saving and credit that rely on depositors and other borrowed sources of funds are also vulnerable to changes in interest rates. Financial risk management requires a sophisticated treasury function, usually centralized at the head office, which manages liquidity risk, interest rate risk, and investment portfolio risk. (Risk Management Framework, GTZ 2000)

2.5.2 Credit risk

Credit risk, the most frequently addressed risk for informal sectors, is the risk to earnings or capital due to borrowers' late and non-payment of loan obligations. Credit risk encompasses both the loss of income resulting from the sector inability to collect anticipated interest earnings as well as the loss of principle resulting from loan defaults. Credit risk includes both transaction risk and portfolio risk. (Risk Management, GTZ, 2000.)

2.5.3 Transaction risk

Transaction risk refers to the risk within individual loans. Informal sectors mitigate transaction risk through borrower screening techniques, underwriting criteria, and quality procedures for loan disbursement, monitoring, and collection.

2.5.4 Portfolio risk

Portfolio risk refers to the risk inherent in the composition of the overall loan portfolio. Policies on diversification (avoiding concentration in a particular sector or area), maximum loan size, types of loans, and loan structures lessen portfolio risk.

2.5.5 Liquidity risk

Liquidity risk is the possibility of negative effects on the interests of owners, customers and other stakeholders of the financial institution resulting from the inability to meet current cash obligations in a timely and cost-efficient manner. Liquidity risk usually arises from management's inability to adequately anticipate and plan for changes in funding sources and cash needs. Efficient liquidity management requires maintaining sufficient cash reserves on hand (to meet client withdrawals, disburse loans and fund unexpected cash shortages) while also investing as many funds as possible to maximize earnings (putting cash to work in loans or market investments). (Risk Management, GTZ in 2000.)

2.5.6 Market risk

Market risk includes interest rate risk, foreign currency risk, and investment portfolio risk.

2.5.7 Interest rate risk

Interest rate risk arises from the possibility of a change in the value of assets and liabilities in response to changes in market interest rates. Also known as asset and liability management risk, interest rate risk is a critical treasury function, in which

financial institutions match the maturity schedules and risk profiles of their funding sources (liabilities) to the terms of the loans they are funding (assets). (ibid)

In Saving and Credit Cooperatives, the greatest interest rate risk occurs when the cost of funds goes up faster than the institution can or is willing to adjust its lending rates. The cost of funds can sometimes exceed the interest earned on loans and investments, resulting in a loss to the sector. Interest rate changes can also affect fee income, since most fee income is associated with loan products that are interest rate sensitive. Interest rate risk management is most important to this sector that makes longer-term loans and relies on capital markets for a large percentage of their funds. In most environments, the interest rates paid to savers tend to move more slowly. Any informal sector operating in inflationary economies face additional asset and liability management issues. Below are two common approaches to interest rate risk management among financial institutions.

- To reduce the mismatch between short-term variable rate liabilities (e.g. savings deposits) and long-term fixed rate loans, managers may refinance some of the short-term borrowings with long-term fixed rate borrowings. This might include offering one and two-year term deposits as a product and borrowing five to 10 year funds from other sources. Such a step reduces interest rate risk and liquidity risk.
- To boost profitability, SAC may purposely “mismatch” assets and liabilities in anticipation of changes in interest rates. If the asset liability managers think interest rates will fall in the near future, they may decide to make more long-term loans at existing fixed rates, and shorten the term of liabilities.

III. Credit Methodology

Credit methodology lies at the heart of formal and non formal institutions and its quality is one of the most determinant factors for the efficiency, impact and profitability of the institutions.

Credit methodology is comprised of a host of activities involved in lending including sales, client selection and screening, the application and approval process, repayment monitoring, and delinquency and portfolio management. It is also linked to the institutional structure and human resource policies such as hiring, training and compensating staff. Getting the credit methodology and product mix right is therefore one of the most demanding as well as rewarding challenges of every institutions.

3.1 Credit Approval Process

The individual steps in the credit approval process and their implementation have a considerable impact on the risks associated with credit approval. The quality of credit approval processes depends on two factors, i.e. a transparent and comprehensive presentation of the risks when granting the loan on the one hand, and an adequate assessment of these risks on the other. Furthermore, the level of efficiency of the credit approval processes is an important rating element. Due to the considerable differences in the nature of various borrowers and the assets to be financed as well the large number of products and their complexity, there cannot be a uniform process to assess credit risks.

The quality of the credit approval process from a risk perspective is determined by the best possible identification and evaluation of the credit risk resulting from a possible

exposure. The credit risk can distributed among four risk components. (Oesterreichische National bank Credit Approval Process and Credit Risk Management, 2000)

- a. Probability of default (PD)
- b. Loss given default (LGD)
- c. Exposure at default (EAD)
- d. Maturity (M)

The most important components in credit approval processes are PD, LGD, and EAD. While maturity (M) is required to calculate the required capital, it plays a minor role in exposure review. The significance of PD, LGD, and EAD is described below.

a. Probability of default (PD)

Reviewing a borrower's probability of default is basically done by evaluating the borrower's current and future ability to fulfill its interest and principal repayment obligations. This evaluation has to take into account various characteristics of the borrower (natural or legal person), which should lead to a differentiation of the credit approval processes in accordance with the borrowers served by the bank. Furthermore, it has to be taken into account that — for certain finance transactions — interest and principal repayments should be financed exclusively from the cash flow of the object to be financed without the possibility for recourse to further assets of the borrower. In this case, the credit review must address the viability of the underlying business model, which means that the source of the cash flows required to meet interest and principal repayment obligations has to be included in the review. (ibid)

b. Loss given default (LGD)

The loss given default is affected by the collateralized portion as well as the cost of selling the collateral. Therefore, the calculated value and type of collateral also have to be taken into account in designing the credit approval processes. (ibid)

c. Exposure at default (EAD)

In the vast majority of the cases described here, the exposure at default corresponds to the amount owed to the institution. Thus, besides the type of claim; the amount of the claim is another important element in the credit approval process.(ibid)

3.2. Credit Decisions

Extending credit -- it's the careful balance of limiting risk and maximizing profitability while maintaining a competitive edge in a complex, global marketplace. Credit analysis is the process of deciding whether or not to extend credit to a particular customer. It involves two steps: gathering relevant information and determining credit worthiness (Ross, Westerfield and Jordan, 1999).

3.2.1 Credit Information

If a firm does want credit information on customers, there are a number of sources. Information sources commonly used to assess credit worthiness include the following: (Ross, Westerfield and Jordan, 1998)

- Financial statements. A firm can ask a customer to supply financial statements like balance sheet and income statement. Rules of thumb based on financial ratios can be calculated.

- Credit reports on the customer's payment history with other firms. Information obtained from firms that sell information on the strength and credit history of business firms.
- Banks. Banks will generally provide some assistance to their business customers in acquiring information on the creditworthiness of other firms.
- The customer's payment history with the firm. The most obvious way to obtain an estimate of a customer's probability of nonpayment is whether he or she has paid previous obligations and how quickly they have met these obligations.

3.2.2 Credit Evaluation and Scoring

Once information has been gathered, the firm faces the hard choice of either granting or refusing credit. Many financial managers use the "five C's of Credit" as their guide. (Ross, Westerfield and Jaffe, 1999)

Using the Five C's of Credit

1. Character: The history of the business and experience of its management are critical factors in assessing a company's ability to satisfy its financial obligations. Look at how long the business has been under the same control, and check for any previous litigation or bankruptcy information. Also, get a clear understanding of who owns the business, and who is ultimately responsible if a problem arises. Always get a list of the company's officers with their ages and backgrounds. Research the financial worth of principals for proprietorships and partnerships. Identify the exact business name and legal form of the organization. What products does it sell? On what terms? Is it a seasonal business? What

are its margins? Get a sense of the character of the owners and the business's ability to compete in its markets.

2. Capacity: Make sure to assess the capacity of the business to operate as an ongoing concern in every credit decision. Principals in small businesses are often forced to wear many hats. Businesses must be able to allocate resources evenly to the various functions of the organization such as marketing and sales, production and finance. Keep an eye on management. Assess their experience and their ability to manage all aspects of the company without compromising efficiency. Does the organization have the facilities to handle your business needs?

3. Capital: Analyze the financial capacity of the organization in order to determine its ability to meet financial obligations in a timely fashion. Its ability to pay may be much more important. It is critical to understand the difference. Watching customer payment habits over time is an excellent indication of cash flow. Also, check bank and trade references, as well as any pending litigation or contingent liabilities. Check for a parent company relationships. A parent company's guarantee may be available. Intercompany loans might affect financial solvency. Check agency ratings that predict slow payment or default to complete your investigation.

4. Conditions of the times: General economic conditions in the nation, in the community, and in the industry will exert a modifying influence on the financial analysis of an account. Watch for any news items or special events that could affect the firm's ability to continue as an ongoing concern.

5. Collateral: A pledge of assets in the case of default.

Use Financial Ratio Analysis:

When entering into a relationship with a new customer, consider these two very important questions. Will I be paid slowly? And, will I be paid at all? Some companies are willing to accept some level of slow pay based on their goals and objectives and how much risk they are willing to take. Few firms are willing to accept no payment at all. Financial analysis will help you determine a prospect's financial capacity to pay obligations in a timely fashion as well as their ability to maintain an ongoing relationship. Your decision to conduct business with this firm will vary based on whether they appear to be a one-time purchase or a long term account (Brigham, 2002)

When trying to understand the financial capacity of a prospect, a financial ratio analysis is a good place to start. Ratios can be grouped into three main categories:

- **Solvency Ratios** - To determine the cash available to pay obligations and the amount of debt of the prospect
- **Efficiency Ratios** - To determine how efficiently the firm runs its operations such as the collection period and inventory turnover
- **Profitability** - To determine the firm's reinvestment in the business for future growth.

Track Trends:

An assessment of the financial capacity of a company should always include an evaluation of trends. Businesses can have a bad year, without resulting in financial

difficulty. If a firm has a strong enough net worth it might be able to sustain losses for five consecutive years. Evaluate trends over a three to five year period to get a clear picture of the direction a firm is heading. Look at a company's profitability and cash flow. Assess their receivables. Are they selling inventory fast enough to generate needed working capital? Is the company retaining profit to help the business grow?

Profitability over time is an excellent indicator of management's efficiency. A reduction in expenses may have a minimal impact if revenues do not increase. Look at the trends of these key indicators. They'll tell a clear story of a company's direction. These and a host of other questions can be answered with a thorough analysis of a company's financial capacity. (ibid)

Compare to a Peer Group:

Ratio results should always be compared to a peer group of or an industry comparison. Is the firm collecting faster or slower than the rest of the industry? Is this company more profitable than other companies just like them? Make maximum use of ratios by comparing the firm to its peers using established benchmarks. Compare the company to firms in the same line of business, geographic area and employee size for a more accurate comparison.

CHAPTER THREE

DATA ANALYSIS AND PRESENTATION

Introduction

Saving and Credit co-operatives are member-owned, controlled and capitalized organizations. They perform a critical function as financial intermediaries. They mobilize saving from members and return those to members in the form of loans. SAC in Ethiopia operate within the framework of the Proclamation No.147/98. According to the proclamation, a minimum of ten members is required to form a cooperative society. SACs are registered by the Federal Cooperative Agency or by Regional Cooperative Promotion Bureaus as Limited Liability Company, that is, member's liability is restricted to their share capital. While forming a cooperative, each member is allowed to hold a maximum of 10% of the total paid share capital cooperative.

SACs are regarded as informal financial institutions. The Banks and Micro Finance Institutions (MFIs) fall within the National Bank of Ethiopia. Both are subject to onsite and offsite supervisions and inspection by the NBE. Unlike the banks and MFIs, saving and credit cooperatives are not subject to the relatively rigorous supervision and regulatory rule of the NBE. The proclamation allows them to operate as self-regulated entities with restrictions such as the allocation of profits, the maximum shareholding to a single member etc.

To ascertain and analyze the loan provision, collection procedures and repayment problems four cooperatives out of ten were selected from WISE (Women in Self-Employment) Saving and Credit Cooperative Union which function around Nefas Silk Sub City. The members of the four cooperatives go around 900. Based on this, sample sizes of 100 clients were randomly selected for response to the designed data collection instruments and only 83 (83%) questionnaires are collocated. In addition to this, an interview was also held with credit officers of the selected SAC so as to find out the loan processing procedures, evaluation criteria and loan supervision and enforcement conditions. They were also given questioners to further add points on the raised issues. The following table summarizes the name of cooperatives selected and their response rate.

Table 3. 1 Response Rate

<i>Name of the cooperative</i>	<i>No. of members</i>	<i>No. Questionnaires distributed</i>	<i>No. questionnaires collected</i>	<i>Percentage</i>
<i>Yengat Kokeb</i>	268	29	25	86%
<i>Edget Befre</i>	190	22	17	77%
<i>Enat Guada</i>	188	21	19	90%
<i>Addis Hiwot</i>	254	28	22	79%
Total	900	100	83	83%

Source: researcher’s own computation from primary data source

3.1. Demographic Characteristics of client respondents

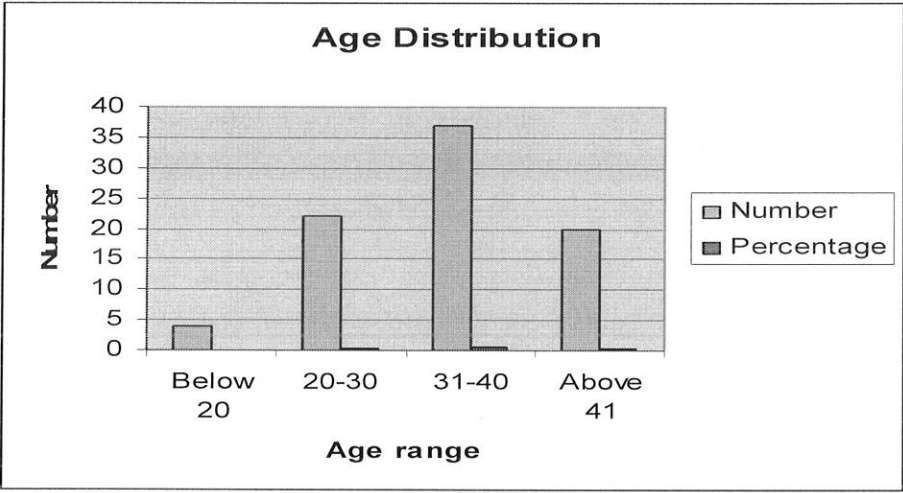
The demographic distribution of respondents such as age, martial status, and educational background will help to determine whether there is a direct or indirect relationship with the way they save, lend and repay. The demographic distribution concern of the sample respondents indicate all the clients of the cooperatives are females that are concentrated on Nefas Silk Sub City. In this regard, the respondents under consideration are clients who are randomly selected.

3.1.1 Age Description of client respondents

Table 3. 2 Age Description

Age range	Number	Percentage
Below 20	4	4.8%
20-30	22	26.5%
31-40	37	44.6%
Above 41	20	24.1%
<i>Total</i>	<i>83</i>	<i>100 %</i>

Source: researcher’s own computation from primary data source



As it can be summarized on the above table and figure most of the client respondents are between the ages of 31-40, which constitute 44.6% of the total respondents. As a result it can be concluded that most of the clients of the SAC are in productive age groups. In addition out of the 83 selected respondents the summary shows that 4.8% of the respondents are below 20, 26.5% are between age group of 20-30, and the remaining 24.1% of them are above 41.

3.1.2 Gender and Marital Status of Respondents

The main assumption the saving and credit cooperatives under WISE is that much help is needed for the women. The motive is to empower women in every way, which will help them to support their families or in general the number of dependents they have under them. Because of this all of the beneficiaries of the WISE saving and cooperatives are women.

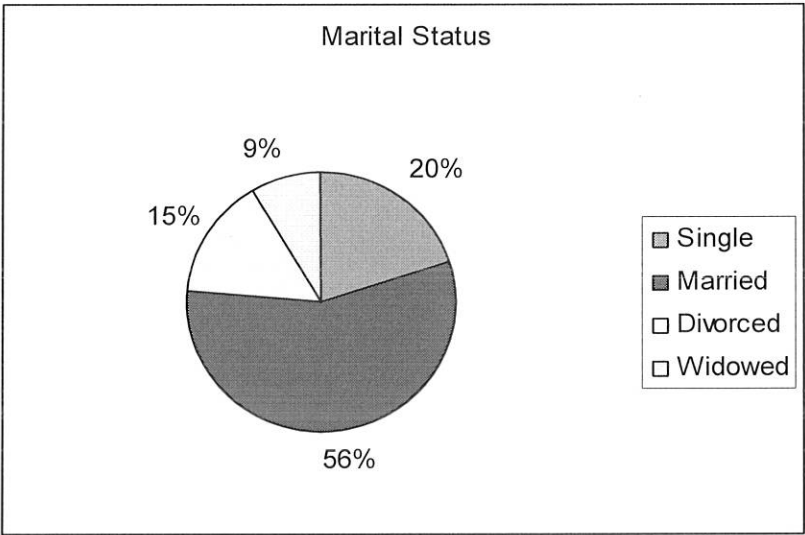
Much recent research has shown that access to credit generates uniform of economic self-esteem and status with in the family. In addition many NGO’s and other developed

institutions prefer to direct credit towards women since it is believed that when credit is given to women, it has a greater impact on household welfare than credit directed towards male borrowers. The summary of the marital status of the clients are shown on the following table.

Table 3. 3. Marital Status and No. of Dependents

Marital Status	Number	Percentage	Average Number of Dependents
Single	16	20%	3
Married	45	56.25%	7
Divorced	12	15%	5
Widowed	7	8.75%	6
<i>Total</i>	80	100	

Source: researcher’s own computation from primary data source



From the summary of the above table and pie chart it can be revealed that most of the clients of the cooperatives are married women which show 56.25% of the total respondents and also they have relatively large number of dependents under them. And 20% of the respondents are single, 15% of them are divorced and the remaining 8.75% are widowed. Even though, most of the respondents are married women, they have stated that having a husband in their life has an impact on the loan amount they have to acquire and the kind of business they have to run. Given that most of the decisions are made by their husbands, who will limit their right to start the business they want and also to get the amount of loan desired.

From the above table it can be seen that whether the woman is single, married, divorced or widowed they have a number of dependents under them. Not only have they taken care of themselves but also the dependents under them. Most of the respondents claim that having dependents have limited them in things they carryout and in the kind of business they want to run. Most of them have started the business just to meet their daily basic needs and majority of their basic need is fulfilled by the income they get from the business. Even the married women have stated that even though most of their spouses have other income, while the income amount is very low to feed their families they are dependent on the business income. And in order to run that business they have to borrow from the cooperatives.

3.1.3 Educational Status of Respondents

The educational status of both the employees and the client will have an impact on their behaviors as well as on the loan provision and collection procedures. Thus, educational background of respondents is an important factor to be considered with regard to making business and household decision. Education improves the skill, capacity, communication and access to developments. The educational status of the respondents is summarized in the following table.

Table 3. 4 Educational Status

Level of Education	Number		Percentage	
	Employees	Clients	Employees	Clients
Illiterate		0		0
Primary		22		26.5%
Primary Secondary		26		31.3%
Secondary		33		39.8%
Diploma	4	2	80%	2.4%
Degree	1	0	20%	
Above Degree		0		
Total	5	83	100	100

Source: researcher’s own computation from primary data source

As per the above table, four out of five employees have a diploma and one has a degree. Four of the employees are working as credit officers and most of them stated that they

have got this position from experience and from additional trainings they have taken from WISE. One of the employees interviewed has a degree since he is a manger who controls the credit officers and has stated that he got this position from experience. Therefore from the above table it can be concluded that most of employees working have a diploma, which constitute 80% of the total respondents and 20% of them have a university degree.

And also the summary shows much of the client respondents have in general the ability to write and read. Reading and writing is one of the criteria to be a member of the WISE SAC. A woman at least has to have the ability to write and read; so that she can comprehend the basic business skill training that she is going to be provided with. The Basic business training is compulsory for a member of the cooperative which has to be given as soon as a woman joined the cooperative or before she starts her business. .

Therefore from the above table 39.8% of the total responders have completed their secondary education, followed by women who have completed the primary secondary which constitute 31.3%. And 26.5%of the total respondents have completed their primary education and the remaining 2.4% of the respondents attained a college (universities) and got a diploma. The reason for the highest proportion of literacy (the primary school and secondary) could be due to the study under consideration is done in the capital city where the better off community is living.

3.2. Loan Provision Practice of WISE Saving and Credit Cooperatives

3.2.1. Number of members and major requirements to be a member

The selected members of WISE cooperatives are taken from one kefle ketema called Nefas Silk Sub City. In this selected sub city there are 10 cooperatives; from this for this study purpose four of them are chosen. From the four 100 members are randomly selected. In view of the fact that the sample is homogenous it is believed to generate the needed output.

The following table summarizes the name of cooperatives, date of establishments and their numbers at time of establishment and as of now.

Table 3. 5 Number of Members

Cooperative Name	Date of Establishment	Number of members at time of establishment	Number of members as of now	Percentage Change
Yengat Kokeb	November 17, 2002	133	268	102
Edget Befere	September14, 2003	99	190	92
Enat Guada	January 25, 2003	98	188	92
Addis Hiwot	May 23, 2006	81	254	213
Total		411	900	

Source: researcher's own computation from primary data source

As per the table the selected numbers of members of the cooperatives have increased significantly from the time of establishment up to now. From the above table Yengat Kokeb has increased their members by 126%, members of Edget Befere has increased by 92%, Enat Guada by 92% and Addis Hiwot by 213%. The reason for this increase is believed to be since the cooperatives encourage women to be in self employment business and also most of the women life has improved since they join the cooperatives. From the table it can be concluded that women have becoming business oriented.

Major Requirements to be a member of WISE Cooperatives:

For a woman to be a member of the cooperative she has to fulfill the following major requirements:

1. She has to get from her respective Keble, an identification card and a certificate stating that she is poor woman. For WISE cooperative a poor woman is the one who has an income of Br. 300 or less monthly.
2. She has to buy a minimum of one share, one share amount Br.10. In addition to the share, she has to pay a registration fee of Br. 2.
3. At the time of registration she has to specify the amount of money that is going to be saved every weekly. The minimum amount of saving in the cooperatives is Br. 3 per week.

As per the employee respondents after fulfilling the above requirements she can be a member of the cooperatives.

3.2.2 Sources of the Cooperative Capital

According to the respondents (employees) the sources of cooperative capital come from two means. The first and major fund comes from revolving fund, which is given by WISE. At the time cooperatives are established under the proclamation number 147/98 a working capital (loan) is channeled to members on a revolving fund basis through cooperatives and saving facilities are provided. WISE will give a revolving fund to help them start their work. The revolving fund is a loan given to cooperatives without interest.

SAC are registered by the Federal Cooperative Agency or by the regional Cooperative Promotion Bureaus as Limited Liability Company, that is, member's liability is restricted to their share capital. While forming a cooperative, each member is allowed to hold a maximum of 10% of the total paid share capita of the cooperative.

As the cooperatives are established each member is required to buy a share, this is considered as an initial capital or a share capital for the cooperatives. When the end of the year approaches 70% of the cooperatives income will be distributed as dividend to members and 30% will be retained. The dividend that is going to be distributed depends on their amount of saving, this is to encourage the women to save more, and also it is dependent on the amount of share they hold. Based on this 70% of the cooperatives income will be distributed to each member. Majority of the income of the cooperatives comes from the interest charged to members while they borrow from the cooperatives.

3.2.3 Assessment of Variables of borrowers to provide loan.

In the saving and credit cooperatives under study different kinds of financial services are provided. From the financial services the major one is providing saving service and loans to members. The loan has three parts; a loan in order to run the business, a house loan and education loan. But the concentration is on the business loan since it encompasses the major functions of the cooperatives. 80% of the total loan is given to run the business designed by the members.

One of the major functions of the saving and credit cooperatives is to provide loan to members besides saving. In order to give a loan to members the cooperatives have to assess things to minimize the default risk. Form the five C's characteristics the cooperatives follow character and capacity, assessing the borrower's ability to pay will help the cooperative to be in the safe side and also it will give them guarantee that the business that the members are involved are worth investing.

According to the respondents there are factors to consider before giving a loan to a member, they have listed the factors as follows

- ✓ A woman can ask for a loan after saving for eight weeks continuously. The saving ranges from Br. 3-50. During these weeks she would be given training on major business skills. The training is given for 12 half days. And when the woman's saving reaches Br. 70 she can ask for the first level of loan.

✓ In addition to the above fact, in order to be provided with a loan she has to bring her business plan which is prepared in a very understandable format. The business plan is prepared with the help of the training she has taken and also with the help of the trainers, but the idea has to come from her. Her business plan will be assessed by employees of WISE. The assessment processes is dependent on the following questions;

- Is the amount of loan asked compatible with the business plan she is going to undertake?
- Does the woman have the ability and the basic skill to manage the loan she is going to get?
- Does the woman have the history of default (Character)? For this the woman's history is going to be assessed by determining whether she has taken a loan from other financial institutions or not?
- And most of all, the entire business plan has to be assessed very widely. Is the business going to be able to generate the required return on investment (Capacity)? In general the profitability of the business must be assessed.

The assessment would take about a minimum of 7 days and a maximum 15 days before a final decision is made whether to give the loan or not. During this time the woman would be interviewed by credit officers of WISE to make sure that she has all the ability to start and run the business. And to be sure that she would be able to pay the loan on the given

amount of time. In general for loan appraisal her saving amount, the amount of share she has and the profitability of the business would be assessed thoroughly. If the loan amount is approved by the cooperative personnel's it has to be paid to the member within 7 days. The payment can be in cash or in check whichever is convenient. If a woman couldn't be able to take the loan payment within 7 days because of many reasons the loan would be cancelled.

Additional loan can be asked if the business that the members are involved considered as profitable and only if the member pays 75% and above of the previous loan that she has taken. Further more the new loan would be taken as a new loan contract which is different from the previous loan taken.

3.2.4 Loan Size and Credit Period

3.2.4.1 Loan size

One of the major factors to assess the loan provision of saving and credit cooperatives is the loan size to be provided to its clients. All the saving and cooperatives under the study provide loan for poor woman to involve in small and medium business activities. Loan sizes are increased gradually based on the clients performance that is her on time repayment so as to minimize the risk. All loans are given on individual basis; no group-based loan is given by cooperatives. According to respondents they have claimed that in the earlier year's group loan was provided to clients by assessing factors but latter the group lending was not as effective as they thought it would be. The ineffectiveness came from lack of group harmony and work cooperativeness; because of this the default rate

was higher for group-based lending than for individual lending. Since beginning of 2007 they have stopped the group-based lending methodology and concentrated on individual lending.

According to the respondents the minimum amount of loan provided by the cooperatives is Birr 700 and the maximum goes up to Birr 15,000 for all the cooperatives under WISE. The basis of the loan size depends on the amount of saving the clients have and the capital of the cooperatives. The following table summarizes the loan size given by the cooperatives which is dependent on the saving amount.

Table 3. 6 Loan Size

Level of loan	Saving	Size of loan	Amount of Loan
1 st Level	Br. 70	Saving * 10	Br.700
2 nd Level	240	Saving * 5	1200
3 rd Level	560	Saving * 3	1680
4 th Level	900	Saving * 3	2700
5 th Level	1067	Saving * 3	3200
6 th Level	1400	Saving * 3	4200
7 th Level		Saving * 3	
8 th level and above		Saving * 2	

Based on the above table for woman to take the first loan amount she has to multiply her saving times ten. The minimum saving amount is Br. 70 to get her first loan therefore the

loan size she is going to get would be Br. 700 (Br. 70 multiplied by 10). For loans above the seventh level a fixed amount is not determined by the cooperatives it depends on the amount of saving a woman has and the purpose of the loan. The more profitable a woman business can become and the more saving she has, she can take a loan up to Br. 15,000. So the level of loan goes up to 15,000. A woman can not skip from one level to another no matter how much her saving goes high, she has to follow the levels starting from one up to the last level which is a maximum of Br. 15,000.

According to the cooperative manual a woman can also take a loan for education by providing the necessary documents. A woman will be provided with educational loan if she enters the second level for loan, which means she has to have a saving of Br. 240 in the cooperative account. In addition to education loan the cooperative also gives a house loan for those woman's who have got the condominium houses, for house loan the maximum amount is Br. 10,000 and the interest charged is 10%. According to the officials in charge so far only two women have taken a house loan. In addition they stated that the house loan as well as the amount is under study and they are just trying it in those women.

Furthermore according to the officials in charge, after joining the cooperatives a member has to take loan within one year or else she would be out of the membership of the cooperative. She has to save and also she has to get a means of financing through loan within one year.

The following table summarizes the minimum and maximum loan size provided for the selected cooperatives to run their small and medium business.

Table 3. 7 Loan Range

Name of the Cooperative		Date of Establishment	Number of members	Loan Size	
				From	To
1	Yengat Kokeb	November 17, 2002	268	700	10,000
2	Edget Befere	September14, 2003	190	700	2,000
3	Enat Guada	January 25, 2003	188	700	5,000
4	Addis Hiwot	May 23, 2006	254	700	3,500

Source: researcher’s own computation from primary data source

As it can be summarized from the respondents, the size of the loan differentiates from one cooperative to another. The difference is due to the number of years they are in operation and also the number of members they have. For instance, Yengat Kokeb was established in 2002 and currently it has 300 members under it. The loan size for this cooperative ranges form a minimum of Br. 700 up to Br. 15,000. They have given a loan of Br. 15,000 to three women. And according to the employees these are the only women who have gone up to the maximum because of the high saving they have and also the profitability of the business. And if we compare Addis Hiwot and Edget Befere even though, Edget Befere was established prior than Addis Hiwot the loan size for latter one is higher than the previous one, which ranges from a minimum of Br. 700 to Br. 3,500. The reason for the difference is contributed by the less number of members in Edget

Before and the employees claim that this cooperative is not functioning as expected relative to the others due to a different kind of reasons.

3.2.4.2 Credit Period

According to the rules and regulations of WISE saving and credit cooperatives, a loan has two credit levels. The first one is a short term loan which has a credit period of less than a year and the second one in which the credit period ranges from 1-5 years is called a medium term loan.

The credit period can be extended if a woman has encountered problems which are out of her control. After specifying her problems together with convincing documents the credit period can be extended. For a short term loan the credit period can be extended up to six months and for the medium term loan the credit period can be extended up to a maximum of one year. But the credit period can be extended after payment of 50% or above of the loan.

3.2.5 Lending Interest Rate

Since the National Bank of Ethiopia has removed the ceiling for lending interest rate, the different financial institutions provide different interest rate. However the National Bank of Ethiopia however continued setting minimum (floor) interest rate for deposits. The minimum interest rate for deposits set by the national bank of Ethiopia is currently 4 % per annum. Currently the National Bank has set the ceiling for financial institutions other



than bank stating that the saving interest rate has to start from a minimum of 3% and the maximum lending interest rate has to go up to 12.5%.

The nature of the interest rate for the SAC under study is fixed rather than floating. The saving interest rate is fixed at 7% and the lending interest rate is also fixed at 12%. According to the respondents before July 2007 the lending interest rate charged by the cooperatives was 7% but after assessing many factors they change the interest rate to 12%. They claim that the reason for changing the interest rate was since it couldn't be able to cover their major operating costs. SAC changed the interest rate by considering the following factors;

- Operating costs, like salary of employees, supplies costs and other.
- Loan Loss
- Inflation Cost and
- Profit growth rate

By considering the above factors thoroughly they changed the lending interest rate from 7% to 12%. The employees working in loan stated that now the interest rate is much better than the previous one but still it is not able to cover 100% of the operating costs incurred by the cooperatives. A woman who has taken a loan would be charged with interest the day she has collected the loan amount.

But 90% of the client respondents stated that the interest rate charged by the SAC is very high and it doesn't consider the impact on the members. Most of them stated that since the interest rate is not compatible with the loan size and the business they are running.

Based on the respondents answer it can be concluded that the lending interest rate charged by the cooperatives has a major impact on the size of loan they want to take in order to run the business. In addition since the interest and the principal payment is weekly it is considered as a business barrier to them. Due to this their concentration is on payment of their loan rather than running the business in the most effective and efficient manner. Further more because of the interest impact on their loan they are forced to take a lesser amount of loan which makes it difficult to run the intended business with that amount of loan they get from the respective cooperatives.

3.2.6 Collection Procedures

The collection procedures for SAC under WISE according to the respondents are considered to be effective, since it leads to low default rate. A woman who has taken a loan from the cooperatives has to pay the principal and the interest weekly. There is no grace period for the loan, a woman who has taken a loan this week has to start paying her loan next week, which according to the client's respondents is very unfair. From the total client respondents taken 170 of them stated that the collection procedure of the loan is very strict and unmanageable for them, because every week they have to save and pay their principal and interest at the same time. Since no grace period is given for them they have to start paying right after the week they have taken the loan.

For every cooperative there is a credit officer assigned who controls and monitors the collection procedures. And each cooperative member are grouped, the grouping is made based on the nearness to each other or based on the geographic area they are situated on. In each group there is a leader who is selected by the members, but not like a group-based lending. The leader will gather the members every week and collects their respective saving, the principal and interest amount. She collects the amounts based on the collection procedures given by the cooperative. The group leader after collecting the amount with receipts, she would take the money to WISE for reassurance of the amount and immediately the collected money will be deposited to each cooperatives bank account. In addition to the group leader control there is a follow up by WISE officers every week. The officers will visit each woman by going house to house in order to assess how the business is going and how the payments of loan are made. The major motive of this follow up is to be precautions about default risk. The amount of principal and interest collected is based on the annex attached at the end of the paper.

Table 3. 8 Number of Members in-group formation

Name of the Cooperative		Self Selected Group
1	Yengat Kokeb	5-6
2	Edget Befere	7
3	Enat Guada	6-9
4	Addis Hiwot	5-8

Source: researcher’s own computation from primary data source

As it can be seen on the above paper the group range is different for each cooperative. And each of them is going to have a leader who will control and monitor the collection procedures related with saving and loan.

3.3. Degree of Collectibility

For most financial institutions the default rate is higher, because of that before giving the loan they would assess the borrower by using the 5 C's criteria's: Character, Capacity, Capital, Collateral and Condition. And most formal financial institution they would secure the loans they give with tangible assets, therefore in case of default they possess the tangible assets.

Surprisingly the default rate for the SAC under study is very minimal; according to the respondents the default rate is insignificant. As per the respondents the collection rate of WISE SAC as of August 2007 is 96.5%. Most of the loans given by the cooperatives are short-term loans and these loans ensure better repayment performance. Experience shows that long-term loans usually lead to poor repayment performance in comparison to short-term loans.

Even though the collection rate is significantly high the clients stated that the collection procedures of the cooperatives are not as effective to them as it was to the cooperatives. The client respondents have claimed that every week they are required to pay the saving, principal and interests at the same time and this creates a burden to them. Even though it has a high burden to them but because of not wanting to lose the membership they are forced to pay the amount. Along with most of their business income goes for the payment

and sometimes they have to look for other sources of earning in addition to their business income. The following table summarizes the sources of loan payment.

Table 3. 9. Sources of Loan Payment

Sources of loan payment	Number	Percentage
Husband’s Income	18	21.68%
Selling house properties	4	4.82%
Business income	48	57.83%
Rent income	9	10.85%
Child support	4	4.82%
Total	83	100%

Source: researcher’s own computation from primary data source

As it can be summarized from the above table most of the respondents 57.83%of them pay their loan amounts from the income they generate from their businesses. 21.68% of the respondents use their husband’s salary. 4.82% of them use the income they get from their children and by selling their house furniture’s and the remaining 10.85% from the rent income they get. According to the respondents most of the income they get goes for payment of the loan principal and interest.

3.3.1 Factors Leading to Late Payment

The small amount of default comes from different factors. According to the respondents the factors that lead to late payment can be categorized as;

- *Problems related with the borrower:* which includes factors like unexpected pregnancy, illness, death of a husband and other family related problems.

- *Problems related with the business operations*; includes an increase in input price, competitiveness, low sales etc
- *Problems related with lender*, which includes high interest rate and small loan size. The following table summarizes the cause and percentage of the respondents.

Table 3. 10. Factors that lead to late payment

Factors lead to late payment	Percentage
Problems related with borrower ○ Death of spouse ○ Illness ○ Family problems	32% 26% 49%
Problems related with business operations ○ Low sales ○ Increase in input prices ○ Lack of knowledge	85% 69% 39%
Problems related with the lender ○ High interest rate ○ Small loan size	55% 79%

Source: researcher’s own computation from primary data source

From the above table it can be summarized that most of the factors that lead to late payments are low sales (85%), small loan size (79%), increase in input prices (69%) and high interest rate (55%) respectively. In addition 49% of the respondents answered that

family problems encountered lead to late payments, 39% due to lack of knowledge about their business, 32% because of death of their spouses and 26% of the respondents due to illness.

3.3.2 Collection procedures for default loan amount

If a woman defaults in her payment, she would be called inactive member of the cooperatives, and for this there are procedures to be followed in order to collect the default amount. According to the SAC the inactive member would be taken the following measures depending on the situation.

1. If a woman discontinues her loan payment and saving by her willingness, the loan amount would be deducted from the saving she has and the remaining amount would be returned to her together with the share capital.
2. If a woman cannot be able to pay her loan because of uncontrollable factors, the loan amount would be recovered from the saving she has.
3. Those who are able to pay their loan but who are unwilling would be taken the following measures;
 - For an inactive member who is behind with one week, she would be given an oral warning and Br. 2 penalty.
 - For a woman who is late with two weeks, a written warning and Br. 4 penalty.
 - For an inactive member who is delayed with three weeks, she would be given a warning by the cooperative negotiators and Br. 6 penalty.

- For four week default she would be given with the last warning.
- Finally if is a woman is late with five weeks, she would be taken to the cooperatives court.

For late payment a woman would be charged with a penalty every week. If she continues on not paying the loan amount for continuously five weeks, the officers of WISE as well as the group leader will make very effort to make the woman pay her loan amount. First they would visit her by going to her house asking the reason for not paying the loan if the reasons are considered to be satisfying and she wants to discontinue her business, the loan would be deducted from her saving. And she would be given the remaining amount of it and including the share she has, in addition she would be discontinued from the business. But it depends on the amount of saving she has if her saving is not enough to cover her loan she would be asked to pay the loan payment from other sources. But if the inactive member is unable to pay the loan amount she would be taken to the cooperative court for final decision.

3.3.4 Savings

In addition to providing loans the other and major activity of the SAC is providing a saving service for their clients. These compulsory savings that are obligatory to get loan are intended to encourage savings by clients and at the same time to create investment reserve fund in lending. All the cooperatives under WISE have designed a compulsory saving by their clients. The saving amount can vary from woman to woman, but a woman who has joined the cooperative has to save a minimum of Br. 3 weekly.

The following table summarizes the range of compulsory savings by each member of the cooperatives.

Table 3. 11 Savings

Name of the Cooperative		Compulsory Saving Weekly	
		From	To
1	Yengat Kokeb	Br. 5	Br. 75
2	Edget Befere	Br. 3	Br. 40
3	Enat Guada	Br. 3	Br. 50
4	Addis Hiwot	Br. 3	Br. 50

Source: researcher’s own computation from primary data source

As per the above table, on average majority of the clients of WISE save from a minimum of Br. 3 to Br.50.

3.4. Benefits and Challenges of the cooperative’s service

The saving and credit cooperatives have changed the woman’s life in a very significant manner. Most of the respondents have stated that because of joining the SACs now they have a job to do and an earning to feed their family. Even though SAC have believed to bring a major change in cooperatives members it has also its own weakness and challenges.

3.4.1. Benefits of the cooperative’s service to its clients

The sample clients were also asked the major benefits that they have got for the cooperatives services. Thus, the following table shows the different parameters and the attitudes of client respondents

The following table summarizes the views of clients towards the cooperative services

Table 3. 12 Benefits of the Cooperatives service

Benefits	No. of Respondents	Percent
Develop saving habit	50	60%
Easy access for loan	46	55%
Create opportunity for doing business	58	70%
Solve financial problem	54	65%

Source: Researcher’s own computation from primary data

This table shows the different views client had about their cooperatives 60% of the respondents said that they are able to save more because of the saving services provided by their cooperatives. 70% of the respondents said that they are able to generate business ideas, there by developing business leadership skills, also source of new friendship and strengthen their faith. 65% of the clients have stated that it has solved their financial problem and 55% of the clients have responded that they have now easy access for loan.

In general the major benefits which WISE Saving and Credit Cooperatives Union have contributed can be categorized the following three categories:

Good Governance: WISE is a transparent organization that demonstrates its accountability to its stakeholders, namely the target community, its donors, the government and other NGOs. The target community is represented in the General Assembly as the Board of Directors reflecting the beneficiaries' sense of ownership of the organization. The organization is also committed to the empowerment of its target group and staff, has a horizontal structure and follows the team management style.

Participatory Approaches: Decisions are made in a participatory manner. The communities as well as the staff are genuinely involved in the planning, implementation, monitoring and evaluation WISE's activities. Decisions concerning beneficiaries are passed by the cooperatives themselves, whereby WISE plays a facilitating role in most of the activities.

Holistic Approach: WISE is committed to address the problems of the target community in a holistic and integrated manner. Accordingly, its programmes have been designed and kept on improving in a systematic and incremental manner.

Expertise Training: WISE has achieved significant success in developing its in-house capacity to handle its training function. The training services have shown a tremendous growth and diversification thus introducing various topics that are pertinent to empowering the target community. This has enabled it to be a leader in the provision of training to women micro-entrepreneurs.

3.4.2 Major Weakness and Challenges of the Organization

The organization has some weakness and threats that come from the organization itself and from its clients; some of the weaknesses are discussed below;

Limited Outreach: Despite its ever-increasing coverage, WISE's outreach is still limited.

The size of the target community is considered small and the strategies used to address the issue of dropouts and to attract new members need some revamping.

Staff and Logistics: The lean size of the organization has posed overburden on many of the staff and, considering their dedication, the compensation they receive is found to be inadequate. Regarding the logistics, the available office and training facilities are insufficient, particularly considering the intent of to expend outreach.

Sources of Funding: Although WISE has a reliable source of funding from Action Aid, its reliance on a single donor is considered as a risk and thus calls for diversification.

Harsh Competitiveness in Business: easy entry to the informal sector leading to extraordinary expansion of the sector. This intense business competition has resulted in low turnover and profitability of most micro enterprises.

Poor Attitude to Self-Employment: most young women have low entrepreneurial drive to start their own business. Instead, they prefer employment in governmental or non-governmental organizations or to immigrate to foreign countries in search of better life.

High Incidence Attrition from Cooperative Membership: although one should not rule out the fact that members of saving and credit cooperatives graduate from their original status

of the “poorest of the poor”, the existence of a high dropout rate is a major threat that deserve special attention. The dropout is mainly due to poor health, relocation of their residents and poor loan repayment capacity.

Alarming Health Conditions: high prevalence rates of HIV/AIDS pandemic represents a heavy social and economic burden on families in general and women in particular in relocation to their responsibilities in nursing patients. Moreover, the poor state of environmental sanitation conditions in neighborhoods where the poor are living increases their vulnerability to communicable diseases.

Limited Access to Housing and Working Premises: much of the housing stock inhabited by poor people engaged in the informal sector is dilapidated. Moreover, access to affordable, safe and secured rental housing to be used for residential and commercial purposes is critical challenge faced by women micro-entrepreneurs.

Negative Effects of Globalization: the dumping in bulk of the cheap imported products in the market has grave consequences on the profitability of local businesses in small and micro-enterprises in particular.

Cultural Factors Perpetuating Gender Inequalities: multiple social commitments of women over tax them in terms of their time and energy. Moreover, their households' chores that include child rearing, cooking, washing, etc. leave them little time to concentrate on their businesses.

CHAPTER FOUR

CONCLUSION AND RECOMMENDATION

4.1. Conclusion

Based on the analysis made in Chapter Three the following conclusions are made on loan provisions, collection procedures as well as on the degree of collectibility;

WISE is a union of Saving and Credit Cooperatives which operates in four sub cities of Addis Ababa. The SAC is established with the main motive of providing credit and saving service for women only.

Credit is given for women who are members of the SAC under WISE. For a member to be eligible for a loan, she has to save a minimum of Br. 3 per week. When the woman's saving reaches Br. 70 she can get the first level loan which amounts to Br.700 provided by the cooperatives. In addition to saving, a woman has to submit her business plan in order to assess the profitability of the business so that default risk is minimized. The loan size is dependent upon the amount of saving a member has; the more a woman saves the higher the loan she is going to get. The loan size of the cooperatives is divided into eight levels and above.

A grace period is not allowed for a member who has borrowed from the cooperative. Payment will start a week after a loan is obtained and the payment is made weekly. To facilitate the collection procedure the cooperative has assigned group leaders who are

selected under each cooperative. Every week the group leaders meet with the members and collect the principal, interest and saving amount. After collection of the amount with receipt the group leaders will take the amount to WISE officers for further assurance, then, the amount will be deposited in the cooperatives bank account immediately. If a woman is late with her loan payment she will be given a warning together with a penalty payment, a member who is late for a week is charged a penalty of Br. 2 and the mount increases as times goes by. If she cannot be able to pay the loan amount even if penalty and warning is imposed on her, her loan payment will be covered from the saving she has and she will be dismissed from the membership.

Amazingly, the default rate of the cooperatives is very minimal in amount. The collection rate as of August 2007 was 96.5%. The effectiveness of the collection procedure of WISE Saving and Cooperative is one of the factors of high collectibility. But the collection procedure implemented by the cooperatives has an impact on the members' ability to pay. Most of the members repay the loan by using their business income and other additional sources.

In general most of the life of women has changed due to the establishment of WISE SACs, it has made them believe that a woman can change her life as well as her family by being involved in small and medium business enterprises. For the WISE to be more effective it has implemented criteria to be fulfilled before being a member and also provisions to be eligible for a loan as well as procedures for loan collection.

4.2 Recommendations

Based on the findings, the following recommendations are made by the researcher:

As seen on the analysis the loan provision processes are made according to the guidelines made by WISE SACs. A loan is given to only those who have educational background, at least able to read and write. The assumption is as educational level increases the riskness of the borrower's decreases. But it is highly recommended that to provide a specific amount of loan for those groups of borrowers who have less educational background. A policy should be developed and designed to this group of lenders, since majority of the informal sector does not have any or little access to the formal education.

In addition to the above fact a woman will be eligible to loan only if she has enough saving which is compatible to the respective loan size. And she cannot skip from one level of loan to another; it has to be in the order provided by the SAC, which makes it difficult for a woman to borrow more even if she has more saving in her account. In general the loan provision process should consider the interest of the members as well.

Usually for loans that are given to run a business a grace period is given by the creditors, but in WISE a member has to start paying the loan payment immediately after a week she has taken the loan. Or the interest rate is charged starting from the day she has taken the loan. There should be a grace period adopted by the SACs because a business is not expected to generate income immediately after being established. The lack of the grace period has made an impact on the sources of loan payment; they have to pay the loan by

looking to other sources in addition to the business income they generate. Therefore, to be able to pay their loan amount effectively there should be a grace period provided for the borrowers.

The WISE SACs have increased their previous interest rate which was 7% to 12%, claiming that the previous interest rate was not able to cover even operating costs. Due to the above fact by considering the operating costs, inflation rate, loan loss and profit growth rate, a change has been made. But this interest rate has made the members to be forced to take a lower amount of loan. The interest rate established by the cooperatives should consider also the borrowers, since they are the major clients of the organization. The interest rate impact on the members should be one factor to consider while changing the interest rate.

Microfinance institutions provide an individual and group lending methodology. Group lending was first adopted by Grameen Bank, in Bangladesh. Group lending is considered very efficient for those institutions and now a day's most of the lending goes through group lending. Normally, group-based lending works in the way that loans are made to individuals, but all members of the group are held responsible for the loan repayment (joint liability principle). In the process of group formation group members are expected to screen each other. This screening method between the group members prevents individuals who are irresponsible and are high risky. But in WISE SACs for the collection purpose members have made a group and on each group there is a group leader, but the only purpose of group formation is for the loan payment. Every week they

gather and pay their respective amount then disappears. But it highly recommend for the cooperatives to develop a group based lending methodology, since it has an impact on the loan payment, on screening borrowers, on spotting risky individuals and most of all on creating a group harmony among them.

In addition to the above recommendation made, WISE has to also increase the size and qualifications of the staff. Staff development should be done with more trainings and workshops. The lean size of the staff has created a burden on the existing officers which in turn will have an impact on efficiency of the work being done.

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Annex

Addis Ababa University
Faculty of Business and Economics
Department of Accounting and Finance

Graduate Program (Msc.) in Accounting and Finance

Questionnaire for Members

Dear Sir/Madam

Subject: Survey Questioner for Assessing the Loan Provision, Degree of Collectibility and Reason for Default in the case of WISE Saving and Credit Cooperative Union for Women.

I am undertaking a research project on the loan provision, degree of collectibility and reason for default in the case of WISE. Knowing the local practice of the role and challenges of cooperatives will have a paramount important to the institution, to owners, to clients, to government and others. More over the result of this study will be used as additional reference for those who want to conduct detailed research on the area.

To this end, I have prepared a self – administered questioner to help me gather the pertinent information from the randomly selected members of the cooperative. The quality of the result of this research is based on the accuracy of the information you provided.

Eventually, I promise you, the information your will provide me is going to be reported and communicated in aggregate and utmost care will be taken for its confidentiality.

Thank you for your cooperation

I. Profile

1. Name of your cooperative _____
2. Address of Cooperative: Sub city _____ Keble _____ H. No. _____
3. Age: ☐ below 20 ☐ 20 to 30 ☐ 30 to 40 ☐ above 40
4. Marital Status : ☐ Single ☐ Married ☐ Divorce ☐ Window
5. Numbers of your dependent _____
6. Educational Background:
☐ Primary (1-6) ☐ Junior Secondary (7-8)
☐ Senior Secondary (9-12)
☐ Diploma ☐ Degree
☐ Other, please specify _____
7. How much is your monthly income other than the cooperative loan amount which helps you to run the business? _____

8. Duration of your membership in the cooperative
☐ Less than 1 ☐ 1 to 2yrs ☐ 2 to 3yrs
☐ More than 3yrs
9. Current monthly saving amount in the cooperative _____

II. Loan Provision Procedures

1. Have you ever taken a loan from your cooperative before?
☐ Yes ☐ No
2. If your answer to Q. No.1 was yes, please answer the following questions
 - 2.1. Is the loan taken individually or in group

 - 2.2. For what purpose you have taken the loan

 - 2.3. What procedures have you followed in order to ask the loan?

2.4. Did you face any problem when you ask the loan?

☐ Yes

☐ No

2.4.1 If your answer was yes, what kind of problems have you faced?

☐ Asset collateral

☐ Loan saving amount

☐ Personal Guarantees

☐ Group Guarantees

☐ Permitted less amounts from what you have asked

☐ Other (s), please specify

2.5. When did you take the loan? _____

2.6. How much did you ask _____ and received _____

2.7. Is there a difference on what you have asked and received?

☐ Yes

☐ No

2.7.1. If yes, please explain the reasons

2.8. For how long period did you take the loan? _____

2.9. How frequently you have paid the loan amount and interest?

☐ Monthly

☐ Quarterly

☐ Semi-annually

☐ Annually

☐ Other, please specify _____

2.10. How much you pay per period?

Principal _____ Interest _____

2.11. What is the interest rate for your loan amount? _____

2.12. Do you think the interest rate is fair for you?

☐ Yes

☐ No

2.12.1. If your answer was no, in your believe what should be the maximum interest rate? _____

2.13. Is the loan amount received enough to run your proposed business?

☐ Yes

☐ No

3. Did you have any available opportunity for obtaining loan before being a member of your cooperative?

☐ Yes

☐ No

III. Default and Payment Procedures

4. Have you ever been unable to pay your periodic loan repayment?

☐ Yes ☐ No

5. If your answer to Q.No. 4 was yes,

a. For how many periods _____

b. Please specify the reason(s)

c. What are the measures taken by the cooperative for delay?

☐ Financial penalty, Please specify the amount _____

☐ Refusal of additional loan ☐ Reduce the additional loan amount

☐ Other please specify, _____

6. Did you use other sources to pay the loan repayment other than the return of your loan investment?

☐ Yes ☐ No

6.1.If your answer to Q.N. 6 was yes, what are the sources?

☐ Sale of other personal assets ☐ Sale of your invested assets

☐ Loan from other friends, families, etc

☐ Other, please specify _____

7. Did the collection procedure of the cooperative affect your business operation?

☐ Yes ☐ No

7.1.If yes, how? Explain.

8. Did you submit a business proposal for loan and declined by the cooperative before?

☐ Yes ☐ No

8.1.If yes, what was the reason given for decline by the cooperative? Please explain

9. What are the major benefits you have got being a member of the cooperative?

☐ Develop saving habit

☐ Easy access for loan

☐ Create opportunity for doing business

☐ Solve financial problem

☐ Other(s), please specify _____

10. If you have any idea, or comment in relation to the benefits and impediments of saving and credit function of your cooperative, other than the above issues, please put them on the space provided below.

Thank you again, for your cooperation.

Meron Mekuriaw

Addis Ababa University
Faculty of Business and Economics
Department of Accounting and Finance

Graduate Program (Msc.) in Accounting and Finance

Questionnaire for Employees

Dear Sir/Madam

Subject: Survey Questioner for Assessing the Loan Provision, degree of Collectibility and Reason for Default in the case of WISE Credit and Saving Cooperative Union for Women.

I am undertaking a research project on the loan provision, degree of collectibility and reason for default in the case of WISE. Knowing the local practice of the role and challenges of cooperatives will have a paramount important to the institution, to owners, to clients, to government and others. More over the result of this study will be used as additional reference for those who want to conduct detailed research on the area.

To this end, I have prepared a self – administered questioner to help me gather the pertinent information from the randomly selected employees of the cooperative. The quality of the result of this research is based on the accuracy of the information you provided.

Eventually, I promise you, the information your will provide me is going to be reported and communicated in aggregate and utmost care will be taken for its confidentiality.

Thank you for your cooperation,

I. Profile:

1. Name of your Cooperative _____
2. Position in your Cooperative _____
3. For how long you worked in this position _____
4. Level of education
 1. Primary (1-6) ☐
 2. Junior secondary (7-8) ☐
 3. Senior secondary (9-12) ☐
 4. University Diploma ☐
 5. University First Degree ☐
 6. Above university Degree ☐
 7. Others/specify _____
5. Qualification /specialization/
 - A. Management ☐
 - B. Accounting ☐
 - C. Economics ☐
 - D. Development study ☐
 - E. Education ☐
 - F. Sociology ☐
 - G. Others /specify _____

II. General Questions

1. When was your cooperative established? _____
2. How many members does your cooperative have? _____
3. What are the major requirements to be a member of your cooperative?

4. What was the source of your cooperative capital at the start up?
 - ☐ Own saving
 - ☐ Loan with interest
 - ☐ Loan with out interest
 - ☐ Donation by Government
 - ☐ Donation by NGO
 - ☐ Others, please specify _____
5. If your answer for question No. 4 was own saving above, what was the source of saving?
 - ☐ Previsions salary employment
 - ☐ Sales of fixed asset
 - ☐ Other business
 - ☐ Other (specify) _____

6. How many active borrowers does your cooperative currently have? _____
7. What types of financial services does your cooperative give to its clients?

- ☐ Individual loan
- ☐ Group loan
- ☐ Compulsory savings
- ☐ Voluntary savings
- ☐ Others /specify _____

III. Loan Provision Procedures

8. What are the assessment variables of borrowers to provide loan?

- A. Asset collateral ☐
- B. Personal guarantees ☐
- C. Group guarantees ☐
- D. Compulsory savings ☐
- E. Other (specify) _____

9. How much is the loan size you provide to your clients

	<u>Maximum</u>	<u>Average</u>	<u>Minimum</u>
a. Individual loan	_____	_____	_____
b. Group loan	_____	_____	_____

10. How long is your credit period?

	<u>Maximum</u>	<u>Minimum</u>
1. Individual loan	_____	_____
2. Group loan	_____	_____

11. How much is the minimum, maximum and average lending interest rate charged by the cooperative? _____

12. Is your lending interest rate: a. Fixed (constant) ☐ b. Floating ☐

13. What do you think is the level of your lending interest rate?

- ☐ High ☐ Average ☐ Low
- ☐ Others (specify) _____

14. Is the lending interest income enough to cover the cooperative’s major costs?

- ☐ Yes ☐ No

15. If your answer to Q.No. 14 was no, is there any planned solution set for the problem?

16. What are your considerable factors to determine the lending interest rate?

☐ Competition

☐ NBE fixed rate

☐ Cost of fund

☐ Administrative cost

☐ Loan loss amount

☐ Others (specify) _____

IV. Collection Procedures

17. On average, how many of your client's repay on or before the due date?

☐ More than 80% ☐ 70-80% ☐ 60-70% ☐ 50-60%

☐ 30-50% ☐ less than 30

18. Is there any benefit provided to those members who paid their total loan amount on or before the maturity date? ☐ Yes ☐ No

19. If your answer was yes for Q. No. 18, what are the benefits?

20. What are the major loan collection procedures?

21. Do you think the above procedures have any impact on the clients?

☐ Yes ☐ No

22. If your answer for Q. No.21 was yes, please explain?

V. Default

23. From the experience of your cooperative, what are the possible and major factors leading to late payment and default by borrowers?

- ☐ Personal behavior
- ☐ Environment factor
- ☐ In efficient payment collective system
- ☐ Lack of awareness of the client as to repayment
- ☐ Others (specify _____)

24. What measures does your institution take to control credit default?

- ☐ Strengthen physical follow up _____
- ☐ Strength initial screening of borrowers
- ☐ Restriction deposit withdrawal from savings
- ☐ Requesting collateral and collateral substitutes
- ☐ Giving discount (other incentive) to promote payment
- ☐ Sanctions (penalties) for late payment
- ☐ Provide technical support after loan extension
- ☐ Other (specify _____)

25. If you have selected Penalty for late payment to the above question NO. 23, which of the following penalty applied in your cooperative?

- ☐ Financial penalty
- ☐ Refusal repeat loan
- ☐ Reduce the repeat loan amount
- ☐ Disclose to the public
- ☐ Others (specify _____)

26. What are the procedures to collect default loan amounts?

27. How your cooperative accounts default?

28. Indicate the minimum qualification needed for credit personnel in your cooperative.

☐ Cashier ☐ Loan officer ☐ Credit department head

☐ Accountant ☐ Collection affair

☐ Other, please specify _____

29. Have your credit staffs taken short-term training related to credit management?

☐ Yes ☐ No

30. If your answer was no what other feasible solutions you have taken to empower them?

31. What are the practical challenges you have faced in your operation with regard to saving and credit?

☐ Lack of capital investment

☐ Repayment problem (loan loss)

☐ Poor infrastructure

☐ Cost recovery

☐ High interest rate

☐ Legal framework

☐ Client awareness

☐ Weak management information system

☐ Problems related with entrepreneur quality of clients

☐ Limited technical and banking skill of staff

☐ Wrong perception or impression of the community that loans disbursed by governments and NGOs are not collected

☐ Limited research towards improving the financial sector

☐ Others please specify,

32. If you have any comment, idea or suggestion, please put on the space provided below.

Thank you, again

Meron Mekuriaw

አዲስ አበባ ዩኒቨርሲቲ
ፋኩልቲ ኦፍ ቢዝነስ ኤኑድ ኢኮኖሚክስ
ዲፓርትመንት ኦፍ አካውንቲንግ ኤኑድ ፋይናንስ
የድህረ-ምረቃ ፕሮግራም
ለኮፕሬቲቭ አባሎች የተዘጋጀ መጠይቅ

ከታች ስሜ የተጠቀሰው በአዲስ አበባ ዩኒቨርሲቲ በቢዝነስ እና ኢኮኖሚክስ ፋኩልቲ የአካውንቲንግ እና ፋይናንስ ትምህርት ክፍል የድህረ-ምረቃ የመጨረሻ ዓመት ተማሪ ስሆን በWISE ኮፕሬቲቭ ብድር አሰጣጥና አሰባሰብ እንዲሁም ለብድር አለመሰብሰብ ተጠቃሽ ምክንያቶች ላይ የመመረቂያ ጥናቱን በማከናወን ላይ እገኛለሁ፡፡

በመሆኑም የአገራችን ኮፕሬቲቭ ብድር አሰጣጥና አሰባሰብ ልምድ ቢታወቅ ለተቋሙ፣ ለባለቤቶች፣ ለተቋሙ ደንበኞች እንዲሁም መንግስታዊና መንግስታዊ ላልሆኑ ተቋሞች ያለው ጠቀሜታ ከፍተኛ ሲሆን የጥናቱ ውጤት ለሌሎች ተመራማሪዎች እንደ ግብዓት ምርምር በማገልገል ጥልቅ የሆነ ምርምር ለማድረግ ይረዳል፡፡

ይህን ለማሳካት መረጃ መሰብሰብ አስፈላጊ በመሆኑ ራስ በራስ የሚሞላ መጠየቅ ቅጽ በማዘጋጀት የተቋሙ ሰራተኞችና ደንበኞች ቅጹን ለመሙላት በሚመች መልኩ አዘጋጅቼዋለሁ፡፡

የምርምር ጥናቱ ሙሉ በሙሉ የማወሰነው እርስዎ የመጠየቁ ቅጽ ሞይ በሚሞሉት መረጃ ላይ የተወሰነ ብቻ ነው፡፡

በተጨማሪ በዚህ ምርምር የሚሰበሰብ መረጃ ሙሉ ለሙሉ ለምርምር ጥናቱ ማከናወኛ ብቻ እንደሚውል ልገልጽልዎ እወዳለሁ፡፡

ስለትብብሮ በቅድሚያ አመሰግናለሁ
ሜሮን መኩሪያው

I. ጠቅላላ ጥያቄዎች

1. ያሉበት የኮፕሬቲቭ ስም _____
2. አድራሻ፡- ክ/ከተማ _____ ቀበሌ _____ የቤት ቁጥር _____
3. እድሜ
☐ ከ20 በታች ☐ ከ20-30
☐ ከ40 በላይ ☐ ከ30-40
4. የጋብቻ ሁኔታ
☐ ያላገባ ☐ ያገባ ☐ ፈት ☐ ባል የሞተባት
5. በስሮ የሚተዳደሩ ሰዎች ብዛት _____
6. የትምህርት ሁኔታ
☐ አንደኛ ደረጃ(1-6) ☐ መለስተኛ ሁለተኛ ደረጃ(7-8)
☐ ሁለተኛ ደረጃ (9-12)
☐ ዴፕሎማ
☐ ዴግሪ
☐ ከዚህ የተለየ ክሎት ይግለጹ _____
7. ከኮፕሬቲቭ ከሚያገኙት ብድር ሌላ ወርሃዊ ገቢዎ ምን ያህል ነው? _____
8. ምን ያህል ጊዜ በኮፕሬቲቭ አባልነት ቆይተዋል?
☐ ከ1 ዓመት በታች ☐ ከ1-2 ዓመት
☐ ከ2-3 ዓመት ☐ ከ3 ዓመት በላይ
9. በአሁኑ ወቅት ወርሃዊ የሚቆጥቡት ገንዘብ ምን ያህል ነው? _____

II. የብድር መፍቀጃ ደንብ

1. ከኮፕሬቲቭ ብድር ወስደው ያውቃሉ?
☐ አዎ ☐ አይ
2. ለቁጥር 1 ጥያቄ መልስዎ አዎ ከሆነ የሚከተሉትን ጥያቄዎች ይመልሱ፡
 - 2.1 ብድሩን የወሰዱት በግሎ ነው ወይስ በጋራ? _____
 - 2.2 ለምን ምክንያት ነው ብድሩን የወሰዱት? _____

2.3 ብድሩን ለመውሰድ የተከተሉት የብድር አሰጣጥ መንገድ ምንድነው?

2.4 ብድሩን ሲጠይቁ ያጋጠሞት ችግር ነበር?

☐ አዎ

☐ አይ

2.4.1 ለቁጥር 1 ጥያቄ መልስዎ አዎ ከሆነ ምን አይነት ችግሮች ነው ያጋጠሞት

☐ ማስያዣ ተጠይቄአለሁ

☐ የወል ዋስትና ተጠይቄአለሁ

☐ የጋራ ዋስትና ተጠይቄአለሁ

☐ እንድቆጥብ ተጠይቄአለሁ

☐ ከጠየቁት የብድር መጠን በታች ነው የተሰጠኝ

☐ ከዚህ የተለየ ክሎት ይግለጹ _____

2.5 መቼ ነው ብድሩን የወሰዱት? _____

2.6 ምን ያህል ብድር ነው የጠየቁት _____ ምን ያህልስ ተሰጦት _____

2.7 በጠየቁትና በተሰጡት ብድር መካከል ልዩነት አለ? _____

2.7.1 ልዩነት ከለ እባክዎትን ምክንያቱን ይግለጹ: _____

2.8 ለምን ያህል ጊዜ ነው ብድሩን የወሰዱት? _____

2.9 በምን ያህል ጊዜ ልዩነት ነው ዋናውን ብድርና ወለዱን የሚከፍሉት

☐ ወርሃዊ

☐ በሶስት ወር አንዴ

☐ በስድስት ወር አንዴ

☐ አመታዊ

☐ ከዚህ የተለየ ክሎት ይግለጹ _____

2.10 በተሰጡት ጊዜ ምን ያህል ነው የሚከፍሉት?

ዋናው ብድሩን _____

ወለዱን _____

2.11 በወሰዱት ብድር ላይ የተጣሉብዎት የወለድ መጠን ምን ያህል ነው?

2.12 የተጣሉብዎት የወለድ መጠን ተገቢ ነው ይላሉ?

☐ አዎ

☐ አይ

2.12.1 ተገቢ አይደለም ከሆነ መልስዎ ምን ያህል መሆን አለበት ብለው ያምናሉ? _____

2.13 የተቀበሉት የብድር መጠን ለሚያካሄዱት የንግድ ስራ በቂ ነው ብለው ያምናሉ?

☐ አዎ

☐ አይ

3. የኮፕሬቲቭ አባል ከመሆኖ በፊት ብድር የማግኘት እድል ነበርዎት?

III. የብድር አከፋፈል ሁኔታ

4. ለወሰዱት የብድር መጠን የመክፈል አቅም አንሶት ያውቃል?

☐ አዎ

☐ አይ

5. በጥያቄ ቁጥር 4 መልስዎ አዎ ከሆነ

5.1 ለምን ያህል ጊዜ መክፈል አቅቶዎታል? _____

5.2 እባክዎትን ምክንያቱን ይግለጹ _____

5.3 በኮፕሬቲቭ ምን አይነት እርምጃ ተወስዶዎታል

☐ ቅጣት

☐ ብድር መክፈል

☐ የብድር መጠን ማነስ

☐ ሌላ ካለ ይግለጹ _____

6. ብድርዎን ለመክፈል ሌላ የገንዘብ ምንጭ አስፈልጎዎታል ከሚያገኙት ገቢ ውጪ

☐

አዎ

☐

አይ

6.1 ለጥያቄ ቁጥር 6 መልስዎ አዎ ከሆነ ምን አይነት የገንዘብ ምንጭ ተጠቅመዋል

☐

☐ የግልዎን የቤት እቃ መሸጥ

☐ ከንደኛ ወይም ከቤተሰብዎ መበደር

☐ የራስዎን የግል ንግድ መሸጥ

ሌላ ካለዎ ይግለጹ _____

7. የኮፕሬቲቭ የሚጠቀመው የብድር አሰባሰብ ዘዴ የርስዎን የንግድ ሥራ ላይ የፈጠረው አሉታዊ ተጽኖ አለ?

☐ አዎ

☐ አይ

7.1 መልስዎ አዎ ከሆነ እባክዎትን በደንብ ያብራሩ_____

8. ከዚህ በፊት ብድር ለመጠየቅ የሰጡት የንግድ ሥራ እቅድ በኮፕሬቲቭ ውድቅ ሆኖ ያውቃል? ☐

አዎ

☐

አይ

8.1 መልስዎ አዎ ከሆነ ምክንያቱን ይግለጹ_____

9. የኮፕሬቲቭ አባል በመሆንዎ ያገኙት ጥቅም ምንድን ነው

☐

የመቆጠብ ልምድ ማዳበር

☐

የንግድ ሥራ የመሥራት እድል ማግኘት

☐

በቀላሉ ብድር የማግኘት እድል

☐

ያለብኝን የብር ችግር አስወግዶልኛል

☐

ሌላ ካለ ይግለጹ

10. ሌላ የራስዎ በብድርና ቁጠባ አሰራ ላይ አስተያየት / ሃሳብ ካልዎት እባክዎን ይግለጹ_____

አመሰግናለሁ

ሜሮን መኩሪያው

INTEREST RATE AT 12%

Payments under 52 Weeks				Payments under 26 Weeks		
Loan Amount	Gross Payment	Amount paid from principal	Interest	Gross Payment	Amount paid from principal	Interest
200.00	4.10	3.86	0.24	7.95	7.71	0.24
300.00	6.15	5.79	0.36	11.90	11.54	0.36
400.00	8.20	7.72	0.48	15.90	15.42	0.48
500.00	10.25	9.65	0.60	19.85	19.25	0.60
600.00	12.25	11.53	0.72	23.80	23.07	0.73
700.00	14.30	13.46	0.84	27.80	26.95	0.85
800.00	16.35	15.39	0.96	31.75	30.78	0.97
900.00	18.40	17.32	1.08	35.70	34.61	1.09
1000.00	20.45	19.25	1.20	39.70	38.49	1.21
1100.00	22.50	21.18	1.32	43.65	42.32	1.33
1200.00	24.55	23.11	1.44	47.60	46.15	1.45
1300.00	26.55	24.99	1.56	51.60	50.03	1.57
1400.00	28.60	26.92	1.68	55.55	53.86	1.69
1500.00	30.65	28.85	1.80	59.50	57.69	1.81
1600.00	32.70	30.78	1.92			
1700.00	34.75	32.71	2.04			
1800.00	36.80	34.64	2.16			
1900.00	38.85	36.57	2.28			
2000.00	40.85	38.45	2.40			
2100.00	42.90	40.38	2.52			
2200.00	44.95	42.31	2.64			
2300.00	47.00	44.24	2.76			
2400.00	49.05	46.17	2.88			
2500.00	51.10	48.10	3.00			
2600.00	53.15	50.03	3.12			
2700.00	55.15	51.91	3.24			
2800.00	57.20	53.84	3.36			
2900.00	59.25	55.77	3.48			
3000.00	61.30	57.70	3.60			

INTEREST RATE AT 12%

Payments under 78 Weeks				Payments under 104 Weeks		
Loan Amount	Gross Payment	Amount paid from principal	Interest	Gross Payment	Amount paid from principal	Interest
3100.00	43.50	39.77	3.73	33.55	29.80	3.75
3200.00	44.90	41.05	3.85	34.65	30.77	3.88
3300.00	46.30	42.33	3.97	35.75	31.75	4.00
3400.00	47.70	43.61	4.09	36.80	32.68	4.12
3500.00	49.10	44.89	4.21	37.90	33.66	4.24
3600.00	50.50	46.17	4.33	39.00	34.64	4.36
3700.00	51.90	47.45	4.45	40.05	35.57	4.48
3800.00	53.30	48.73	4.57	41.15	36.55	4.6
3900.00	54.70	50.01	4.69	42.25	37.53	4.72
4000.00	56.10	51.29	4.81	43.30	38.46	4.84
3000.00	42.10	38.49	3.61			
2500.00	35.05	32.04	3.01			

INTEREST RATE AT 12%

Payments under 104 Weeks				Payments under 78 Weeks		
Loan Amount	Gross Payment	Amount paid from principal	Interest	Gross Payment	Amount paid from principal	Interest
4100.00	44.40	39.43	4.97			
4200.00	45.50	40.41	5.09			
4300.00	46.55	41.34	5.21			
4400.00	47.65	42.32	5.33			
4500.00	48.75	43.30	5.45			
4600.00	49.80	44.23	5.57			
4700.00	50.90	45.21	5.69			
4800.00	52.00	46.19	5.81			
4900.00	53.05	47.12	5.93			
5000.00	54.15	48.10	6.05			
5500.00	59.55	52.89	6.66			
6000.00	64.95	57.68	7.27			
6500.00	70.40	62.53	7.87			
7000.00	75.80	67.32	8.48			
7500.00	81.20	72.12	9.08			
8000.00	86.60	76.91	9.69			
8500.00	92.05	81.76	10.29			
9000.00	97.45	86.55	10.90			
9500.00	102.85	91.35	11.50			
10000.00	108.25	96.14	12.11			
10500.00	113.70	100.98	12.72			
11000.00	119.10	105.78	13.32			
11500.00	124.50	110.57	13.93			
12000.00	129.95	115.42	14.53			
12500.00	135.35	120.21	15.14			
13000.00	140.75	125.01	15.74			
13500.00	146.15	129.80	16.35			
14000.00	151.60	134.65	16.95			
14500.00	157.00	139.44	17.56			
15000.00	162.40	144.24	18.16			