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An analysis of the profitability and sustainability of savings and credit cooperatives in Botswana

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¹ **Note:** The findings from this working paper does not in any way reflect the views of the Development Finance Centre (DEFIC). The views are only representative of the authors.

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Laone Nthaga & Abdul Latif Alhassan

Abstract

The potential of co-operatives as a catalyst for sustainable development is of particular interest to a country like Botswana, where the economy is heavily reliant on a single commodity trade and there is potential for greater participation of the citizens in economic and social development of the country. The growing participation of co-operatives, particularly savings and credit co-operatives (SACCOs), has proved to be a channel for increasing access to finance for the traditionally unbanked, a reduction in poverty levels, and continued socioeconomic development across the African continent. In Botswana, however, only 26% of co-operatives are profitable, while 30% operate at a loss or break even. This necessitates an empirical investigation into the performance (profitability and sustainability) of SACCOs in Botswana. This study examined the effect of profitability on operational self-sufficiency (OSS) using a sample of 39 SACCOs from 2005 to 2015. The independent variables chosen were return on assets, deposit mobilisation, current ratio, capital structure, and membership size.

The panel data analysis identified return on assets and capital structure were significantly and positively related to OSS, which was generally consistent with literature. Size and liquidity were found to be statistically insignificant determinants of OSS. A finding unique to this study, and contrary to literature, was the negative relationship observed between deposit mobilisation and OSS. Informed by the findings of the study, the main recommendations are that members of SACCOs as well as regulators should ensure that management provides a clear investment strategy that shows consideration for revenue diversification.

Keywords: SACCOs | Sustainability | Profitability | Botswana | Africa |