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**Socio-Economic Role of Saving and Credit Cooperatives in  
Ethiopia: The Case of Ethiopian Airlines Employees Saving and  
Credit Association**

A Thesis Submitted to the School of Graduate Studies of Addis Ababa  
University in Partial Fulfillment of the Requirements for the Master of  
Art in Business Administration (MBA)

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**January 2019**

**Addis Ababa, Ethiopia**

## Declaration

I, the undersigned, declare that this thesis entitled “*Socio-Economic Role of Saving and Credit Cooperatives in Ethiopia (A Case of Ethiopian Airlines Employees Saving and Credit Association)*” is my own original work and that all sources have been accurately reported and acknowledged, and that this document has not been submitted for a degree in any other universities.

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## Statement of Certificate

This is to certify that Endalkachew Kassa has completed her thesis entitled “*Socio-Economic Role of Saving and Credit Cooperatives in Ethiopia (A Case of Ethiopian Airlines Employees Saving and Credit Association)*” is his original work and is submitted for examination with my approval as a thesis.

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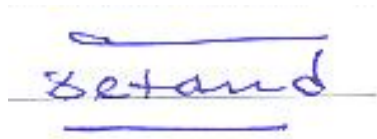
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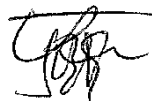
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## **Acknowledgement**

First, I thank the almighty God for giving me the encouragement and patience to finalize my work.

I would like to express my deepest gratitude to my advisor Dr. Yohannes Workaferahu for his valuable comments and unreserved support to carry out this thesis. My gratitude also goes to members, employees, manager and board members of Ethiopian airlines employee saving and credit association. This study may not successfully complete without their valuables data.

It is also with great pleasure that I acknowledge my indebtedness to the help I have been given by my family.

## Abstract

*The aim of this study was to examine socio-economic role of saving and credit cooperatives in the case of Ethiopian airlines employee saving and credit cooperatives. Descriptive research design was used. The target population comprised 9167 active members with 383 samples using random sampling technique, 14 employees with census inquiry and manager & board members of the association. The study used questionnaires and interview as a tool for data collection. In order to test the reliability of the instrument, the Crobach alpha test was used. Finally, the responses of the respondents from questionnaire and interview were analyzed separately using descriptive Statistics. The findings of the study showed that credit services provided by the association have economical than societal effect. And credit limit also small and should be improved per members' request. The association also provide competitive interest rate on its saving service and enable repayment of loan in line with increasing capital resource. And it needs to create awareness and educate members regarding finance management. Non-financial services also not incorporated under its services. It is also advisable to apply one of the models (Linked, Parallel & Unified) regarding integration of non-financial services with microfinance. The association's employment opportunity also too low and needs improvement not only through self-employment but also hiring individuals by expanding its services.*

**Keyword:** *socio-economic role, credit services, saving services, non-financial service, employment opportunity*

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## Acronyms

**FCA:** Federal Cooperative Agency

**SACCO:** Saving and Credit Cooperatives

**ESACAs:** Employee Saving and Credit Associations

**EALESACCs:** Ethiopian Airlines Employees Saving and Credit Cooperatives

**ROSCA:** Rotating Savings and Credit Associations

**DFS:** Development of Centralized Financial Systems

**EIB:** European Investment Bank

**ENTACCS:** Ethiopian Thrift and Co-operative Societies

**MFI:** Micro Finance Institutions

**ASCA:** Accumulating Savings and Credit Associations

**UNFPA:** United Population Fund

**EALG-SACCO:** Ethiopian Airlines Group Saving and Credit Cooperative

**SPSS:** Statistical Package for the Social Science

# CHAPTER ONE

## 1. INTRODUCTION

### 1.1.BACK GROUND OF THE STUDY

Cooperative societies were believed to have originated from Europe before they spread to other part of the world (Babatund, Fakayode, Olorunsanya & Gentry, 2007). According to Altman (2009), cooperatives have evolved significantly over the last 200 years and are of increasing importance to economies and societies throughout the world irrespective of their level of socioeconomic development. Yet, cooperatives are peripheral to contemporary academic analyses. Moreover, they are treated as inefficient and ineffective types of organization whose presence is normally transient and of some importance in times of crises and to marginal socioeconomic participants. Even those with a sympathetic eye consider cooperatives to be of marginal importance.

Currently, cooperatives are recognized as an important instrument for socioeconomic improvement of the community. This importance is identified in their definition, which contemplates cooperatives to be:

*“An autonomous association of people united voluntarily to meet their common economic, social and cultural needs and aspirations through jointly-owned and democratically-controlled enterprises” (ILO 2002).*

A cooperative is a group of individuals of limited means who voluntarily unite to achieve common predetermined objectives. The goals are pursued through the democratically agreed organization and contribution to attaining the needed capital base. Each of the saving and credit cooperative (SACCO) members assumes a fair share of the risks that are imminent in the business (Sharma, 2003; Altman, 2009). Levi, Y. and Bar-Nes, D. (1999) also emphasized on arguments for cooperatives depend heavily on assumptions about people's willingness to participate in them. Sometimes it is assumed that, just because they are cooperatives, this form of organization will attract the time, energy and commitment of members.

Cooperative organizations are widely disbursed organization in developing countries, they are known for strong commitment as well as involvement in the decision making of their members (Haan, 2003). These societies organize local savings and manage credit to members, thereby

encouraging thrift and entrepreneurial activity. Earlier at the beginning, credit unions use relatively simple administrative practices, hence the costs are very small and most interest income from loans may either be divided to the members or reinvested in the credit union within a capitalization program. Consequently, they can be set up in developing countries, where access to means of safe savings and to credit at non-exploitative terms is of greatest importance (UNDESA, 1999).

According to Aimé and Mbabazi(1989) the first Savings and Credit Cooperative were established in mid-19th Century, mainly in Germany by two men considered as the founding fathers of the credit cooperative movements: 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. After consume cooperatives, the common type of cooperatives to be found in the modern world, including the developing countries are the savings and credit cooperatives (Munyiri, 2006).

Saving and credit cooperative is currently enjoying wider acceptance as an anti-poverty strategy all over the developing world. They undoubtedly opened great opportunity for many poor people who could otherwise have no chance to access capital for business activities set they are not without their own in built problems (Kifle, 2011)

Furthermore, saving and credit cooperative have become instrumental in creating common forum to fight social and economic backwardness by allowing mass participation in development. Therefore, they are considered as one way of accelerating the social and economic development for families, community and the entire nation.

According to Eman (2009), modern forms of cooperatives were first introduced in Ethiopia in 1960. Aredo (1993) also said that, cooperatives in Ethiopia have recent origins. The oldest ones were established in the late 1960s, and they grew very slowly until 1978. One reason behind such slow growth was the political and social instability that followed the 1974 uprising. The new cooperative movement in Ethiopia was started by reforms made to the socio-political system. During the socialist government (the Derg regime), cooperatives were formed to assist in the implementation of the Government's policy of collective ownership of properties. Under this system, cooperatives were forced to operate in line with socialist principles, which meant that production and marketing of produce were undertaken through collective mechanisms. Membership to a cooperative was also

compulsory, which contravened the basic cooperative principle of voluntarily participation (Emana, 2009)

As a type of saving and credit cooperatives, employees' savings and credit associations (ESCAs) for purpose of savings and credit in Ethiopia started at the work place where by employees save certain percentages of their income which gives them the entitlement to borrow money for reasons they consider important to raise the living standards of their household. In most cases these include the buying of fixed assets like house, car, machinery to start business, higher education, marriage, medication of family members, and others) (Kolcha, 2014).

ESCAs operated for more than half a century in Ethiopia. They were categorized under Savings and credit co-operatives (SACCOs) are designated as semi-formal financial institutions (Kolcha, 2014). According to Tesfamariam (2015), the employees of Ethiopian Airlines pioneered establishment of SACCOs in Ethiopia in 1964. From 1964-1973, national apex body known as Ethiopian Thrift and Cooperative Societies Ltd (ENTACCS) were formed by 28 SACCOs. At that time, the apex had 28 SACCO with 6,247 members and savings amounting to USD 627,752 and was a member of the Africa confederation of Cooperative Savings and Credit Association (ACCOSCA).

They are established with in governmental organizations and private businesses, and play a significant role in mobilizing deposit and in allowing employees access to loans at a cheap rate. Their deposit collection and loan recoveries are integrated to each organizations payroll system, hence reducing administrative costs. The fact that they are protected by operational rules of organizations reduces their credit risk because an employee cannot default as long as they earn salary every month. In the event of default, loans are recovered from earnings of 3 guarantors who work in the same organization. ESCAs also buying shares of different financial and non-financial firms in the country to participate in the investment market.

The ESCAs, as important sources of savings in the country, need serious study. The existing literature highly limited to only few studies on farmers unions and other agricultural related cooperatives. Similarly, the government also highly attempted to expand farmer's cooperatives and union on the rural areas of the country while very little attention is given to ESCAs. Based on this reality it is necessary to assess over all operation, especially socio economic role, of ESCAs existing in Ethiopia, particularly in Addis Ababa.

## **Statement of the Problem**

Undoubtedly, micro finance cooperatives have a pivotal role in a social system in various aspects; economic, social and cultural aspects. As try to imply by UNOSAA (2013), in the current economic environment of on-going global financial and economic instability, microfinance lies at the heart of Africa's efforts at delivering inclusive socioeconomic development. For instance, cooperative associations are of great importance for social integrity, economic wellbeing and group solidarity of their members. The saving and credit cooperative associations are not exceptional in this regard. The researcher was conducted this research to know really saving and credit cooperatives as part of microfinance institutions deliver inclusive socio-economic development by taking case on Ethiopian airlines saving and credit association.

Saving and credit cooperatives conceived as the instrument for economic development, particularly for financial transactions and social capital development (Emana, 2009). Moreover, Community action partnership (2012) stated that credit unions are eligible to become community development financial institutions. Improving one's economic status requires the ability to earn income, to spend it wisely, to save part of it for future benefit and to have access to credit in order to move into a productive or income generating activity. Saving and credit cooperatives are central to this end in doing so, increase personal and national capital resources by encouraging and eliminating usury and waste fullness through the sound use of credit respectively. They serve as reliable and indigenous tools in creating national income and employment (Emana, 2009, Kimberly & Robert, 1980).

However, in our country peoples' saving habit as well as their ability is low. Because of limited knowledge in financial planning and low level of real income that does not usually go beyond their necessities. Due to these and other similar reasons, most people may accumulate a load of debt at high interest rates that may take long time to repay off. Besides, Aredo (1993) talks about the absence of adequate financial institutions may affect individual saving habits. However, even where there are financial institutions, people may not use them.

Consequently, for a large proportion of the Population, there are no such facilities. The only choice that they can go is individual money lenders who charge high interest rates. This leaves many borrowers deeply indebted and always struggling to get out of debt but without success. Thus, the

cooperative sector has to use this unique opportunity to lay the foundation of sustainable delivery of financial services to the low-income groups and rural poor in Ethiopia.

Therefore, the solutions to these problems are to encourage peoples' saving and proposing alternative means that can generate additional income. Towards this end, savings and credit cooperatives can be taken as an option, among others, to solve the problem. This is because credit union serves as an ideal instrument in developing the habit of thrift in its members and it gives the opportunity to gain financial rewards in the form of interest.

Moreover, saving and credit cooperatives enable the small borrower to borrow at the ends and to repay on the right dates.

Studies on ESCAs in Ethiopia are limited; especially there has been no sufficient literature about the socio-economic effect of saving and credit associations in availing saving and credit services to their members, their effect in provision of non-financial services and employment creation. The researcher was also interested to know the state of affairs in urban areas as most of related studies have been done in rural areas. In general, this study is intended to explore the Socio-economic roles of saving and credit cooperatives. To do so, the Ethiopian Airlines employees saving and credit association was selected.

## **1.2. Research question**

This study was tried to answer the following questions.

1. What are socio-economic roles of accessing credit service on the association's members?
2. What are socio-economic roles of availability of saving service on the association's members?
3. What are socio-economic roles of non-financial service provisions by the association on its members?
4. What are creation of employment opportunity socio-economic role on the association's members?

## **1.3. Objective of the study**

Formal financial institutions such as commercial banks alone cannot provide financial service requirements of a country in general and the low income group in particular. Thus, it needs the

participation of saving and credit cooperatives for financial intermediation of the society at large. In view of this fact, the general objective of the study was to assess the role of saving and credit cooperatives on socio-economic development in the case of Ethiopian Air Lines employees saving and credit cooperatives.

Within the context of achieving the general objective of the study, it tried to focus on the following specific objectives.

- To assess the socio-economic role of accessing credit services on members.
- To analyze the socio-economic role of the availability of saving services on the association's members.
- To evaluate the socio-economic role of non-financial service provisions by the association on its members.
- To assess the socio-economic role of the association in creating employment opportunity.

#### **1.4. Significance of the study**

The study was important as it provide some reliable information about saving and credit cooperative. The study also show what advantages the association has to its members and employees especially in the socio-economic conditions. Thus, it was useful in generating valuable information for further study. The finding and recommendations help the association to make improvements in its endeavor.

#### **1.5. Scope and limitation of the study**

##### **1.5.1. Scope of the study**

When we say saving and credit cooperatives, there are various type of saving and credit cooperatives. However, it is difficult to deal with every aspect of saving and credit cooperatives due to time, cost and other constraints. Thus, the study is concerned with the Socio-economic role of saving and credit cooperatives in the case of Ethiopian Airlines employees saving and credit cooperatives (EALESACCs).

### **1.5.2. Limitation of the study**

While compiling this study there were some problems that counter the researcher, it would have been more useful to study the problem in a wider scope. However, due to time, finance and other constraints, the study area is narrow. In addition to this, there are no as such organized materials and reserved books about this issue and there are no enough previous studies on similar topic.

### **1.6. Organization of the research report**

The general content of this research paper have five chapters. Chapter one entails the introduction part, which contains, background of the study, statement of the problem and objectives of the study, limitation of the study, scope and significance of the research paper. Chapter two also presented the review of literature part of the study. Chapter three contains the research methodology part, which contains, research design, data source and methods of data collection, target population, sample size and sampling techniques and methods of data analysis and presentation. The research results and discussion presented in chapter four. The final part of the study was chapter five which forward conclusions and some recommendations.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Concept of Microfinance**

According to Tesfaye (2001), microfinances are organizations that plan to improve access to small deposits and loans for poor households overlooked by banks. Therefore, they involve the supply of financial services like savings, loans and insurance to the needy people living in both urban and rural settings who are unable to obtain such services from the formal financial sector. When properly harnessed, microfinance offers a spread of advantages to the African people. Foremost, microfinance initiatives can effectively address material poverty, the physical deprivation of products, services, and therefore the income to achieve them.

#### **2.2. Concepts, characteristics and role of SACCOs**

Cooperatives have played a big role towards achieving the expansion and poverty reduction strategy by promoting income generating activities and improving access to close banking services to rural and concrete households (Tesfamariam, 2015). SACCOs are user-owned financial institutions that provide both savings and credit services to their members. Members of those financial institutions are often both net savers and net borrowers. Depending on a country's legal framework, SACCOs may be authorized to mobilize member savings and non-members savings or member savings only. SACCO Society is financial cooperative society established by voluntary people supported the philosophy of building self-help society or "people helping people". SACCO Society is owned, managed, controlled by members. Members have the right to decide on its issues, members have the right to benefit from its service. SACCO Society is formed initially for the poorer to provide financial services such as safe place for savings and providing easy accessible loans to members. SACCO is "not for profit or for charity society" but serve members at fair profit margins. In SACCO Society member's savings form a good pool of money, from which loans are made to members with fair lending interest and the interest rate is decided by members. In SACCO Society once overhead and other expenses are paid, reserve for cushion against any loss, and for expansion of services put aside, the remaining income from loans is returned back to members in the form of dividend on savings, share or both (Getachew, 2006).

SACCO Society are financial institutions designed for people, to possess their own efficient financial service giving institutions that empowers themselves in building asset by teaching thrift culture and make themselves accessible to credit in sustainable way (Getachew, 2006).

According to Tadael (2017), Savings and Credit Cooperative (SACCO) is a type of cooperative whose objective is to pool savings for the members and in turn provide them with credit facilities. Ahmad (2005) also said that, Cooperatives are being considered useful mechanisms to manage risk for members, help salary/wage earners but the longer term through a soft-felt monthly contribution that is deducted from source, own what could be difficult for people to have by their efforts, strengthen the communities during which they operate through job provision. Other objectives of SACCOs are to encourage them on the proper management of money and proper investments practices. Whereas in urban areas salary and wage earners have formed SACCOs, in rural areas, farmers have formed Rural SACCOs. There are also traders, transport and community-based SACCOs. It can be designated as semi-formal financial institutions. They are beyond the control of the central authorities with respect to ownership of the assets and management. Savings and credit co-operatives also are referred to as credit unions, thrift and credit co-operatives or savings and credit associations. They are defined as follows:

Thrift (saving) and credit co-operative are associations, which can accept deposits from its members as savings and also issue out loans to qualifying members of the SACCO (Henama, 2012)

Credit union is a financial co-operative organized from a group of people with a common bond. As a co-operative, it is a democratic and non-profit organization. Members invest a little amount (called a "share") to hitch. This allows the members to be the owners of the credit union. It entitles them to elect from among themselves a board of directors, which sets policy and may appoint a manager (ILO, 2001). A credit union is part of a co-operative financial system and adheres to the operating principles for credit unions as set forth by the world Council of Credit Unions (ACCOSA, 1990). From these definitions it can be inferred that a SACCO, generally speaking, has three basic purposes: to promote thrift, to provide a source of credit at a low interest rate, and to teach people the wise use of their money and the efficient management of their limited pooled resources.

As discussed by ACCOSCA (1990) SACCO has several unique characteristics which promote the self-help, member-owned and directed principles of co-operativism, service to members, social goals

and leadership potential of its members. One characteristic is a common bond; Individuals, who have something in common, whether based upon working together, belonging to the same organization or living together in the same geographical areas, know one another.

Thus, they need already established a standard bond which will be built upon to deal with economic and social needs. The common bond is necessary to develop mutual confidence among the members to help one another and to trust the decisions made on their behalf by their elected leaders. The different types of common bond are: The different types of common bond are:

- Work –place/ employee common bond which is based upon individuals who have the same employer
- Association common bond which is regarded as individuals who belong to a religious, social or educational group;
- Residential common bond which is characterized by geographical or political sub–division such as a sub-location, district, town or one or more villages.

What makes SACCOs different from other cooperatives and financial institutions is that SACCO's operations are concentrated within their own membership and a person must be a member in order to save, borrow or obtain other services from the SACCO. In developing SACCOs, working funds are covered mostly of member shares; in mature SACCOs, working funds are largely deposits. SACCOs' make loans to members, emphasizing primarily the character and ability to repay. SACCOs' rely to a significant extent upon the volunteer efforts of the members; the key element in the development of SACCOs' is volunteerism. The difference between a SACCO and other forms of co-operatives is that the SACCO can accept deposits from its members as savings and also issue out loans to qualifying members of the SACCO (Henama, 2012).

### **2.3.Types of SACCOs**

According to Bwana and Mwakujonga (2013), there are various kinds of SACCOs, depending on the membership profile and services extended to the SACCO members differ accordingly. In essence, there are three broad groups of SACCOs:

- **Community-based SACCOs:** These SACCOs are often found in urban areas or regional towns, but are most often frequently encountered on village level. A variety of group and

individual loans are often found, including women solidarity loans, business loans for individual members, or loans for small and micro enterprises;

- **Employee-based SACCOs.** These represent SACCOs where all the members are obtained from the same or one employer and these SACCOs are generally found in urban areas or regional level. Specific salary-based loans are provided which are often guaranteed by the employer.
- **Agricultural SACCOs.** To date these, represent basically small-scale cane growers in areas such as the rural region. Both individual farmers and their associations can be clients of the SACCO. Loans are extended for various dedications, including agricultural production loans.

## **2.4.Principles of SACCOs**

As stated by NRECA (2016), cooperatives around the world operate according to the same set of core principles and values, adopted by the International Co-operative Alliance. Cooperatives trace the roots of those principles to the primary modern cooperative founded in Rochdale, England in 1844. A key reason for America's electric cooperatives operate differently from other electric utilities and putting the needs of their members first are these cooperatives principles.

### **Cooperative Principles**

#### **I. Open and Voluntary Membership**

Membership during a cooperative is hospitable all persons who can reasonably use its services and stand willing to simply accept the policies of membership, no matter race, religion, gender, or economic conditions.

#### **II. Democratic Member Control**

Cooperatives are self-governing organizations controlled by their members, who vigorously participate in setting policies and making decisions. Elected representatives (directors/trustees) are elected from among the membership and are responsible to the membership. In primary cooperatives, members have the same voting rights (one member, one vote); cooperatives at other levels are prepared during a democratic manner.

#### **III. Members' Economic Participation**

Members contribute equitably and control democratically the capital of their cooperative. At least a part of that capital remains the common property of the cooperative. Members allocate remainders

for any or all of the subsequent purposes: developing the cooperative; fixing reserves; benefiting members in proportion to their transactions with the cooperative; and supporting other activities approved by the membership.

#### **IV. Autonomy and Independence**

Cooperatives are autonomous, self-help organizations managed by their members. If they enter into agreements with other organizations or raise capital from external sources, they are doing so on terms that ensure democratic control also as well as their unique identity.

#### **V. Education, Training, and Information**

Education and training for members, elected representatives (directors/trustees), CEOs, and employees help them effectively contribute to the event of their cooperatives. Communications about the character and benefits of cooperatives, particularly with the overall public and opinion leaders, helps boost cooperative understanding.

#### **VI. Cooperation among Cooperatives**

By working along with through local, national, regional, and international structures, cooperatives increase services, strengthen local economies, and deal more effectually with social and community needs.

#### **VII. Concern for Community**

Cooperatives work for the viable development of their communities through policies sustained by the membership.

### **2.5. Saving and credit cooperatives in Africa**

#### **2.5.1. Historical back ground**

English speaking nations were the first to adopt SACCOs in Africa. The first entrants into SACCOs' community includes Ghana, Uganda, Nigeria, Tanzania, and Kenya. Among all, the first SACCO Society, in Africa, was introduced in Ghana in 1959. Most of the Non-English speaking countries in Africa started SACCOs in 1960s, with major influx into SACCO community in 1970s (Mwakajumilo, 2011).

According to Alila and Obado (1990), in Africa, the idea of savings and credit societies was first discussed in 1955 in Jirapa, a small town in Ghana which was then the Gold Coast. The idea was

brought by a Roman Catholic priest, Father John McNulty from Ireland. He had studied in Canada where he learnt about SACCOs'. Father McNulty decided to support the Jirapa villagers to form a savings and credit Co-operative. The cooperative had a specific aim of supporting the members to address their financial problems which they could barely do individually.

## **2.5.2. African SACCOs and their environment**

### **The three system for offering savings and credit services**

According to Mwakajumilo (2011) in most African countries, three systems for offering savings and credit services rub shoulders, sometimes, in competition with one another, but most often without their being a true competition among them to the extent that they offer different types of service or service different clienteles as follows:

- **Centralized Financial Systems:** - This refers to commercial and/or business banks that operate primarily in an urban environment and the financial institutions under more or less direct control of the Government. They are subjected not only to general commercial laws, but also to specific banking and central bank regulation. The institutions operating under this technique are sometimes mentioned to as Formal Financial Institutions/system.
- **Decentralized Financial Systems:** - This denomination is used to designate institutions and networks that were developed as alternatives to commercial banks and the informal structures for offering financial services close to the people. It comprises, specially, the various networks of SACCOs (rural cooperatives, mutual credit societies, people's banks), but also different alternative experiences introduced by NGOs. The institutions under this technique are registered, but are not subjected to specific banking regulations and central bank supervision.
- **Informal Financial Systems:** - This refers to the range ROSCAs (Rotating Savings and Credit Associations) of the tontine type and door-to-door bankers, in particular. Since these aren't registered nor are supervised by government machineries. Often loans are granted based on the familiarity with the borrower.

Since they have appeared on the scene recently, SACCOs are still newcomers in the African landscape of financial systems offering savings and credit services. They still only occupy a small

share of the market in comparison with the other two. They are sometimes midway between both extremes.

In fact, the emergence and development of centralized financial systems (DFS) has resulted in part from the failures and limitations of the other two systems.

### **2.5.3. EXPERIENCES OF FINANCIAL SYSTEMS IN AFRICA**

**The Tontine:** - The tontine meets the needs of domestic economy where income is weak and irregular. The system depends on extending contributions over time and on the following principle: the group pays dues and the sums thus collected are paid out in turn to one of the dues-payers. The dues are collected, as many times as there are dues-payers, so that each one receives the same capital.

The tontine in no case may be a means for accumulating capital for an economically profitable investment. It makes it possible to meet primary and family needs and operates because each of the dues-payers. Practically at equivalent time, wants to supply a particular response through a short-term savings effort. The success of the tontine, therefore, relies on the principle of strict equality, trust and non-hierarchical control.

#### **Door-to- Door Bankers**

Is what a person go every day to their clients to receive a preset sum of money on the agreed upon due date (at the end of 31 or 62 days), the door-to- door banker returns the amounts collected with the exception of one payment out of 31, which represents the interest or the price of safety service provided to each saver.

#### **Village Banks**

Village savings and credit banks are true banks employed by villagers to form their savings safe and productive by granting loans to individuals or groups who belonging to them. The villagers jointly establish the operating rules of their bank by appointing one or several managers, while a credit committee reviews and decides how to grant loans, provides monitoring and the assisted collection of the manager. On the principle, the village bank organizes local savings ton recycle it into the village economy.

## **Savings and Credit Cooperative Societies**

Savings and credit cooperatives societies channel their members' savings, essentially classifying needs to grant loans oriented toward social needs, handcrafts and minor business. The members are the only beneficiaries, sole savers and sole decision-makers.

Their association or proximity with other production- or consumer-based cooperatives makes them integrated and effective tools for rural development (Mwakajumilo, 2011).

## **2.6. Cooperative movement in Ethiopia**

Cooperation in Ethiopia has a long history, particularly in the form of traditional collective organizations, such as rotating savings and credit associations (iqubs), work groups (jiges, wonfels, debos), and burial societies (idirs). These cultural cooperatives exist still now especially in rural Ethiopia.

Modern cooperatives in Ethiopia started in the 1960s. During this time, Ethiopia was under the ruling era of Emperor Haile Selassie I (1932-1974). The main reason for the initiation of the modern cooperative at this period was to solve unemployment problems, especially for retired workers (Bernard, 2010). During this time, the first cooperative legislation was declared and it is known by Decree number 44/1961. The main objective and purpose of this Decree was to promote the economic interest of Ethiopia in general, and their members in particular, through effective and efficient cultivation and development of land.

Accordingly, the first cooperatives' proclamation known as proclamation number 241/1966 was put in place. The main reason for this proclamation was to provide a proper basis for the formation of cooperative societies to promote thrift, mutual help and self-help among persons sharing common needs and desires. According to Mahmud (2008), based on this proclamation, 158 cooperatives were established with 33, 400 members and 9.97 million Birr (around 0.04 million euro) total capital. But the attempt was not effective to solve the problem of poor farmers because the focus was only on potential areas for agricultural production in order to enhance the production of economically important crops/cash crops for export and, as a result, land ownership was a basic criterion for membership. The main objective was to maximize profit. During this period, in most parts of Ethiopia, few landlords owned the land. Rich commercial farmers were encouraged to become members of the cooperatives. Therefore, from the very beginning, it failed to meet the demands of poor farmers (Ayalew, 2014).

According to Ayalew (2014), the establishment of savings and credit co-operative societies in Ethiopia started in the mid-1960s. The first one was pioneered by the employees of Ethiopian Airlines in 1964. From 1964 -1973, there were 28 savings and credit cooperative societies and these societies formed their own national apex body known as Ethiopian Thrift and Co-operative Societies Ltd (ENTACCS). At that time, the apex had 28 SACCO societies with 6, 247 members and 1.57 million Birr (\$ 0.76 million), 752 members' savings. The apex was a member of the African Confederation of Co-operative Savings and Credit Association (ACCOSCA).

In 1974, the Military junta (Derg) had overthrown the Emperor Haile Selassie I government. The Derg abolished all cooperatives except credit and saving cooperatives and established new cooperatives based on a socialist ideology. In 1978, the Military junta proclaimed the cooperative organization proclamation number 138/1978. This proclamation envisaged collective ownership of production by way of mobilizing peasants. The main objectives of this proclamation were to develop self-reliance and to promote the interest of their members and to participate in the building up of the socialist economy.

During this era, cooperatives began to see change in fortunes as their roles in economic development were understood better. Though tremendous efforts were made to promote cooperative societies, members lacked tangible benefits and they had no role to play, hence the sense of ownership faded and the cooperatives started to disintegrate and suffered a loss of credibility. According to Mahmud (2008), during 1990 there were 10,524 different types of cooperatives with 4.53 million members and capital of Birr 465.47 million (€ 33.70 million) throughout the country. Of these cooperatives, 80% were rural cooperatives.

Though the military government issued a proclamation to promote and support cooperatives, its main target was to promote a socialist ideology throughout rural Ethiopia using cooperatives as a means of attaining its objectives. Moreover, membership was not on a voluntary basis, which contradicted the international cooperative principle. The government had control over cooperative management, governance, and finance and property administration. Therefore, almost all of the producers' cooperatives and many other types of cooperatives were abolished or highly weakened when the government issued a mixed economy policy which gave a chance for cooperative members to decide on their cooperatives. The producers' cooperatives were abolished within a very short time.

Following the overthrow of the military government (1991) with the adoption of economic reform program helped the organization, promotion and development of cooperative societies within the framework of the free market economy. The government provided a legal framework which is both comprehensive in many respects (including its ability to accommodate coops in various sectors/sub-sectors) and incorporates universally accepted principles of cooperatives including voluntary membership (Proclamation No. 147/1998 and amendment 402/2004). As a result some improvements have been seen in that cooperatives started to distribute inputs, provide loan to their members, marketing their products in the domestic and foreign market, unions (secondary cooperatives) were formed, dividend payments were made by the unions as well as primary cooperatives (Kifle, 2014).

The proclamation defines cooperatives as organizations “formed by individuals on voluntary basis,” and states that they “participate in the free market economic system.” This indicates the different nature of the new cooperatives from the system of the previous regime. Proclamation No. 147/1998 outlines the layered organizational structure of the cooperatives, which was not permitted by the previous regime. An organization can have four layers, i.e., primary cooperatives, unions, federations, and cooperative leagues. According to FCA (2015) primary cooperatives, union levels, and federation have been formed to date. Cooperative league has not been formed to date. Another unique feature of the proclamation is that it defines the ratio of dividends between a cooperative organization and its members. Article 33 of No. 148/1998 regulates that the cooperative “society shall deduct 30% of the net profit” and “the remaining net profit shall be divided among members.” Therefore, the unions provide 70% of their net profit to the primary cooperatives and the primary cooperatives in turn provide 70% of their net profit, including the dividends from the union, to cooperative members.

According to this proclamation No. 147/1998, a minimum of ten individuals can form a primary cooperative society. Individuals are eligible for membership at age fourteen. A member is allowed to hold a maximum of 10 percent of the total paid up share capital of the society. The Proclamation stipulates that cooperative societies can borrow from members based on their bylaws and at rates not exceeding the prevailing interest rate of the commercial banks. Cooperative lending is restricted to members only. However, the law permits a cooperative to lend to another society. While lending, cooperatives are not restricted with regard to the interest rate they charge.

In 2002, the Federal Cooperative Agency of Ethiopia was created to organize and promote cooperatives at the national level. Its ambitious five-year development plan (2006–2010) aims to provide cooperative services to 70 percent of the population through the presence of at least one such organization in each kebele by 2010 (Feleke,2014).

According to Feleke (2014) SACCOs in Ethiopia are semi-formal financial institutions in the sense that they are registered entities and subject to all general rules, but are not subject to the same prudential standards applicable to formal financial institutions. Unlike the commercial banks and MFIs, savings and credit cooperatives are not subjected to the rigorous supervision and regulatory rule of the NBE. The cooperative proclamation allows SACCOs to operate as self-regulated entities with a few restrictions such as the allocation of profits and the maximum shareholding to a single member. Internal monitoring and controlling generally provides the checks and balances of the operation of the cooperatives.

According to FCA, 2015, out of various types of primary cooperatives, as of July 2015, 17,765 (24.9% of total number of cooperatives) are primary SACCOs with membership of 2.8 million and saving amount of 6.6 billion Birr. Currently, SACCOs constituting the second most common type of cooperatives (next to multipurpose cooperatives) in the country in terms of both number, membership and capital.

Though the performance trend of SACCOs in Ethiopia has shown increasing trends in terms of their numbers, membership sizes and amount of contribution and saving, many experts on the areas underscored that the performance in terms of penetration rate, average membership and saving ratio is still very low as compared with Sub-Saharan African countries such as Kenya, Rwanda, Uganda, etc. The information obtained from WOCCU database also revealed this fact. The penetration rate of cooperatives in Ethiopia is found to be 2% which is below the average penetration rate of cooperatives in Africa (7.7%). Hence, this figure implies that much work is needed in order to utilize SACCOs as an opportunity to mobilize savings and address the saving-investment gaps in the country (Tezeta & Deribe, 2012).

## **2.7. Overview of empirical literatures**

The most important studies related with thesis are reviewed and summarized as follows:

Zikalala (2014) studied about the role of saving and credit cooperatives in promoting access to financial services. The study was used both qualitative and quantitative approaches to analyze the data collected from primary and secondary sources. The finding revealed that, saving and credit cooperatives in Swaziland failed to meet international standards of financial stability set for cooperatives. It also transpired from the results that the major challenges faced by financial cooperatives in Swaziland included low levels of skill and competition from commercial banks. Low level of skill is the result of unavailability of educational package.

Miriti (2014) discussed on factors influencing financial performance of saving and credit cooperative societies. Descriptive research design was used in this study where information was collected without changing the environment. One of the finding from this study was, interest rate charge on loan to members has major challenge to financial performance of SACCOs. The researcher also recommends that the SACCOs should diversify its product to be able to compete perfectly in the market and to meet the demands of its members.

Kifle (2008) studied about the impact of rural saving and credit cooperatives on the business, income, family living conditions and empowerment in the study Ofla Wereda, Tigray region. The study employed various statistical tools like correlation and regression to analyze data. The regression analysis revealed that, the variables education and seniority at SACCO have significant negative relationship with the post-SACCO income. The researcher also recommend that diversity lending system, training, member education, increasing the amount of credit, extending the repayment period and relaxing the collateral security needs have been suggested to improve their income, business living condition and empowerment (women) of the members. He also suggest that, the training has to be accompanied by the career development schemes so as to increase their motivation.

Other researchers also studied about micro-credit, micro-saving, non-financial services and creation of employment opportunity under their different objectives. Some of researchers and their findings upon micro finance services and socio economic effects evaluation tools are discussed below.

### **2.7.1. Evaluation of micro finance services and socio economic effects**

According to Wakilo & Sakwa (2014) microfinance has become an important instrument for poverty alleviation in developing countries through its provision of both the financial services and non-financial services to the poor. Those services can be micro-credit, micro saving and non-financial services.

#### **Micro-credit services**

Micro-credit refers to programs that are poverty focused which provide financial and business services to needy for generation of self-employment and income. Credit is a powerful instrument to fight poverty. The role of micro-credit in reducing poverty is now well recognized everywhere the planet. Credit creates opportunities for self-employment instead of expecting employment to be created. It liberates both poor and ladies from the clutches of poverty. It brings the poor into the income stream. Given the access to credit under an suitable institutional structure and arrangement, one can do whatever one does best and earn money for it. One can overcome poverty. One can become the architect of one–s destiny and the agent of change not only for one–s family but also for the society (Wakilo & Sakwa, 2014). According to Khandker (1998), the best way to reduce poverty is developing human capital.

Microcredit programs are “the provision of small loans to individuals, usually within groups, as capital investment to enable income generation through self-employment”. Chowdhury and Salleh (2017) also said that microcredit believed to play in changing family’s economic condition towards having better education, health and social life. Microcredit programs could benefit society overall by overcoming the liquidity, consumption smoothing, and unemployment problems associated with highly imperfect credit market (Khandker, 1998). Moreover, according to Hassan & Bhuiyan (2013), microcredit program in general influences borrowers to operate business to generate income and access to microcredit motivated the respondents to send their children for education and shows a positive sign for improvement of livelihood. Wakilo & Sakwa (2014) also concluded that microcredit services provided by microfinance institutions are very essential as it increases income that helps to cater for health and education services as well as help to increase the output and stock in the enterprise. However, for efficient realization of this positive effects then microcredit have to be readily accessed and the rates should be very flexible to attract many since it's a great tool to

alleviate poverty. Credits are also claimed to create economic power that would generate into social power, lifting the poor out of poverty. Moreover, it is also argued that microcredit enhances human capital regardless of poverty level because expenditures on education and health care are increased, which may then extend to poor individuals through intra-household and inter-generational effects.

### **Micro-saving services**

While credit has been the traditional focus of microfinance institutions (MFIs) and donors, the importance of micro-savings programs for the poor is gaining recognition within the microfinance literature (Wakilo & Sakwa, 2014). EIB (2008) also depicts in its report the focus of microfinance has been largely on credit on a particular focus on support for micro-enterprises. However, the possibilities of providing other microfinance services are being debated and in some cases, regulators are considering the transformation of MFIs to banking institutions. There are strong economic arguments to support the view that savings products are complementary to credit, and in some ways preferable to it, in meeting the needs of the poor. Clients have different needs; micro-credit is not always the best product.

Defining micro saving for measuring stocks, flows, and effects/impact is challenging. There are several possible approaches depending on whether one focuses on the people saving, the amounts saved, or the institutions in which the saving takes place. Thus, micro-savings can be thought of as savings made by low-income or poor people, or as small amounts of savings (the challenge here is to provide a threshold for saving deposits or balances that might distinguish between micro and non-micro savings), or as savings held at institutions that concentrate in micro-savings. However, from the attitude of poorest savers, micro savings can be an outsized sort of informal, semi-formal and formal practices and defined micro-savings as the mobilization of savings through deposit services run by microfinance institutions (MFIs) (Hulme, Moore & Barrientos, 2009). There has been a transition toward expanded microfinance, and savings services are seen as a means of securing savings and of encouraging the poorest to save more and more systematically.

SEEP (2017) find in its study that the combination of saving groups and health interventions can lead to a variety of positive effects on health knowledge and behavior; care givers behaviors; use and financing of health services. Improve access to financial resources can help overcome economic barriers to pay for health services while group cohesion encourages sharing of information, adoption

of good behaviors and seeking health care treatment. With savings, households can build up assets to use as collateral, smooth seasonal consumption needs, self-insure against major shocks, and self-finance investments. Nepal & Dhakal (2016) confirmed in their study that microfinance has promoted the saving and credit habit of the people.

Addisu (2016) discussed about the impact of saving and credit program on socio-economic condition of women in mida woremo wereda, north shoa Ethiopia. One of the research concerns has been “can micro saving program savings reduce vulnerability and risks of the client?” and the findings reported that clients have increased income that enables them to save and to buy property. The savings enabled clients to affect sever crises and to cope up with the shocks and reduce vulnerability and purchased property are often sold also to affect the crises; savings can be used to acquire another microfinance cycle and also to start and expand the existing economic activities of the clients.

Ledgerwood (2000) under microfinance handbook said that effective savings services, since there are rarely secure, liquid alternative forms of savings that offer a return for the operators of these enterprises (they also help to smooth consumption).

### **Non-financial services**

Another hope of microfinance is that of social services offered by some microfinance programs would educate women, promoting the education of their children and enabling them to provide better healthcare for themselves and their families. A survey by the United Population Fund (UNFPA) found, “more than one quarter (29.5 percent) of the women in the survey dealt with microfinance institutions that provided health education services” (Wakilo & Sakwa, 2014).

Biosca, Lentos & Mosley (2011) said that delivering in conjunction with microfinance products, nonfinancial service programs are widely heterogeneous. A simplified categorization classifies them in

- Social related services including, among others, health education, maternal and child healthcare, literacy, language training, legal advice and different kinds of personal mentoring
- Micro-entrepreneurial development services, involving financial, business and vocational training and technical assistance.

They also concluded that renewed credit-plus schemes, progressively perceived by practitioners as a comparative advantage in extremely competitive environment.

Flores & Serres (2009) write about non-financial services and its models. As per their description, there are three main models of integration of non-financial services with microfinance, leading to different results in terms of performance and management: the linked, the parallel and the unified models. In the **linked model**, services are provided by two independent organizations. The MFI does not directly provide non-financial services but establish a partnership with another entity to do so. This model also allows to know the exact cost of non-financial services and to decide how to better handle it. However, one of its weaknesses is that the MFI has little control on the quality of its partner's services. The **parallel model** is often applied by multiservice organizations, as opposed to fully-fledged MFIs. Here, financial and non-financial services are offered by the same organization under different programs and are managed by separate, specialized personnel who share the same brand. The **unified model** seeks complementarity between financial and non-financial services by embedding them in a hybrid product to be provided by the same staff. In this scheme, unlike the two other models, non-financial services are generally compulsory for the beneficiary of financial services. If well integrated, this model can be cheaper for MFIs than the two others.

Dereje (2012) studied about the role of financial institutions in the growth of small and medium Enterprises in Addis Ababa. He found that apart from financial services, MFIs also provided non-financial services. The major non-financial services provided to clients were training, setting up business plan and monitoring and supervisions, consulting services, and experience sharing forums. Some MFIs provide enterprise development training in the area of marketing, bookkeeping, and Social services. Social services such as health care, education and literacy training that improve the ability of the low-income earners. Sometimes MFIs also provide third party asset management (act as trustee), insurance and other transactional facilities.

Wakilo & Sakwa (2014) Microfinance can also reduce poverty through the improvement of household risk management through microfinance institution training and the building up of social networks. This improvement is said to stabilize village income, reducing the vulnerability of the poorest.

Regarding non-financial services of MFI, Griffin & Husted (2015) propose that the construct of harmonious social relations needs to be added in order to explain repayment rates and that high repayment rates foster increased capital formation for micro-entrepreneurs.

### **Employment opportunity**

The proximate determinants of poverty are unemployment and the low productivity of the poor. When poverty results from unemployment, reducing poverty requires creating jobs. Consequently, the best way of reducing poverty is to deal with increasing productivity by creating employment. One way to increase the production of the poor is through broad-based economic growth. Such growth insures more inclusive participation in development by providing widespread employment opportunities (Khandker, 1998). Microfinance can also condense poverty through job creation (Wakilo & Sakwa, 2014).

EDC (2018) reported that an estimated 45 percent of Ethiopian populations are under age 15 and 71 percent under age 30. Youth unemployment is high, estimated to be around 7 percent; with about 25 percent of youth ages 15 to 29 reports being underemployed. Unemployment is reported to be more prevalent in urban areas. However, lack of employment opportunity for young people still drives rural-to-urban migration and leads many to emigrate.

Shastri (2009) was studied about microfinance and poverty reduction in India and find that creating self-employment opportunities is one way of attacking poverty and solving the problems of unemployment.

Dahir (2015) under his study regarding the challenges facing microfinance institutions in poverty eradication, revealed substantial evidence of the importance of microfinance in socio-economic environments and play vital role in reducing poverty, provides diversified, dependable and timely financial services to poor people and it creates employment opportunity.

### **2.8.Challenges for SACCOs**

Saving and Credit Cooperatives (SACCOs) are the main financial solution of the people who have low-income level. However, they have their own challenges that retard their financial solution to their members and the economical contribution to a country. The major problems of cooperatives in Africa are absence of experienced management, uneconomic base level units, lack of supporting

infrastructure like extension, training etc., poor member participation, insufficient supervision and auditing of cooperatives, and too much political disturbance (Feleke, 2003).

SACCOs, like in other many business entities operated in Africa, are faced with challenges in their quest towards survival and growth. These challenges can be categorized into internal and external challenges. Internal challenges include deficiency in contemporary skills, leadership and governance problems, inadequacy of resources, insufficient technological development, quality service demand, HIV/AIDS pandemic, and ethics and integrity. External challenges are: competition (economic liberalization and regulation of business, price decontrol, competition for scarce resources, and competition from commercial banks), political government (changes in co-operative legislation, changes in investment policies, and new lobbying systems/approaches), technological (need to keep pace with information technology), social (changing employee values and expectations, and greater cultural diversity among employees), global (increasing and complex market demands, and sophistication in ways of doing business), economy (non-performance of the economy), common bond (non-remittance of dues to the SACCOs, and restructuring and reorganization of firms in line with global trends (Carilus, 2011).

Limited number of studies has been carried out which identifies the challenges of saving and credit cooperatives in Ethiopia. Zerfeshewa (2010), Kifle (2011), Dejene (2011), Aregawi and Kifle (2011), Kifle and Hailemichael (2012), Biruk (2012), Tezeta & Deribe (2012), Aregawi (2014), Kifle (2014), and Ergetew (2014) found out on their research findings the problems of SACCOs in Ethiopia could be listed as follows: Lack of awareness and poor saving culture, lack of infrastructure like office buildings and equipments, weak governance, policy and regulatory environment, weak institutional capacity, low capital base, inappropriate loan security requirements, lack of trained manpower, lack of external funding for the SACCOs, Small size of membership, lack of members' participation, Low population density of the rural members creates high transactions costs, limited technological advancement, difficulties in assessing the creditworthiness of a member and the limited possibility to ask for collateral add to the high transaction costs, the financial system in place including accounting and audit works are very weak. Most of the primary SACCOs are not maintain proper financial records and produce reports timely. Similarly, the accounts of the societies are not timely audited with three to four years lag in the case of certain primary societies. Kifle (2014) and Federal Cooperative Agency (2014) revealed that financial cooperatives (SACCOs) are promoted

and guided by proclamation No. 147/98 that treats all types of cooperatives uniformly, but does not address critical issues facing financial cooperatives such as the lack of clear policy and strategy, lacks financial standards and benchmarks required to protect savings, and direct the development of this financial cooperatives in the area of saving mobilization, establishment of insurance scheme to depository members and borrowers, guide on prudential financial ratios, reporting requirements.

## 2.9. Conceptual framework

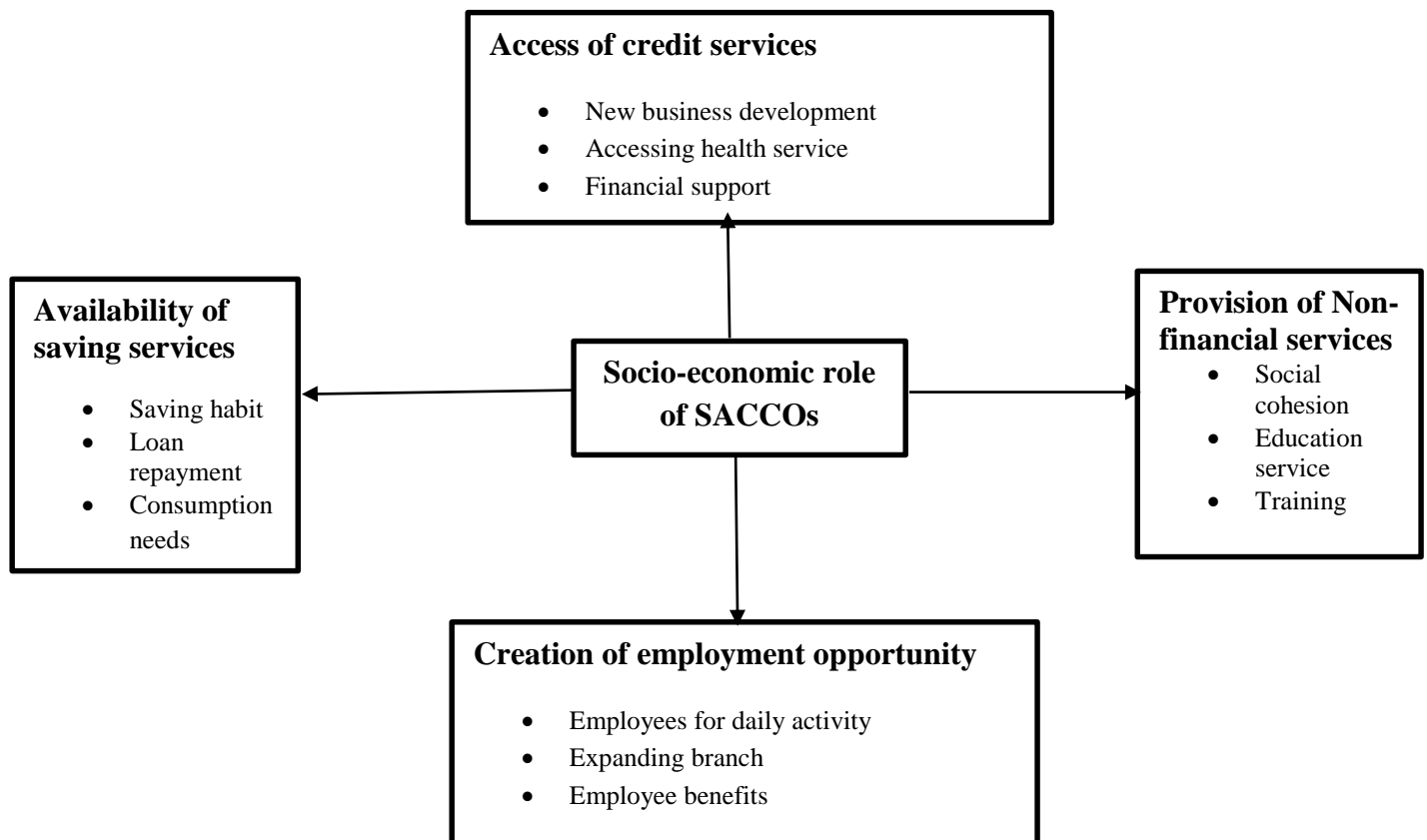


Figure 2.1. **Conceptual framework (developed by own)**

Members participation in microfinance programs (SACCOs) and their ability to access services such as; microcredit, micro savings and non-financial services from the micro finance have an effect on their socio-economic conditions, which eventually influences their wellbeing. SACCOs as one of

micro finance institution, also have a significant role in providing an opportunity to reduce unemployment rate of the nation. Microfinance programs are increasingly important in development strategies and have become an essential component of strategies to reduce poverty or promote micro and small enterprise development. However, knowledge about the effects and achievements of such initiatives remains only partial and contested.

## **CHAPTER THREE**

### **3. RESEARCH METHODOLOGY**

#### **Introduction**

In this study, the researcher was attempting to apply the following necessary methods, which are suitable for successful accomplishment of the research. Topics of coverage in this chapter include research design, target population and sampling technique, instrument of data collection, method of data analysis and ethical consideration.

Research methodology is a method to systematically solve the research problem. It may be understood as a science of studying how research is completed scientifically. In it, we study the number of steps that are generally adopted by a researcher in studying his research problem along with the logic behind them (Kothari, 2004).

#### **3.1. Research design**

The research was done through descriptive type of research emphasizing both quantitative and qualitative data. According to Kothari (2004), Descriptive research includes surveys and fact-finding enquiries of different kinds. The major purpose of descriptive research is description of the state of affairs, because it exists at the present. In social science and business research, we very often use the term Ex post facto research for descriptive research studies. The main characteristic of this method is that the researcher has no control over the variables; he can only report what went on or what's happening. This kind of studies is also concerned with describing the characteristics of a particular individual or of a group. To this fact, the researcher was collected large amount data from sizable population and analyzes using descriptive statistics.

#### **3.2. Target Population and Sampling Technique**

Total population of the study was all employees of EALG-SACCOs and members of the cooperatives from all business units and work divisions who use saving and credit services. There are 15 employees including manager and 9167 active members as of MAY 2019 fiscal year. As those

9167 members are found in a different work location, work environment and workload, the researcher highly believe that the target populations would have significant contribution for the study.

The study applied two types of sampling techniques for the association's employees and members. Due to small number of employees (14 employees excluding manager) are there in the association, a complete enumeration of all items in the population known as a census inquiry were applied. Whereas for the members, simple random sampling technique was applied so as to provide equal chance of being selected for every member of the population.

### **3.3. Sample size**

As already stated above in sampling technique, the study was applied census for employees of the association. Hence, sample size for employees was the same as total population.

Members of the association were sampled based on Yamane (1967) sample size determination formula. From 9167 active members, the calculated sample size is 383, at 95 % confidence level and 0.05 precision levels.

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

Where  $n$  is the sample size

$N$  is the population size, and

$e$  is the level of precision or sampling error

$$\begin{aligned} n &= \frac{9167}{1+9167(0.05^2)} \\ &= \underline{383} \end{aligned}$$

### **3.4. Data Types and Sources**

The study used both primary and secondary data sources. The primary data was gathered through questionnaires administered to selected association's employees and members. The interview parts

were through structured questions and researcher was interview board members and manager of the association. The secondary data also gathered from manual of the association, e-sources, library books, journal articles, thesis and dissertations, which will be relevant to prepare literature review. The reality and validity of good research is based on quality data collected. Therefore, to get relevant data or information all necessary questions were taken to ensure genuine information was obtained.

### **3.5. Instrument of Data Collection**

In order to collect information needed for the research, the most known data collection tools interview and questionnaires were used.

#### **➤ Questionnaires**

In this study, standardized questionnaires were employed for both employees and members of the association. Moreover, the respondents were selected by random sampling technique from members and census for employees of association.

#### **➤ Interview**

The interview part was made through structured questions and choose the interviewee on respondent's knowledge, duties and responsibilities on the association. Those respondents was EALG-ESCCOs board members and manager.

### **3.6. Method of Data Analysis**

The instruments used in the collection and gathering of data include questionnaires, personal interviews and secondary data were utilized in the analysis. Moreover, tables, graphs and charts also used. For the purpose of analysis, statistical packages namely Statistical Package for the Social Science (SPSS) was employed.

Data gathered by questionnaires was analyzed by exporting information entered into excel to SPSS package. The statistical reliability of items on the questionnaire also checked using Cronbach-alpha. Interview part of the data was analyzed through descriptive method.

Statistical tools such as descriptive statistics will be used to describe the phenomenon that exist at the time of the study in the form of frequency distribution, percentage, mean calculation, standard

deviation and graphical representation. Finally, the analysis and interpretation of the data have leads to conclusions and recommendations.

### **3.7. Research ethical consideration**

The researcher considered the ethics of research in preparation of this study. The data including interview and written documents (questioners) was stored securely for the appropriate period according to the requirements of the ethics. While the success of the study depends upon the willingness of individuals to participate, if at any time such participation places an individual at risk or causes undue stress, participation would not be pursued. Protecting the privacy of informants will be a paramount concern, as non-exploitation of any informant. At all times, the provision of any information collected and/or analyzed and communicated to informants is reasonably practicable and especially prior to any publication of the study.

## **CHAPTER FOUR**

### **4. DATA PRESENTATION, ANALYSIS AND INTERPRETATION**

This chapter provides data analysis and interpretation, which have been obtained from participants through questionnaire and interview. All data gathered by questionnaire was analyzed using SPSS version 21. The data collected from the sample respondents was first loaded to SPSS and software and test the reliability, mean and standard deviation of major four subsections, namely, socio economic role of accessing credit service, socio-economic role of accessing saving service, socio-economic role of non-financial service provision by the association and socio-economic role of the association in creating employment opportunity. Descriptive interpretation also given for each statistical output. Interview part of the data also analyzed based on the response obtained from the interviewee.

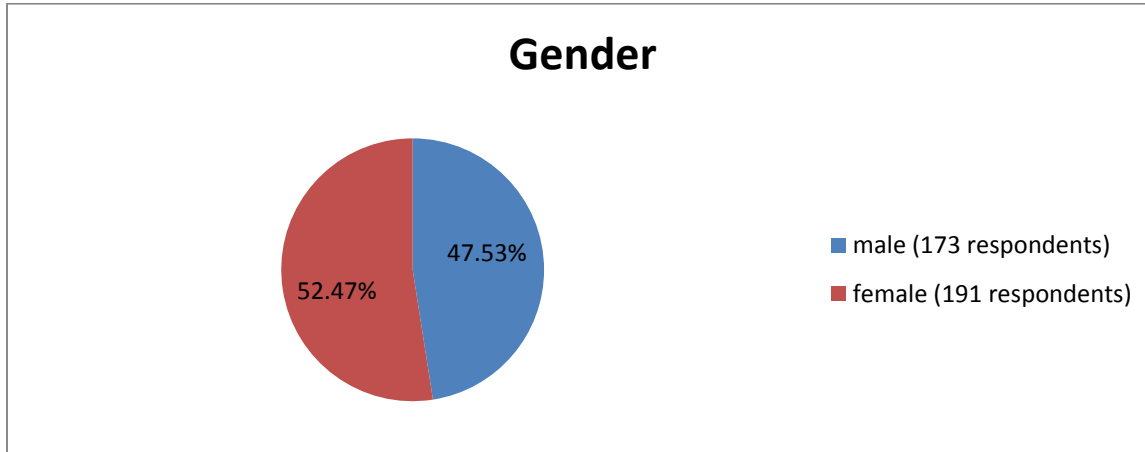
#### **4.1. Analysis and interpretation of primary data**

Primary data collected by questionnaire was made to employees of the association and non-employee members of the association simultaneously. These two groups were chosen because, employees of the association are members at the same time and non-employee members have reliable data regarding the objective of the study. However, data for the fourth objective, the effect of the association in creating employment opportunity, was collected merely from the employee of the association, as it was more reliable than collecting from non-employee members. Interview was made to board members and managers of the association. Its analysis also presented accordingly.

### 4.1.1. Personal Background of Respondents

Personal profiles of respondents are analyzed as follows.

**Figure 4.1: Gender of Respondents**



**Source:** Survey data, 2019

As indicated in the above figure 4.1 about 47.53% of respondents were male while the remaining 52.47% of respondents were female. The ratio of the respondents is almost proportional. It means that, both male and female have proportional level of participation in EALG-ESCCOs.

**Table 4.1: Age**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	18-25	131	34.2	36.0	36.0
	26-35	198	51.7	54.4	90.4
	36-45	29	7.6	8.0	98.4
	46 and above	6	1.6	1.6	100.0
	Total	364	95.0	100.0	
Missing	System	19	5.0		
Total		383	100.0		

**Source:** Survey data, 2019

As shown in the Table 4.1, 131 (36%) of respondents were between the age of 18-25 years, 198 (54.40%) of respondents were between the age of 26-35, 29 (8%) of respondents were between the age of 36-45 and the remaining 6 (1.60%) of respondents were 46 & above years. Hence, the researcher can interpret that, majority of the respondents were under the age of 26-35 years and the association has young members.

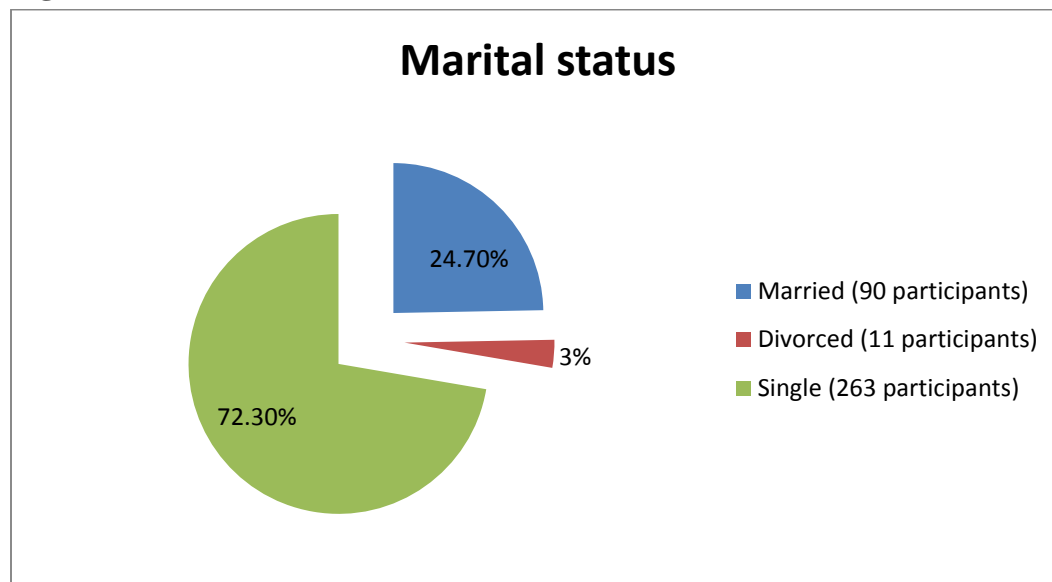
**Table 4.2: Education Level**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	diploma	25	6.5	6.9	6.9
	BA/BSC	310	80.9	85.2	92.0
	MA/MSC	29	7.6	8.0	100.0
	Total	364	95.0	100.0	
Missing	System	19	5.0		
Total		383	100.0		

**Source:** Survey data, 2019

Educational level of most respondents was BA/BSc holders. Which are 310 (80.90%) of the total participants. It gives a high confidence that the respondents have good understanding of objectives and questions incorporated within the questionnaire. Besides, the second highest participant’s level of education was MA/MSc by 29 (7.60%) with slight difference from diploma holders 25 (6.50%). Over all implication of the education level was most of members in EALG-ESCCOs are BA/BSc holders and actively participate in all services given by the association.

**Figure 4.3: Marital status**



**Source:** Survey data, 2019

The above figure 4.3 indicates that 263 (72.30%) of participants were single and hold the majority. The second highest number of participants were married by 90 (24.70%) proportion and followed

by divorced with 11 (3%) participants. The overall implication of the above data is most members of the association are single. These have significant impact on the reason of the needs for the service.

**Table 4.3: year of participation**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	less than 2 years	96	25.1	26.4	26.4
	2-5 years	200	52.2	54.9	81.3
	6-10 years	31	8.1	8.5	89.8
	above 10 years	37	9.7	10.2	100.0
	Total	364	95.0	100.0	
Missing	System	19	5.0		
Total		383	100.0		

**Source:** Survey data, 2019

Table 4.4 shows that, 198 (51.70%) of participants has 2-5 years of participation, 96 (25.10%) has less than 2 years and 37 (9.70%) has above 10 years participation followed by slight difference with 31 (8.10%) having 6-10 years of participation. It implies that, majority of the respondents have 2-5 years participation within the association.

#### 4.1.2. Reliability Test

According to Livingston (2018), Reliability is the extent to which test scores are *not* affected by chance factors—by the luck of the draw. It is also the extent that test scores are consistent over...

- different occasions of testing,
- different editions of the test, containing different questions or problems designed to measure the same general skills or types of knowledge, and
- different scorings of the test takers' responses, by different raters.

Cronbach's alpha reliability is one of the most widely used measures of reliability in the social and organizational sciences (Bonett & Wright, 2014). Reliability coefficients range from 0.00 to 1.00, with higher coefficients indicating higher levels of reliability (Carole, Almut, Kimberlin & Winterstein, 2008). From the table below Cronbach's Alpha of the variable were higher; indicating that respondents tended to rate socio-economic role of Ethiopian airlines saving and credit cooperatives consistently across the various questions on the instrument. Coefficient of alpha for the

variable of creating employment opportunity also computed separately as the number of samples is small and the questions were designed only for employees of the association.

**Table 4.4: Reliability test**

Description	Cronbach's Alpha	No of items
Accessing credit service	.738	7
Accessing saving service	.745	7
Non-financial service provision	.778	5
All the above items of the tool	.873	19

**Source:** Survey data, 2019

Description	Cronbach's Alpha	No of items
Creating employment opportunity	.736	6

**Source:** Survey data, 2019

#### **4.1.3. Socio-economic role of saving and credit cooperatives**

This section discusses the results of the survey in respect of the socio-economic role of accessing credit service, socio-economic role of accessing saving service, socio-economic role of non-financial service provisions and socio-economic role of the association in creating employment opportunity. The results were interpreted by using the means and standard deviations of each assessment tools of socio-economic role of the association. The mean value of 3.5 will be the threshold for all statements having positive acceptance from respondents and to be keep going as per Likert scale mean value determination. However, those results having less than mean value of 3.50 needs major improvement.

**Table 4.5: socio-economic role of accessing credit service**

S.No.	Variable description	Std.		N
		Mean	Deviation	
1	Enabled members to start new business	3.46	.904	364
2	Enabled to increase wealth of members	3.23	1.155	364
3	Ensured members and their families to attend school or develop their profession	3.20	.888	364
4	Led to ability to access better health service	3.39	.945	364
5	Assist members financially during their travel (both in domestic and international air travels)	3.52	1.079	364
6	Enabled members to enjoy lower interest bank's on credit service	3.29	1.090	364
7	Members can get reasonable amount of credit per their request	3.16	1.224	364

**Source:** Survey data, 2019

On accessing credit service, the respondents were provided seven statements and they were required to choose the level of agreement from highest 5 to lowest 1 Likert Scale. The findings on mean and standard deviation result were discussed and analyzed below:

As it is described in the above table 4.6 item number 5 (assist members financially during both in domestic and international air travels) the mean score is 3.52 and SD 1.07. It infers that, the association's credit service highly utilized by the members for their domestic and international travels as compared with other parameters. The second highest mean score is for the statement of "enabled members to stars new business" by 3.46 and SD 0.90. It is also near to the expected mean value of 3.50 and implies that, the credit service of the association have socio-economic impact by enabling them to start new business. The association's credit service also enabled members to access better health service by the mean score of 3.39 and 0.94. That has some argument from respondents upon the service. The other parameter used to identify the socio-economic role of accessing credit service is, whether the credit enabled members to enjoy lower interest rate than bank's or not. Its mean score was 3.29 with SD 1.09 and implies that; interest rate of the credit is not as such lower than the banks as per the data collected from the respondents. Parameter under item number 2, enabled to increase wealth of members, has a mean score of 3.23 and SD of 1.5. This implies the

association has some drawbacks regarding its credit service to increase wealth of members. The drawback also magnified when the parameter is “ensured members and their families to attend school or develop their profession” with mean value of 3.20 and SD of 0.88. The last parameter with the lowest mean value of 3.16 and the highest SD of 1.22 was “members can get reasonable amount of credit per their request”. As compared with others parameters, participant’s response was lower and need the association’s action to improve the status.

The finding on socio- economic role of accessing credit service has similarity with the previous studies on the topic. Wakilo & Sakawa (2014) and Chodhury & Salleh (2017) concludes their study by confirming that micro credit services provide better education and health services in line with increasing income of the society. The same finding also observed from this study. Khandker (1998) and Hassan & Bhuiyan (2013) also studied and concluded that credit services has significant impact on smoothing consumption, operating business, generating income and enabling members and their families to attend school and develop their profession.

**Table 4.6: scale statistics of socio-economic role of accessing credit service**

Mean	Variance	Std. Deviation	N of Items
23.26	20.924	4.574	7

**Source:** Survey data, 2019

Finally, as shown in the above table, the overall mean value of the variable (accessing credit service) is 23.26 and which is near to the expected mean value of the seven items i.e. 24.50. Therefore, it can be interpreted that the socio-economic role of credit service provided by EALG-ESCCOs is moderate. Member of the association agreed with the idea that states the association provides credit services that have positive socio-economic role on members.

**Table 4.7: socio-economic role of accessing saving service**

S.No.	Variable description	Mean	Std. Deviation	N
1	Promote members saving habit	3.34	1.015	364
2	Provide competitive interest with other financial institutions	3.25	1.050	364
3	Provide education in finance management for its clients	2.83	1.086	364
4	To enable repayment of loan	3.50	.923	364
5	To smoothen irregular income	3.22	.869	364
6	To manage consumption needs	3.29	.812	364
7	To increase capital resource	3.46	1.018	364

**Source:** Survey data, 2019

Table 4.7 shows participants response for socio-economic role of accessing saving service based on the given seven statements measured by Likert scale. The responses were analyzed based on the mean and standard deviation of each statement.

As studied by Nepal & Dhakal (2016) ESCCOs promote members saving habit. It is also confirmed from this study with the need of some improvement by scoring mean value of 3.34 and SD 1.01. However, promoting saving habit also can be developed by providing competitive interest rate with other financial institution. With regard to the interest rate participants response have mean value of 3.25 and SD of 1.05. It implies that the association's saving interest rate is not competitive with other financial institutions. The lowest mean value from all statements provided to test the socio-economic role of accessing saving service is recorded by 2.83 with SD of 1.08. This is for item number three or Provide education in finance management for its clients. It shows that the association provides saving service but not educating members regarding how to manage it. The highest mean value also recorded for the statement of "to enable repayment of loan" by 3.50 with SD of 0.92. It implies that most of the association's members utilize their saving for the repayment of their loan. Members also use their saving to smoothen irregular income and the collected data scores mean value of 3.22 and SD of 0.86. It is lower than the expected mean value of 3.50. The researcher also provides statement; EALG-ESCCOs saving enabled them to manage consumption needs, and obtained responses from participants having mean value of 3.29 with SD of 0.81. This is also lower than the expected mean

value of 3.50. Most of members use their saving for the repayment of loan rather than to manage consumption needs. The last statement was saving enables members to increase capital resource. It is also near to the expected mean value and score 3.46 with SD of 1.01. It implies that most of the members agreed upon the benefit of the saving to increase capital resources.

To finalize the above discussions, a number of researchers put their findings on saving. Nepal & Dhakal (2016) thought that microfinance has promoted the saving and credit habit of the people. Zerfeshewa (2010), Kifle (2011), Kifle and Hailemichael (2012) and others said that the problem of SACCOs in Ethiopia could be lack of awareness and poor saving culture. From the above data analysis, saving in EALG-ESCCOs promotes members saving habit. Moreover, it has also the same finding regarding members lack of awareness and the associations inability to provide education in finance management. Ledgerwood (2000) also depicts in his book regarding the benefit of saving and said that saving can help members to smooth consumption. The above analysis also shows there are various benefits of saving in the association. This incorporates repayment of loan, increase capital resource and smoothen irregular income in addition to managing consumption needs.

**Table 4.8: scale statistics of socio-economic role of accessing saving service**

Mean	Variance	Std. Deviation	N of Items
22.89	18.305	4.278	7

**Source:** Survey data, 2019

Finally, as shown in the above table, the overall mean value of the variable (accessing saving service) is 22.89 and which is near to the expected mean value of the seven items i.e. 24.50 but needs improvement. Therefore, it can be interpreted that the socio-economic role of saving service provided by EALG-ESCCOs is moderate with some improvement required. Member of the association agreed with slight difference on the idea that states the association provides saving services that have positive socio-economic role on members.

**Table 4.9: socio-economic role of non-financial service provision**

S.No.	Variable description	Mean	Std. Deviation	N
1	Enabled to create social cohesion and acquaintances	3.30	.849	364
2	Educating members to have better health care for themselves and their families	3.02	.996	364
3	Provide education service for women	2.62	1.126	364
4	Provide business development training including basic concepts of business, planning and bookkeeping.	2.67	1.034	364
5	Stabilize members income	3.23	.867	364

**Source:** Survey data, 2019

The above table 4.9 shows the effect of non-financial service provision by the association based on statements given for the participants. Participants with the mean value of 3.30 and SD of 0.84 has replied that non-financial service provided by EALG-ESCCOs enabled them to create social cohesion and acquaintances. This is lower than the expected mean value of 3.50 but indicates that participants are agreed upon the existence of the provision non-financial services by the association. Even if it needs some improvements, the above data has some similarity with Griffin & Husted (2015) findings regarding social cohesion. “Educating members to have better health care for themselves and their families” has mean value of 3.02 and SD of 0.99 as per participants response. It is also lower than the expected mean value. This has also a little bit similarity with the findings of Wakilo & Skawa (2014) and Biosca, Lentos & Mosley (2011) with the need of further improvement. The lowest mean value was recorded for the statement of “provide education service for women” by 2.62 and SD of 1.12. It is also followed by mean value of 2.67 and SD 1.03 for provides business development training including basic concepts of business, planning and bookkeeping. As per Dereje (2012) study and finding, the major non-financial services provided to clients were training, setting up business plan and monitoring and supervisions, consulting services, and experience sharing forums. Some MFIs provide enterprise development training in the area of marketing, bookkeeping, and Social services.

Hence, the above data shows that there is different result observed from EALG-ESCCOs regarding those two non-financial services. Social services, stated by Dereje (2012), are health care, education

and literacy training that improve the ability of the low-income earners. However, from the above result, stabilize members income, obtained mean value of 3.23 and SD of 0.86. It shows that still the association needs to improve it more.

**Table 4.10: scale statistics of socio-economic role of non-financial service provision**

Mean	Variance	Std. Deviation	N of Items
14.84	12.728	3.568	5

**Source:** Survey data, 2019

Finally, as shown in the above table, the overall mean value of the variable (provision of non-financial services) is 14.84 and which is lower than the expected mean value of the five items i.e. 17.50 and needs improvement. Therefore, it can be interpreted that the socio-economic role of non-financial service provided by EALG-ESCCOs requires thorough improvement. Members of the association also agreed with some statements and strongly disagreed on the idea that states the association provides education service for women and business development training including basic concepts of business, planning and bookkeeping.

**Table 4.11: socio-economic role of the association in creating employment opportunity**

S.No.	Variable description	Mean	Std. Deviation	N
1	Involve significant number of employees in its day to day activity	3.29	.726	14
2	It tries to hire new employees by expanding its branch	2.07	1.072	14
3	Have both permanent and temporary employment opportunity	3.00	.961	14
4	Have career development program to its employees with attractive benefits	2.07	1.141	14
5	Follow widely acceptable employee retention policy	2.57	1.089	14
6	Have attractive salary scale to all employees	2.29	.726	14

**Source:** Survey data, 2019

As already mentioned at the beginning of the analysis, socio-economic role of the association in creating employment opportunity was analyzed using data collected from all employees of the

association. As the finding depicts the lowest mean value of each statement was scored for this variable and also analyzed and interpreted as follows.

Employee's response for the statement designed to assess the number of employees and the association's day-to-day activity has mean value of 3.29 and SD 0.72. This is the highest mean value from the rest incorporated within the same variable. The result shows that the association has near to the expected number of employees for its day-to-day activity. However, it needs further improvement as the mean value is lower than the expected mean value of 3.50.

Most employees have argument on the statement that states the association tries to hire new employees by expanding its branch. The mean and SD value of the statement was 2.07 and 1.07 respectively. Expanding its branch enables the association to have more employees, more members, to serve customers more easily and expand its services. This is also one of the methods of creating employment opportunity. However, the mean value shows that the association has no any attempt to expand its branch per the employees response.

The other statement used to assess the association's employment opportunity was testing about the permanent and temporary employment opportunity. Lower result was also obtained from the respondents with the mean value of 3.00 and SD of 0.96. It implies that employees are with this issue and the association needs to have employment opportunity for the needy one.

Having new employment opportunity by itself is not the solution for the high unemployment rate of the nation. Rather it needs keeping the current employees with various methods. Regarding career development program of the association for its employees, the mean value was 2.07 with SD of 1.14. It clearly shows that the association needs to have career development program to develop employee's skill and knowledge. Besides, the mean and SD for the statement, the association follow widely acceptable employee retention policy, was lower per respondent's data. It was 2.57 and 1.08 respectively. It shows that the association has no widely acceptable employee retention policy and consequently loses its employees.

As per employee's response regarding having attractive salary scale to all employees, mean value was 2.29 with SD 0.72. This implies that, the association has no attractive salary scale for its employees.

**Table 4.12: scale statistics of socio-economic role of the association in creating employment opportunity**

Mean	Variance	Std. Deviation	N of Items
15.29	14.527	3.811	6

**Source:** Survey data, 2019

Finally, the overall mean value of the variable was 15.29 and too low from the expected value of 21.00. As show above, except item number one and three, all needs to be improved. As studied by Khadker (1998), Wakilo & Dakwa (2014), Shastri (2009) and Dahir (2015), the association should create employment opportunity under its working environment in addition to self-employment opportunity.

#### **4.1.4. Interview results**

This section presents the results of the study in achieving the objectives aimed to address based on the methodology discussed in chapter three above. This section emphasizes on all specific objectives of the study under the socio-economic role of credit and saving association specifically on EALG-ESCCOs. Interview covers the association’s manager and the representative of the board.

The interviewee informed that EALG-ESCCOs delivered two types of saving service to its members. This includes block saving also known as shareholders saving and regular saving or current saving services. Shareholders saving service is mandatory for all members to be a member and applied by 6% deduction from its monthly salary for six months or a total of 30% of salary should be saved as block. The other type of saving service, current saving, is provided for any member based on the interest of individuals. Besides, the credit service of the association also categorized into three basic divisions. These are regular loan, ester loan and emergency loan. Regular loan service is provided for all members based on their salary scale. However, the maximum loan limit is birr200,000 for all members whose salary is birr11,500 and more. Ester loan is designed for ester holiday without interest rate and will be settled within six months from salary. This is birr3000 for all interested members. The remaining credit service, emergency loan, is provided for all members for any emergency with valid justification.

As shown above, types of saving and credit services provided by EALG-ESCCOs are too limited in number as compared with other similar associations.

The researcher also tried to know the socio-economic role of both credit and saving services of the association and the interviewee informed that, the association's credit service have more economical effects than societal effects. It helps members economically by enabling them to fulfill household needs like car & house and enable members to enjoy lower interest rate on credit than banks. Saving service also have more economical effect just like credit service. It provides competitive interest rate with other financial institutions, enable repayment of loan and increase capital resource. The overall societal effects of both saving and credit services are easiness to access current account to withdraw more than Birr10,000 and processing and providing of requested loan within a week.

It is clearly shows that, there are no more economic and societal effect of both saving and credit services of the association other than all mentioned above.

As members need for saving and credit services are very dynamic with technological advancements, the researcher request interviewee whether the association improve its services based on member's feedback to survive with very dynamic technological improvements. They replied that member's feedback collected through box prepared for this purpose and there is no other ways so far. Even the system used to process both saving and credit services are outdated and have drawbacks. It makes the association not to improve its services.

As discussed with the interviewee, EALG-ESCCOs has no non-financial services provided to members. The interviewee also replied that the working environment of the airline by itself is inconvenience for the non-financial services provision. However, there are some activities tried to be included on the future.

The researcher was tried to know the promotional and awareness creation methods of the association, as it is essential to have more members and provide the association's services extensively. As replied from the interviewee, there is committee organized by the board to facilitate the promotional and awareness creation activities of the association even if it is not active and satisfactory. But till now the only promotional method of the association is Ethiopian weekly portal page. It has a serious impact on the service of the association.

As creating employment opportunity is one of the essential societal impacts of MFIs, expanding branches played significant role in achieving this goal. So far EALG-ESCCOs has one branch located at head office. However, there is wide opportunity to expand its branches to domestic

airports. But the interviewee replied that the association has no short term and long term plan for expansion and will continue with the same number of employees for the coming years. It implies that, there is no new employment opportunity creation by expanding branches.

As the researcher discussed with the interviewee, there is enough number of employees for the current work demand even if employees of the association disagree with this issue. Currently the association has 1 lawyer and 15 employees including manger. These employees have the responsibility to serve more than 9,000 members. As already replied under the researcher request regarding the associations experience on feedback collection from members, there is no strong system, which can support the daily activity of the association. But they argued that the association has enough number of employees for the job. It confirmed that the association has no plan to hire new employees.

As discussed by a number of researchers under their studies, MFIs have wide benefit in creating employment opportunity. EDC (2018) studied and reported that unemployment is reported to be more prevalent in urban areas. Khandker (1998) suggests appropriate solution for this unemployment problem and said that increase the productivity through broad based economic growth will insures more inclusive participation in development by providing widespread employment opportunity. The interviewee replied that the association creates employment opportunity for 15 employees so far. But there is no progress to expand this opportunity and addressing unemployed youth as much as possible. Besides, the loan service provided to members might assist their families to have their own business and self-employed.

The researcher final request was regarding the overall plan of the association to improve its services in line with the association. As replied by the interviewee, the basic plan of the association is to increase the amount of loan granted to members and keeping other things constant. Even the technological advancement of the association also did not get appropriate attention under the plan.

## CHAPTER FIVE

### SUMMARY, CONCLUSION AND RECOMMENDATION

This research examined the socio-economic role of saving and credit cooperatives by taking the case of Ethiopian airlines saving and credit association. It was studied by using four basic variables such as, socio-economic role of accessing credit service, socio-economic role of accessing saving service, socio-economic role of non-financial services and socio-economic role of the association in creating employment opportunity. This chapter particularly concludes the main findings and recommendation of the study based on the objectives and research questions.

#### 5.1 Summary of Findings

This study tried to answer four basic research questions: (1) what are the socio-economic role of accessing credit service on its members? (2) What are the socio-economic role of saving service availability on its members? (3) What are the effects of non-financial service provisions by the association on socio-economic conditions of members? and (4) How the association has socio-economic role in creating employment opportunity? It was studied using descriptive type of study. The total population of the study was 9167 members as of MAY 2019 fiscal year sampled by using random sampling technique and 14 employees excluding the manager sampled by using census inquiry. Primary data collected in the study using questionnaire was administered to selected members and employees of the association. Besides, interview questions also designed and administered to board members and manager of the association. Statistical tool such as descriptive statistics was used to analyze collected data.

Based on the analysis made on the data collected from respondents, the following findings are obtained;

- Reliability test was conducted by using the most widely used measure, Cronbach alpha, with a score of 0.873 for all the first three variables and 0.736 for the last variable. Indicating that respondents tended to rate the socio-economic role of the Ethiopian airlines saving and credit cooperatives consistently across the various questions on the instrument.
- The general demographic profile of the respondents was 47.53% male and 52.47% female. Age variation of respondents also implies that 34.20% from 18-25 years, 51.70% from 26-35 years, 7.60% from 36-45 years and only 6% were 46 years and above. From these

respondents 6.5% were diploma, 80.90% BA/BSc and 7.60% MA/MSc holders. The data collected from respondents also revealed that 24.70% married, 3% divorced and 72.30% single marital status. These members were participated in the association by the proportion of 25.10% less than 2 years, 52.20% from 2-5 years, 8.10% 6-10 years and the remaining 9.70% above 10 years.

- The first independent variable, socio-economic role of accessing credit service, has group mean value of 23.26 with standard deviation of 4.57 and it's near to expected mean score of 24.50. This indicates that socio-economic role of credit service provided by EALG-ESCCOs is moderate. Even if all questions have high mean score, three questions mean scores were significantly higher than others. Most respondents feel that the credit service of the association has socio-economic role by assisting them financially during their travel, enabling them to start new business and led to access better health service by mean score of 3.52, 3.46 and 3.39 respectively. Respondents also feel that the association's limit of credit amount should be improved by the mean score of 3.16. Finding from interview also revealed that the association has only three types of credit services and have economical than societal effects. The interviewee also confirmed that the association agreed regarding the limit of credit amount, which is too low, and tried to improve it per member's request. Both members response and interview data indicated that the association's credit service has more of economic role than social role on members.
- This study also found that the socio-economic role of accessing saving services has group mean value of 22.89 and SD. 4.28. This is also near to the expected mean value of 24.50. It infers that EALG-ESCCOs saving service is around average with some improvement required. The saving service provided to members highly enables them to repay their loan with a mean value of 3.50 and followed by increasing capital resource and promote members saving habit by mean score of 3.46 and 3.34 respectively. Even though the overall mean value is high, question, provide education finance management for its clients, score the lowest mean value of 2.83. It implies that the association provide saving service but not educating members regarding how to manage it.

Interview finding also shows that the association's saving service provide competitive interest rate with other financial institutions and enable repayment of loan in line with increasing capital resource.

- The other low group mean value was scored by 14.84 with SD. 3.57 for the variable socio-economic role of non-financial service provision. Respondents reply clearly shows that the association needs thorough improvement on its non-financial service provision. Interview findings also the same as questionnaire results. Both members and manager of the association agreed on provision of education service for women and provision of business development training including basic concepts of business, planning and bookkeeping are not well performed by the association. Each question has mean value of 2.62 and 2.67 respectively. During interview, the interviewee also confirmed that there are no non-financial services provided by the association to members.
- The last and the fourth variable of the study, socio-economic role of the association in creating employment opportunity, has group mean score of 15.29. This is the lowest group mean value from other variables and also from the expected mean value of 21.00. The association's employment opportunity is too low and needs improvement. Except two questions, involve significant number of employees in its day to day activity and have both permanent and temporary employment opportunity, all others score mean value of below 3.00. Interview finding also highly related with member's response. The association has no short and long term plan to increase its employees and believe that the job burden and the current man power are well fitted. But employees of the association strongly disagree with this concern and it is shown by their response.

## **5.2 Conclusion**

The objective of the study was to assess the role of saving and credit cooperatives on socio-economic development in the case of Ethiopian airlines employees saving and credit cooperatives. In order to achieve the planned objective, four specific objectives have been developed such as socio-economic role of accessing credit service on members, effect of the availability of saving services on the socio-economic conditions of members, effect of non-financial service provisions by the association on socio-economic conditions of members and socio-economic role of the association in creating employment opportunity. Based on the findings of the study the researcher reaches on the following conclusions.

The association's credit service has more of economic role than social role on members. As agreed by most of respondents, the credit services of the association assist members during their financial

need like air travels and new business development. The finding also revealed that types of credit services provided by the association also few and the amounts of credit are small even if the association has plan to increase it per members request for the future.

From the above findings saving services of EALG-ESCCOs promotes members saving habit, to repay loan, increase capital resource and smoothen irregular income. But, members lack of awareness and the association inability to provide education in finance management, can be raised as drawbacks. Hence, the study can be concluded as saving service of the association has moderate socio-economic role on members with requiring some improvement on its drawbacks.

Some of members were agreed that the association enables them to create social cohesion & acquaintances and stabilize income. But during interview the interviewee confirmed that the association has no non-financial service. From the overall finding of the data, it can be concluded as the association has no ratified and practical experience on non-financial services. Members might use saving and credit services of the association for educating themselves & their families and accessing better health service. But the association has no such kind of service at all.

The association has no both short term and long term plan to expand its branch. It has a direct impact on its ability to hire new employees besides creating self –employment on its members and their families. It also doesn't follow widely acceptable employee retention policy and career development program with attractive benefits. Interview finding also shows that the association has no concern regarding creation of employment opportunity. All these and other similar findings leads to conclude that EALG-ESCCOs has no significant impact on minimization of unemployment rate of the nation.

### **5.3. Recommendations**

Based on the above find and conclusion, the following recommendations are given:

- The association should consider societal role of saving and credit services just like economic role of services on members.
- It is also better to decide to increase types of saving and credit services so as to address large number of employees within the company.
- The study also recommends that the association should provide awareness creation service regarding finance management to its members. It's also to make the committee, organized

by board of the association to facilitate promotional and awareness creation activity, more active in order to have more members and provide the association's services extensively.

- The association has to provide non-financial services as it is one of the objectives of MFIs. It also advisable to apply one of the models (Linked, Parallel & Unified model) regarding integration of non-financial services with microfinance, depending on the overall capacity of the association to do so.
- The study also highly recommend that the association should give attention to unemployment rate of the nation and provide its contribution to minimize it as much as possible not only by creating self-employment opportunity to member's families but also hiring individuals by expanding its services.

#### **5.4 Implications and recommendations for further studies**

This study was focused on Ethiopian airlines saving and credit association's members, manager and board. Therefore, the result might have limitation with regard to generalization and therefore are not a complete representation of the entire saving and credit associations. Considering this fact, researches should be done to examine socio-economic role of saving and credit associations in other public and private organizations.

It was also done by using descriptive type of study emphasizing both quantitative and qualitative data. But it is also possible to conduct explanatory type of study which leads towards correlation research.

Other researchers can also do their study by incorporating any other variables like socio-economic impact of the association on women empowerment, its role in promoting education and accessing micro-insurance services impact on socio-economic conditions of members.

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## **Appendix**

### **Addis Ababa University**

#### **College of Business and Economics**

##### **MBA Program**

**Dear respondent,**

This questionnaire is designed to explore socio-economic role of saving and credit cooperatives in Ethiopian airlines. This study is conducted in partial fulfillment of the requirements for the Master's degree in Business Administration at Addis Ababa University.

Your response is vital to the outcome of the study and you are kindly requested to completely and objectively answer all questions. The research is going to be carried out based on your responses and other relevant data that could support it. It forms a major part of the research and the information you will enable the researcher to critically analyze social and economic role both on employees and members of Ethiopian airlines saving and credit cooperatives.

Your cooperation to respond genuinely is very important to this study because it represents a number of other members. Please answer all questions. Space is provided at the end of the questionnaire for you to add further explanations or comments. I would promise that all information you provide would be strictly confidential.

#### **Instructions: -**

The researcher uses this questionnaire for the genuine information is highly decisive to the success of this study. Therefore,

- ✓ Not need of writing your name.
- ✓ Put the (X) mark in the box for your answer.
- ✓ With great excuse, possibly return back to timely.

For any problem and suggestion contact the researcher through the following addresses:

Email: [endalkachewkss@ethiopianairlines.com](mailto:endalkachewkss@ethiopianairlines.com)

**Thank you in advance for your cooperation!!**

#### **Section One: Demographic Data**

1. Gender  Male  Female

2. Age  18-25  26-35  36-45  46 and above

3. Educational level

Diploma  BA/BSC  MA/MSC  Others

4. Marital status

Married  Divorced  Single

5. How long you have participated in Ethiopian airlines employee saving and credit association?

Less than 2 years  2-5 years  6-10 years  above 10 years

## Section Two: socio-economic role of saving and credit cooperatives

The main purpose of below listed assessment instrument is to find out basic socio-economic role of SACCO in Ethiopian Airlines saving and credit cooperatives. To what extent do you agree with the following statements about socio-economic role of saving and credit associations in ETAG, ranging from strongly disagree to strongly agree? And put “X” mark for each rating. 1: *Strongly Disagree*, 2: *Disagree*, 3: *Neutral*, 4: *Agree* and 5: *Strongly Agree*

No	Item	1	2	3	4	5
<b>Socio-economic role of accessing credit service</b>						
1	Enabled members to start new business	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2	Enabled to increase wealth of members	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3	Ensured members and their families to attend school or develop their profession	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

4	Led to ability to access better health service	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5	Assist members financially during their travel (both in domestic and international air travels)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6	Enabled members to enjoy lower interest bank's on credit service	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7	Members can get reasonable amount of credit per their request	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Socio-economic role of accessing saving service</b>						
1	Promote members saving habit	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2	Provide competitive interest with other financial institutions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3	Provide education in finance management for its clients	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4	To enable repayment of loan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5	To smoothen irregular income	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6	To manage consumption needs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7	To increase capital resource	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Effects of non-financial service provisions by the association</b>						
1	Enabled to create social cohesion and acquaintances	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2	Educating members to have better health care for themselves and their families	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3	Provide education service for women	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

4	Provide business development training including basic concepts of business, planning and book keeping.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5	Stabilize members income	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Socio-economic role of the association in creating employment opportunity</b> <b>(designed for employees of the association)</b>						
1	Involve significant number of employees in its day to day activity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2	It tries to hire new employees by expanding its branch	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3	Have both permanent and temporary employment opportunity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4	Have career development program to its employees with attractive benefits	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5	Follow widely acceptable employee retention policy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6	Have attractive salary scale to all employees	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Thank you!!!**

### **Interview questions for board members and manager**

1. What type of saving and credit services are provided to members by EAESCCOs?
2. What are the socio-economic role of credit and saving services provided by the cooperation on members?
3. Did the cooperation improve its saving and credit services based on members consecutive feedback and the need to survive with very dynamic technological improvements challenges?
4. Dose the cooperation has any type of non-financial services provided to members? What are those services, if any? Or why not, if there is no?
5. What are the promotional and awareness creation methods dose the cooperation implement?
6. How many branches do you have?
7. Do you think that the cooperation has enough number of employees to provide its service?
8. What are the socio-economic role of EAESCCOs with regard to creating employment opportunity?
9. What are the cooperative's overall plans to improve its services in line with the objective?