



ADDIS ABABA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
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**Determinants of Performance of Employees Savings and Credit associations
in Ethiopia (A case study of ETHIO TELE COM)**

A Thesis Submitted for the Partial Fulfillment of the Requirements for Degree of
Masters of Business Administration (MBA) in Finance.

By: **Tadael Wakgari**

Adviser: **Abebaw Kassie (PhD)**

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Ethiopia

DECLARATION

STUDENT'S DECLARATION

This is my original work and has not been presented for a degree in any other university.

Sign: Date:

Tadael Wakgari Wakuma

REG NO: - GSE/1476/07

ADVISOR'S DECLARATION

This Project has been submitted for examination with my approval as university advisor

Sign: Date:

Adviser: **Abebaw Kassie (PhD)**

EXAMINERS' DECLARATION

The thesis prepared by Tadael Wakgari with the title "Determinants of Performance of Employees Savings and Credit associations in Ethiopia (A case study of ETHIO TELE COM)" and submitted in partial fulfillment for Masters of Business Administration in Finance, complies with the regulations of the university and meets the accepted standards with respect to originality and quality

Internal Examiner: Alem Hagos (PhD). SignatureDate.....

External Examiner: Demis Dea (PhD). SignatureDate.....

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ABBREVIATIONS AND ACRONYMS

ACCOSCA	African Confederation of Cooperatives Saving and Credit Association
EASCA	Employees Saving and Credit Association
ENTACCS	Ethiopian National Thrift and credit cooperative society
ETC	Ethiopian Telecommunications Corporation
FDRE	Federal Democratic Republic of Ethiopia
LS	Literacy Status of workers and members of the association
LM	Loan Management of the association
PESCA	Performance of Employees saving and Credit Association
SACCOs	Savings and Credit Cooperatives
SACCODO	Savings and Credit Cooperatives Development Office
SNNP	South Nations Nationalities and Peoples
SC	Saving Capacity of members of the association
TA	Technology Adoption of the association
WOCCU	World Council of Credit Unions

ABSTRACT

Employee saving and credit associations (ESCA) were financial sector operating behind a wall in Ethiopia. The members were dramatically benefited from the associations as a source of financing and investment for several years with a little general public recognition. The sectors are primarily established for the interest of their members, saving, loan financing and an extra dividend on the idle cash saved within the association. The number of cooperatives in general currently approaches 1,500, excluding a small unions and voluntary cooperative not licensed. The study was aimed to determine to what extent the loan management, saving capacity of members, technology adoption, and Literacy status of workers and members had affected performance of ESCAs. As a sample case study ETC ESCA was used. It has 7,200 members from those for 379 sample size questionnaires were distributed and 361 were actually collected and analyzed. The study was facilitated by use of primary data and secondary data. The study adopted descriptive research design and inferential statistics in which multiple regression analysis was applied to the data to examine the effects of explanatory variables on performance of ESCAs. The main finding of the study is that; explanatory variables such as Loan management, Saving capacity of members, Technology adoption, and Literacy status of workers and members have positive significant effect on performance of ESCAs. But Saving capacity of members has no significant effect on performance of ESCAs. All explanatory variables have strong positive correlation with the performance of ESCAs.

Keywords: Saving, Credit, Performance, Loan management, saving capacity, Technology adoption, and Literacy status.

CHAPTER ONE

INTRODUCTION

1.1. Background of the Study

Savings and credit cooperatives (SACCOs) are association of people who have come together with common a goal at improving their livelihood economically. They are an important part of the financial sector in Ethiopia providing savings and credit services to a large portion of the population ("Microfinance house," 2006). The first cooperative society in the world was formed in 1944 in a village of England known as Rochdale, by a group of people referred to as the Rochdale pioneers, when Britain was undergoing the industrial revolution (KNFC Website). SACCOs first appeared in South Germany in 1846 when there was Agricultural crisis and drought in Europe (Birchall, 2004).

The first SACCO Society, in Africa, was introduced in Ghana in 1959. The SACCO was intended to assist villagers improve their economic conditions (Ng'ombe&Mikwamba, 2004). English speaking nations were the first to adopt SACCOs. The first entrants into SACCO community include Ghana, Uganda, Nigeria, Tanzania, and Kenya. Most of the Non-English speaking nations in Africa started appreciating SACCOs in 1960s, with major influx into SACCO community in 1970s (Mwakajumilo, 2011).

The formation of SACCO in Africa grew tremendously to the extent that the African countries formed a continental association of SACCOs, Africa Confederation of Cooperative Society Savings and Credit Association (ACCOSSCA), in 1965. ACCOSSCA was formed with the principal objective of promoting the SACCO principles, offer SACCO insurance, and educate members on SACCO issues (Ng'ombe and Mikwamba, 2004). There are 28 countries in Africa that have established SACCOs (Savings Plus, 2010).

In Ethiopia modern cooperatives was started in 1960 (Federal Cooperatives Agency, 2012). During this time organizing, registering and controlling of saving and credit cooperative were duties and responsibilities of the Ministry of Public Development under proclamation number 241/58 issued in 1966. Even though the number of saving and credit association who have formed a national association during the Imperial regime were 16 up to 1978 there were 60

saving and credit cooperatives with a total membership of 13,200 and they have been able to accumulate a total capital of birr 4,056,732. These cooperative were also establishing an organizational body at national level called the Ethiopian National Thrift and credit cooperative society (ENTACCS) in 1972/3. It is by the proclamation number 147/91 issued in 1998 that SACCOs started to be recognize and function in accordance to the free market economy. Then after, the regional states were encouraged to from their own cooperative organizing and registering offices in live with the country's federal government structure. Out of the 779 cooperatives organized and registered by the national bank of Ethiopia 422 of them were handed to Addis Ababa cooperatives organization and promotion Bureau.

Accordingly, the cooperatives organization and promotion Bureau, took the study and responsibility of organizing, registering follow - up and controlling activities of the SACCOs' and started to give all necessary technical and professional support to these cooperatives beginning 1999. Within the last ten years time 2,336 SACCOs' are organized in Addis Ababa with a total membership 220,000 and their saving has reached around one billion birr.

Even though, modern ESCAs in Ethiopia have established starting 1960s, and they grew very slowly until 1978. One reason behind such slow growth was the political and social instability which followed the 1974 uprising ESCAs, have been growing fast since 1978. Nowadays several numbers of ESCAs are operating from smaller scale to larger investments areas in each organization. Thus, it is no doubt that ESCAs goes beyond loan provision to the members, but creating a large scaled investment to the economy. ESCA sector is favorable because of cheap administration cost, lowest miscellaneous expenses and easy access of loan to the members with few requirements. The number of cooperatives in general currently approaches 1,500, excluding a small unions and voluntary cooperative not licensed. From that ETC ESCA was organized in 1961 E.C with 601 members in Br 70,000 capital. Currently it has 7,200 members and Br 306,293,767.73 capital amount.

Employees saving and credit associations (ESCAs) was established for the purpose of savings and credit in Ethiopia. It is practicable at the work place where by employees save certain percentages of their income salary 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 a business, higher education, marriage, medication of family members, and others.) ESCAs have been in operation in Ethiopia for more than half a century. They were categorized under savings and credit cooperatives (SACCOs) and designated as semi-formal financial institutions. They are outside the control of the central authorities with respect to ownership of assets and management.

As a semi-formal financial sector, the SACCO can establish a link between the information (the Iqqub and Iddir) and formal sector. ESCAs encourage employees to save a small percentage of their monthly income as a compulsory membership contribution though it's saving account services and also grants loans at a minor interest rate to all its members. Some of ESCAs are growing at very fast and performing well.

They are established within governmental organizations and private businesses, and play a significant role in mobilizing deposit and in allowing employees access to loans at a cheap (small) interest rate. Their deposit collection and loan payable recoveries are integrated to each organization 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 he earns salary every month. In the event of default, loans are recovered from earnings of guarantors who work in the same organization. ESCAs also involve in the investment market by buying shares of different financial and non financial firms in the country.

The ESCAs, as potential 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 unions. Similarly the government also highly attempted to expand union and farmers cooperatives on the rural areas of the country while very little attention is given to ESCAs. Based on this reality the researcher had needed to assess the determinants of performance of ESCAs existing in Ethiopia.

1.2. Statement of the problem

Even though ESCAs has been providing service in Ethiopia for more than half a century, for the reason that various challenges that impacts on their performance they have not been able to perform well as compared to the other financial institutions. One of the justifications of the advancement of a financial institution is one that is profitable and has financial sustainability to serve the special needs of its customers. This can be possible if and only if an organization smoothly perform its activities by reducing difficulties that might impact on performance. Hence, this basic reality pressed on the researcher to assess factors that can determine performance of employees saving and credit associations.

Mvula, (2013) presented a report on common issues affecting financial performance of SACCOs in Malawi and pointed out that the issues affecting performance of SACCOs are inadequate capital, poor asset quality, poor governance, poor profitability, poor liquidity and noncompliance. Mudibo, (2005) discussed some of the factors affecting performance of SACCOs as weak regulation, limited product and services, low marketing and poor image.

On the other hand Ergetew, (2015) has done his assessment on determinants of the financial performance of saving and credit cooperative unions in south Wollo zone and pointed out liquidity level of the SACCO unions are fairly high. SACCO unions are highly leveraged. Their profitability rate is below the minimum required rate and financial growth trend of most of the unions also good. Abayneh, (2011) discussed on factors influencing saving and credit in the case of saving and credit cooperatives of North shewa Zone Amhara national regional state and find out factors that mostly influence the saving of people in saving and credit cooperatives are marital status, consumptions plane, awareness, trust and loan use. But educational level, income and family size are not significantly influence the cooperative saving and credit. Nigusie, (2015) assessed on determinants of Savings and Credit Cooperatives Societies outreach in Addis Ababa and had seen the relationship between income per capital of the country and dividend are positive, and there is a negative relationship between interest rate on borrowing and loan size.

However in the above studies the impacts of technology adoption, management of loan, saving capacity of members and Literacy status of workers and members that can affect performance of ESCAs have not been identified.

Studies on ESCAs in Ethiopia are limited; especially there has been no sufficient literature about how and to what extent the loan management, saving capacity of members, technology adoption, and Literacy status of workers and members had affected performance of employees saving and credit associations.

1.3. Objective of the study

1.3.1. General objective of the study

The study aimed at detaching on determinants of performance of employees saving and credit associations in Ethiopia. The study would also provide knowledge about ESCAs.

1.3.2. Specific objective of the study

The study was guided by the following specific objectives.

- a) To identify the effect of management of loan on performance of employees saving and credit associations.
- b) To examine the effect of saving capacity of members on performance of employees saving and credit associations.
- c) To assess the effect of technology adoption of the association on performance of employees saving and credit associations.
- d) To identify the effect of Literacy status of workers and members on performance of employees saving and credit associations.

1.4. Research Questions

The study answered the following questions:

- ❖ How does management of loan is determinant of performance of employees saving and credit associations?
- ❖ How does saving capacity of members can be determinant of performance of employees saving and credit associations?

- ❖ How does technology adoption of the association influence performance of employees saving and credit associations?
- ❖ How does Literacy status of workers and members determine performance of employees saving and credit associations?

1.5. Research Hypothesis

In order to achieve the objective of the study and to answer the above questions, the following hypotheses were formulated and tested the determinants of performance of ESCAs.

- i. H₀: There is no dependence between performance of ESCAs and loan management.
- ii. H₀: There is no dependence between performance of ESCAs and saving capacity of members of the association.
- iii. H₀: There is no dependence between performance of ESCAs and technology adoption of the association.
- iv. H₀: There is no dependence between performance of ESCAs and Literacy status of employees and members.

1.6. Significance of the study

It is clear that ESCA plays an important role in credit provision to employees/ members/ of thrifts and further investment in other forms of business. Hence, the study is expected to have the following significance; for practitioners, decision makers and policy implementers, it gives insight on factors that determine performance of ESCAs and help on how to increase performance of the association, take corrective on deviations and serve the interest of their members. For academicians and other researchers, it will drop light on ESCAs performance factors and might be used as a source of other researches and reference for related studies. For policy makers, it might be used as a reference in developing policies related with the association and how to appreciate their expansion considering their current service to poor community. And any organization employees of mutual interest to form ESCA with less experience will found this study as base line to practice and operate in the sector.

1.7. Scope and Limitation of the Study

Saving and credit union in Ethiopia are vast in number in which most of the cooperatives are established voluntarily in private under different sectors. Ethiopian government paid special attention to farmer's cooperative under agricultural sector and other saving and credit union in urban areas. Laterally, about 25% of the cooperatives all around the country are organized by rural farmers in production of coffee and other sectors. Employees saving and loan association is one among the cooperatives lacking required attention from federal cooperative agency. Hence this paper was aimed to assess some variables that determine performance of employees saving and loan associations, such as loan management, saving capacity of members, technology adoption, and Literacy status of employees and members. This study is limited to one case. That is, Ethiopian Telecommunication employees saving and credit association.

The scope of the study is limited to the determinants of performance of saving and credit associations in relation with the above mentioned variables and selected organization ESCA. The study used only five years audited financial statement as secondary data to trend analysis. Thus, the finding of the study is limited to determinants and any conclusion and recommendation is related to ESCAs and cannot be used for other financial institutions. The researcher was not able to capture all the information in all ESCAs in Ethiopia. The researcher was able to visit only one ESCA because there are many ESCAs in Ethiopia.

1.8. Organization of the paper

The final report of the research paper was organized as follows. The first Chapter was comprised introduction part of the paper explaining the background of the study, statement of the problem, objectives and research questions and hypothesis used in the study. All theoretical perspectives review literature, empirical literature review and conceptual frame work of the study presented in the second chapter of the report while third chapter of the paper presented the methodology followed in the study to achieve the objective of the study and the forth chapter discussed on data presentation, analysis and interpretation. Finally the fifth chapter finalized the study by Summary of Findings, conclusion and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1. Introduction

The purpose of this literature review is to establish the framework for the study and highlights the apparent strengths and weaknesses of the previous studies, which in turn, help in clearly identifying the gap in the literature and formulating the research question for the study. This review has four parts; the first part deals with the conceptual and theoretical issues related with research topic, the second part reviews the relevant preliminary studies on the history and the determinants of performance saving and credit cooperatives the third one is about conceptual framework, and operationalization of Variables. The last part deals with conclusion on the literature review and knowledge gaps.

2.2. Conceptual and theoretical issues

A 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 (Lari, 2009). Other objectives of SACCOS are to encourage thrift amongst the members and also to encourage them on the proper management of money and proper investments practices. Whereas in urban areas salary and wage earners have formed Urban SACCOS, in rural areas, farmers have formed Rural SACCOS. There are also traders, transport, jua-kali 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. In Ethiopia the oldest SACCOS 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 which followed the 1974 uprising. SACCOS have been growing fast since 1978. However, the rate of growth is not same for all co-operatives. Some of them are growing at very fast rates. The SACCOS, as potential sources of savings in the country, need serious study. Otherwise, it can be said that SACCOS in Ethiopia are yet untouched by researchers. Savings and credit co-operatives are also known as

credit unions, thrift and credit co-operatives or savings and credit associations. They are defined as follows:

Thrift (saving) and credit co-operative is a free association of people with a common bond who save and lend money to one another at low interest rate for productive and provident purpose, (ACCOSCA), 1969, P.3).

Credit union is a co-operative financial organization owned and operated on a not-for –profit basis by its members according to democratic principles. Its purpose is to encourage savings, to use pooled funds, to make loans, and to provide other related services to members and families. 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 slow interest rate, and to teach people the wise use of their money and the efficient management of their limited pooled resources (Kibirige, 1980, p.7).

A 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. Some of these unique characteristics are discussed by ACCOSA (1969), Kibirige (1980, p.15) and ACCOSCA (1990). 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 have already established a common bond that can be built upon to address 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:

- Work –place/ employee common bond which is based upon individuals who have the same employer;
- Association common bond which is characterized by individuals who belong to a religious, social or educational group;

- Residential common bond which is based upon a geographical or political sub-division such as a sub-location, district, town or one or more villages.

The basic goal of saving and credit association is to encourage thrift among its members not to make profit, and not to supply charity, but to provide services. Members are paid dividends on shares and interest on savings/ deposits. SACCOs grant loans to members who might not qualify for credit elsewhere and who cannot afford the high loan rates offered in either the informal sector or by other types of financial institution. However: the loan committee will refuse a loan applicant if the purpose for the borrowing is not far any worthwhile purpose or it does not improve the member's economic status. The committee has to be careful not to grant loans to members who cannot afford to repay them (ACCOSCA, 1990). It is said that lending is based upon the 'three Cs' of credit: character, capacity and collateral. Other characteristics of SACCOs are provision of financial services (e.g. financial counseling to members), the principle of 'pay him first' (i.e. realizing that saving for tomorrow is better than borrowing for tomorrow), and developing members' leadership potential, initiative and capabilities to improve their outlook on life. In addition, it should be noted that SACCOs are based on the principles of voluntary entry and withdrawal; democratic control; political, racial and religious neutrality. SACCOs are different from banks in that they are owned by all members who have a voice in their operations, whereas banks are owned by shareholders and are generally interested in big loans to rich people. Banks always ask for security, while credit unions consider good character and ability to pay in granting. SACCOs are promoted not only for money; they contribute to the promotion of total human development. SACCOs develop people's minds by providing motivation, creating initiative, promoting self- development and self-reliance and providing leadership. They also develop material well-being by raising the living standards of members, making possible regular savings and wise use money, providing loans at low interest rate and by making possible economic emancipation of members (kibirige, 1980, p.18).

2.2.1. SACCOs in Ethiopia

2.2.1.1. Legal framework of SACCOs

Saving and credit cooperatives in particular and cooperatives in general have passed through various charges due to continuous political changes in country. Every new government came to

the country was interested to promote cooperatives in its own way with no deep analysis on strong and weak points. The main reason for such radical change was believed to be that government change in the country has never been made in peaceful way. Hence, activities of the going government were grossly considered disgraceful so that new governments were interested to start afresh. During the command economy, promotion and registration of cooperatives were given to different ministries.

Accordingly, promotion and registration of savings and credit cooperatives were given to National Bank of Ethiopia (central bank). Issuance of proclamation N. 147/98 by the incumbent government has given the power to respective cooperative promotion offices under different regional offices. The cooperative promotion structure in National Regional states have different names and the way they are structured is not uniform either. In the same Regions the office is named as cooperative Agency (OROMIA, SNNP.), in Addis as cooperative promotion and regulation department, in Afar, Somalia and Gambella as cooperative bureau. The accountability of the offices also differs from Region to Region. In Oromia, it is organized under mass organization (hezebaderejajet) which is one sector that reports to the Regional cabinet meetings, in Amhara it is under the regular and Agricultural development bureau, while in Addis it is under the bureau of trade and industry. In most of these offices including the Federal Cooperative Agency, the activities are departmentalized under promotion, market, supervision and Audit, legal services and support activities. Promotion department is again divided into major teams like Agricultural and non-agricultural cooperatives. Promotion of saving and credit cooperatives is undertaken mostly under then on-agricultural cooperative team. The marketing department again can be subdivided into market development, development, effort, loan follow up (for agricultural input and crop loans). The promotion department is divided into teams based on the types of cooperatives while the market is on major marketing and credit activities (DagneWessese Half a century development of savings and credit cooperatives in Ethiopia, status, challenges and future prospects, April, 2007).

2.2.1.2. Objectives of SACCOs

WOCCU defines savings and credit cooperatives as democratic member-owned financial cooperatives exist to serve their members and communities through provision of convenient and

affordable financial services. This definition tells that the primary objectives of SACCOs is not profit making. However, SACCOs use excess earnings to offer members more affordable loans, a higher return on savings, lower fees or new products and services. Hence, SACCOs have to charge rates on loans that cover all costs (cost of fund, operation costs, administration cost and cost of provision) paying competitive salary to its employee and contribution to increase capital are also vital to growth and success. As cooperatives have been operating on the same founding principles and use similar model by-laws, SACCOs in Ethiopia too have been operating with the same objective. However, SACCOs make profit and pay dividend to its members while giving service to its members.

2.2.1.3. Contribution of SACCOs to the livelihood of their members

Prior to the issuance of proclamations of cooperatives societies, the provision of financial services to the poor has been going on for several years by projects designed by government ministries and departments and non-governmental organizations. The key government ministries that were frequently involved in designing and operating credit schemes were the ministry of agriculture for rural areas and the ministry of trade and industry for urban areas. Several international and indigenous non-governmental organizations also used to operate micro credit schemes as a component of their integrated programs. These programs had benefited many of their immediate beneficiaries and their families. They also introduced the very concept of saving and credit as well as micro credit, microfinance and market led approaches to offering financial services for the poor. These efforts by governmental and non-governmental organizations had serious limitations since these attempts were not structured and were carried by volunteers without training.

2.2.1.4. Perspectives of the SACCOs

Today SACCOs are operating under the new cooperatives' proclamation no. 147/97 of 1998. This new proclamation has tried to give solutions to the previous SACCO'S organization and practices. Because of this, it has created a suitable environment for their development and working conditions. This proclamation has:-

- Included all the major and relevant principles adopted by international corporative Alliance (ICA)
- Gave full freedom, independence, power & authority to the cooperatives to decide there are own affairs and work without government interference but with support based on their request.
- Gave full right to form their associations at local (primary), region (union) & national (federation) level.
- SACCOs can be organized at all sectors including government or private employees, or based on residential (community) areas on voluntary bases.
- Previously, SACCOs were organized by different government offices, but now they are organized, registered and assisted by the legally organized government body i.e. cooperatives organization and promotion offices established by this proclamation.

2.3. Overview of empirical literatures

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

Clement (2003) was discussed on the contribution of SACCOs financial stewardship to growth of SACCOs in Kenya. The main objective of the study was to investigate the contrition of the financial stewardship on the growth of SACCOs' wealth with a view to improving their operations for the benefit of the members and the country. The study used a descriptive survey. The methodology used was census study. Data were collected from primary and secondary sources by questionnaire and assessing recorded document respectively. The data collected were analyzed using both descriptive and inferential statistics. The study employed multiple linear regressions model. The study tested for normality using Shapiro Wilk test (numerical method). The study looks at loan management, institutional strengths, and Innovativeness of SACCO Product are an important determinants of growth of SACCOs' wealth.

Faith Ngugi (2015) look at factors affecting growth of SACCOs within the agricultural sector in Kenya. The broad objective of this study is to find out the factors affecting growth of SACCOs within the Agricultural sector in Kenya. The study adopted descriptive survey. The data collected through interview and questionnaires were analyzed using both descriptive and inferential

statistics. ANOVA Test and Adjusted R square were computed as the preliminary test for multiple linear regression model adopted in the study. Income levels, competition from financial institutions, management skills as well as support from the technology can affect the growth of SACCOs.

Kipngetich (2015) studied about the effect of credit risk management on financial performance of savings and credit co-operative society in Kenya. The study was aimed at analyzing the effect of credit risk management on financial performance of savings and credit co-operative society in Kenya. A cross-sectional descriptive research design has been used in this study. The study has employed purposive sampling technique in identifying the SACCOs. And Secondary data was used. The data collected were analyzed using inferential statistics. One-Sample Kolmogorov-Smirnov Test was used to ascertain the normality of the study variables before employing linear regression that requires the assumption of normality. The findings confirm that there is a statistically significant and insignificant influence of Capital Adequacy and Management Efficiency respectively on Financial Performance of SACCOs.

Jared, Charles and Willy (2013) assessed on the challenges facing deposit-taking savings and credit cooperative societies' regulatory compliance in Kenya. The main objective of the study was to assess the challenges that face SACCOs in meeting their regulatory requirements. The study adopted a descriptive survey design with Purposive sampling to sample 5 SACCOs and simple random sampling to draw employees from each of sampled SACCOs. The data was collected by questionnaire and personal interviews from primary data source. The data collected were analyzed using descriptive and statistics. Majority of the deposit taking SACCOs in this region were agricultural based and had challenges in regulatory compliance at various levels in terms of capital, credit management, liquidity ICT and governance.

Ronald (2015) discussed on the effect of internal factors on performance of SACCOs in Kenya. The general objective of the study was to; assess the effects of internal factors on performance of SACCOs. In this study descriptive survey research design and Stratified random sampling design was used. The primary data was collected through questionnaire. The researcher determined reliability by use of Cronbach's alpha. Descriptive statistics was used to analyze the data. No

model was used. The study find out those internal factors such as internal capital, technology and managerial abilities had positive influence on performance of SACCOs.

Ergetew (2015) studied about the determinants of the Financial Performance of saving and Credit Cooperative Unions in South Wollo Zone. The general objective of the study is to assess the determinants of financial performance of saving and credit cooperative unions. The research is descriptive and analytical in nature. The secondary data collected were analyzed by using simple statistical analysis like percentages, tables, and financial ratio analysis tools such as liquidity ratios, leverage ratios, profitability ratios, and trend analysis of balance sheets. Liquidity level of the SACCO union is fairly high but in a decreasing rate. The leverage ratio of SACCO unions is highly leveraged. Their profitability rate is below the minimum required rate.

Duncan (2014) looks at the effect of SACCOs societies regulatory authority's regulations on financial performance of SACCOs to determine the effects of SASRA regulations on financial performance of SACCOs in Nairobi. The study adopted descriptive research design. The study was facilitated by use of secondary data. A cross-sectional study analyzed the data collected by applying multiple regression models. ANOVA Test was computed as the preliminary test for multiple regression model adopted in the study. The study revealed that the major variation in financial performance of SACCOs could be accounted to changes in size, liquidity, non-performing loans, CAR compliance, managerial quality and cost of income.

Edna (2015) discussed on factors influencing performance of SACCOs to establish the determinants of performance success/outcomes adopted by Unaitas SACCOs in Kenya. This study adopted a case study method. The researcher used quantitative techniques in analyzing the data. Descriptive analysis and inferential statistics were employed. ANOVA Test was computed as the preliminary test for multiple regression model adopted in the study. The study concluded that Organizational subculture, organizational structure, organizational leadership capacity and organization rewarding practices influence the Performance of SACCOs.

Njihia and Muturi (2016) studied about factors Affecting Financial Performance of Savings and Credit Co-Operative Societies. The main aim of the study is to investigate the factors that mostly affect the financial performance of Savings and credit societies. This study was employed descriptive research design. Secondary data was used. The inferential statistics was applied to

establish a casual effect relating independent variables to the dependent variable. The significance of linear regression model used was tested by the use of ANOVA statistical model which is the Analysis of Variance. The following factors that are membership size, dividend policy and loan default affects the financial performance of SACCOs.

Hannah (2015) assessed on the determinants of the Financial Performance of Savings and Credit Co-operatives in the Banking Sector in Kenya. The general objective of this study was to establish the determinants of financial performance of savings and credit co-operatives in the banking sector. This study adopted a descriptive survey design. Stratified sampling technique was used to obtain a sample for the study. Secondary data was collected from the annual reports and the questionnaires were issued to the respondents. To check the validity and reliability of the questionnaire a pilot test was conducted. The data collected was both qualitative and quantitative. Linear regression model and ANOVA statistical model test was used. The study sought to establish the influence of competition, operating costs, internal politics and saving culture on the financial performance of SACCOs in the banking.

Nigusie (2015) discussed on the determinants of Savings and Credit Cooperatives Societies outreach in Addis Ababa. The general objective of this research is to identify and examine the Determinants of Saving and credit cooperatives outreach in Addis Ababa. The research followed exploratory research design. The study used secondary data source. The panel data parameters can be estimated using fixed effect or random regression models. There is a positive relationship between income per capital of the country and dividend. And there is a negative relationship between interest rate on borrowing and loan size.

Abayneh (2011) studied about factors influencing saving and credit in the case of saving and credit cooperatives of North shewa Zone Amhara national regional state. The study analyzed factors influencing saving and credit of saving and credit cooperatives in North Shewa Zone, Debre Birehan city and woreda Amhara region Ethiopia. Mixed method approach of both qualitative and quantitative is adopted. The data is gathered through both interview and questionnaire methods. The sample population is selected by random sampling method. Both primary and secondary source of data were used. In order to analyze the data both descriptive and inferential statistics were used. Factors that mostly influence the saving of people in saving

and credit cooperatives are marital status, consumptions plane, awareness, trust and loan use. But educational level, income and family size are not significantly influence the cooperative saving and credit.

James (2013) discussed on factors influencing financial performance of savings and credit cooperative societies in Kenya. The aim of this study was to establish the factors influencing financial performance of savings and credit cooperative societies. Descriptive research design was used in this study. Data was collected using Interviews/Secondary data sources and questionnaires. Piloting is the study carried out before the actual study as a way of testing the effectiveness of researchers' data collection instruments and the procedures used. The SACCO showed good operational and financial performance with increasing growth but there was weakness in it product diversity. The data analysis showed that the SACCO should also review their interest rates to ensure that their rates are competitive. The default rate in the SACCO also showed a threat to the future financial performance of the SACCO hence the need to put in place policy measure to reduce default rates. There was a positive correlation between duration of loan repayment and retaining of customers.

Azeb (2003) did her assessment on saving and credit association in Ethiopia (in case of two studies) to examine the general performance of saving and credit association. The case study method is employed. Both primary and secondary data sources are used. To collect primary data interview was used, where as to assessing the document were employed for secondary data sources. The study lack clear findings, but to state some findings. The study says leaders lack enterpruenal ability to use the money at hand and they fail to exploit non risk investments.

Meaza (2008) studied about loan management in ESCA (case study of AAU). The study deals with the components of loan management in credit association and its effects such as: - loan processing, loan permitting, loan collection, and the benefits and limitations of saving and credit. Descriptive kind of method was adopted the primary and secondary data sources were used through questionnaire and interviewing data collection tools. To collect data the respondents were selected randomly. The method of data analysis was more descriptive. 50% of the members have come across with difficulties in getting guarantee. No significant problems regarding speed and curtsey and cooperativeness. To improve maximum loan amount the association should

invest more. The respondents recommended that the loan interest should be lower than the rate currently charged.

To summarize the views from the literature review indicate nothing and if there operationalized by different factors about loan management, saving capacity of members, technology adoption, and Literacy status of workers and members in relation with performance of SACCOs. Even though SACCOs are regarded as one of the tools that contribute to poverty alleviation, there are numerous constraints impacting on their performance. The review has found that the loan management, institutional strengths, and Innovativeness of SACCO Product are important determinants of growth of SACCOs' wealth. Income levels, competition from financial institutions, management skills as well as support from the technology can affect the growth of SACCOs. There is a statistically significant and insignificant influence of Capital Adequacy and Management Efficiency respectively on Financial Performance of SACCOs. SACCOs had challenges in regulatory compliance at various levels in terms of capital, credit management, liquidity ICT and governance. Internal factors such as internal capital, technology and managerial abilities had positive influence on performance of SACCOs. Financial performance of SACCOs could be accounted to changes in size, liquidity, non-performing loans, CAR compliance, managerial quality and cost of income. Organizational subculture, organizational structure, organizational leadership capacity and organization rewarding practices influence the Performance of SACCOs. The following factors that are membership size, dividend policy and loan default affects the financial performance of SACCOs. The study sought to establish the influence of competition, operating costs, internal politics and saving culture on the financial performance of SACCOs in the banking. There is a positive relationship between income per capital of the country and dividend. And there is a negative relationship between interest rate on borrowing and loan size. Factors that mostly influence the saving of people in saving and credit cooperatives are marital status, consumptions plane, awareness, trust and loan use. But educational level, income and family size are not significantly influence the cooperative saving and credit. There was a positive correlation between duration of loan repayment and retaining of customers. Also the previous study discussed that leader's lack enterpruenal ability to use the money at hand and they fail to exploit non risk investments.

Finally loan management, saving capacity of members, technology adoption, and Literacy status of workers and members are feasible independent variables and performance of ESCA is dependent variable for this study, for the reason that they are not as much detached by other researchers in this sector. Hence, the variables identified by the researcher were discussed as follows:-

2.3.1. Loan management

According to JoEtta Colquitt (2007), credit risk arises whenever a lender is exposed to loss from a borrower, or counterparty who fails to honor their contracted debt obligation, as agreed, in a timely manner. For lenders who extend credit in the form of loans, credit risk is inherent in all their business activities and is an element in virtually every product and service that is provided. Loan management process includes loan evaluation, loan disbursement, loan repayment, and loan protection from default risk.

2.3.2. Saving capacity of members

Domestic savings are generally classified in three types, such as, **voluntary savings, involuntary savings & forced savings**. Voluntary saving relates to voluntary abstinence from consumption by private individuals out of personal disposable income and by companies out of profits. Involuntary savings is brought through involuntary reductions in consumptions. Forced Saving comes as a result of rising prices and the reduction in real consumption. Depending on time frame also, the savings can be categorized as short, medium and long term savings. Savings can also be from foreign and domestic sources, from the private public sources and at the individual and institutional level. (National Saving Mobilization Strategy of Government).

2.3.3. Technology adoption

According to Venkatesh et al. (2003) the technological innovations need to be accepted and actually used. For Dias (2002) the electronic way represents a new model in the dissemination of the information and should be explored on a full way. The studies about the users behavior have always been one of the most difficult areas and research in relation to the information systems,

one of the failures cause, partial or total, of the information systems implementations is its not acceptance by the users, as well as its under spending or misuse.

These days, information technology (IT) is universally regarded as an essential tool in enhancing the competitiveness of the economy of a country. It is commonly accepted today that IT has significant effects on the productivity of firms. These effects will only be fully realized if, and when, IT are widely spread and used. Hence, this variable is operationalized by involvement of the association in utilization of social media, website, internet, and intranet to enhance their performance.

2.3.4. Literacy status of workers and members

Education is known to be a major determinant of living standards. Information on education and literacy status is essential for planning, commitment to what was planned and evaluation of what is going on in the association. Low education levels accompanied by low literacy rates are some of the characteristics of developing countries. This could be operationalized by assessing the relationship between levels of education of members with their efficiency specially defaulters.

2.3.5. Performance of ESCA

Performance is one of the words which definition is very flexible as everyone places the concept that suits best, and letting the context take care of the definition. Nevertheless in general terms performance can be seen as the result of activities (e.g. of an organization) over a given period of time. Performance measurement is the process of quantifying the efficiency and effectiveness of past action. More concrete performance measurement is the process of measuring how well organizations are managed against their targets and the value they generate for their stakeholders. (Dr. Stefan J. Illmer, June 2011).

Researchers have developed a number of contextual performance concepts. On a very general level, one can differentiate between two types of contextual performance behaviors which aim primarily at the smooth functioning of the organization as it is at the present moment, and proactive behaviors which aim at changing and improving work procedures and organizational processes. Hence, in this thesis

performance of employees saving and credit association is used as dependent variable of the study. And this variable was operationalized by deposit mobilized, loan defaults, income, Loans issued, employees and members satisfaction and efficiency.

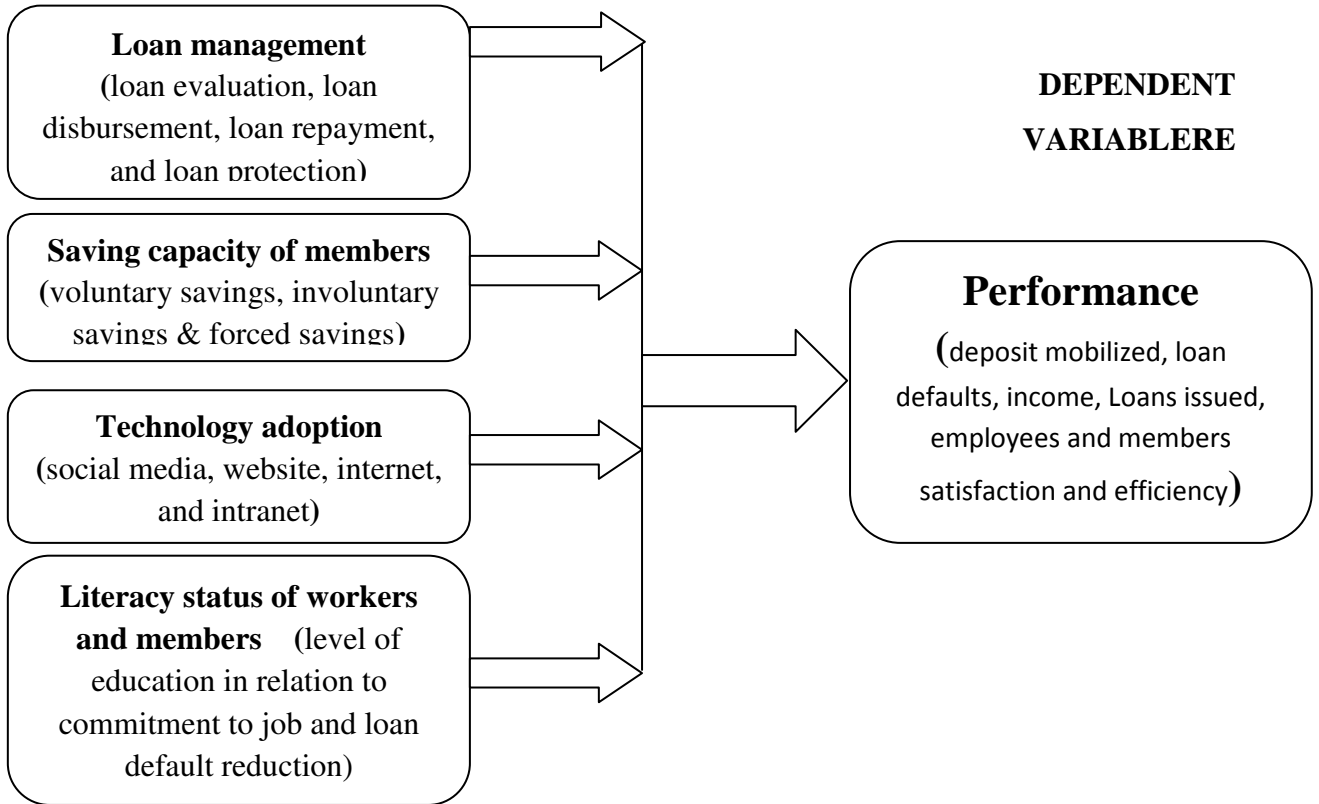
2.4. Conceptual Framework

Conceptual framework involves forming an idea about the relationship between variables in the study and showing the relationship graphically or diagrammatically (Mugenda & Mugenda 2003). The study proposed that the performance of ESCAs is influenced by loan management, saving capacity of members, technology adoption, and Literacy status of employees and members. The dependent variable in this study is the performance of ESCAs while the independent variables are made up of loan management, saving capacity of members, technology adoption, and Literacy status of employees and members. Thus the researcher had examined the independent variables in relation to dependent variables to determine the extent to which these factors impact upon the performance of ESCAs in Ethiopia. The conceptual framework is based on the idea that performance of ESCAs is determined by the desired independent variables.

Figure 1: Conceptual Framework

Source: Researcher, 2013

INDEPENDENT VARIABLES



2.6. Conclusions and knowledge gaps

This Literature review describes the relevant conceptual and theoretical issues including savings and Credit cooperatives background, the legal framework of SACCOs in Ethiopia, Objectives of SACCOs, contribution of SACCOs to the livelihood of their members, perspectives of SACCOs that form the background of this study, Overview of empirical literatures, and Conceptual Framework. Based on the discussion, SACCOs are promoted not only for money; they contribute to the promotion of total human development. SACCOs develop people’s minds by providing motivation, creating initiative, promoting self-development and providing leadership. They also develop material well-being by raising the living standards of members, making possible economic emancipation of members. Also it is determined that the basic goal of a saving and

credit cooperatives is to encourage thrift among its members, not to make profit, and not to supply charity, but to provide services.

A review of past studies on saving and credit cooperatives, their determinants in relation with performance indicate interesting findings as discussed under empirical review of studies. For instance, while the proposition for financial and operational aspects have a number of considering factors mainly supported by empirical work which is widely conducted in developed countries particularly in USA, Germany and UK. On the other hand, in developing countries there have been a relatively studies on SACCOs carried out Uganda, India, Kenya and Malawi. More specifically, in the case of Ethiopia to the knowledge of the researchers almost there is few study on such issues. This encourages the researcher to assess on the determinant factors of performance of savings and credit cooperatives societies in Ethiopia by looking at their historical development.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1. Introduction

This section discussed about methodology of the research adopted in order to actualize objectives of the study. The research design, data sources, data collection method, research procedure and data analysis technique that was used are included in the chapter.

3.2. Research Design

Descriptive study and inferential statistics was employed. Even if, descriptive study design is concerned with describing the characteristics of a particular individual, or of a group the researcher used explanatory style to inference and explain in detail. Descriptive research is therefore concerned with specific predictions, with narration of facts and characteristics concerned with individuals, group or situations. The advantage of the design is that it allows flexibility in data collection and also makes use of open ended and closed questions which would allow the respondent to give extra information freely.

According to Kothari (2005) descriptive research design includes surveys and fact finding enquiries of different kinds. The major purpose of descriptive research is description of the state of affairs as they exist at present. In descriptive studies the researcher must be able to define clearly, what he/she wants to measure and must find adequate measures of findings along with a clear cut definition of "population" he wants to study. The designs in such studies focus attention on the following: formulating the objective of the study, designing the methods of data collection, selecting the sample, collecting the data, processing and analyzing the data and reporting the findings.

This method of investigation had allowed the researcher to explore determinant factors that influence ESCAs' performance in Ethiopia by collecting and analyzing data in order to describe some phenomenon in its current status.

3.3. Population and sample

3.3.1. Population

Federal cooperative agency is expected to administer cooperatives and employees saving and credit associations, while licensing is made by districts or <<KifleKetama>>. Hence, the target population will be all employees saving and credit associations in Ethiopia.

3.3.2. Sample Frame

Because of there is rarely enough time or money to gather information from everyone or everything in a population, the researcher would become subject to finding of a representative sample (or subset) of the population. The researcher selected informants only from employees saving and credit association of ETC in Addis Ababa. ETC employees saving and credit association has 7,200 members.

3.3.3. Sampling techniques and sample size

The study had acquired a convenience sampling technique to select research samples from the population. The reason why researcher used convenience sampling is as its name implies, convenience sampling refers to the collection of information from members of the population who are conveniently available to provide it. Convenience sampling is the best way of getting some basic information quickly and efficiently.

For the purpose of this study the researcher selected one ESCA based on its size, years of operation and their role in investments. ETC ESCA is one of the largest associations in Ethiopia. As per Yamane (1967) formula developed for sampling size, using 95% confidence levels with 5% level of precision the total of 379 workers and members of ETC ESCA had selected to distribute the questionnaire.

The sample size was calculated based on Yamane’s formula (Yamane, 1967).

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

Where, n = the sample size

N = the size of population

e = 5% the level of precision

Then, $n = \frac{7,200}{1 + 7,200(0.05)^2} = \underline{\underline{378.9474}}$

Hence, by approximating the sample size result 378.9474 that is obtained by the above formula the total sample size is 379. And it is divided to workers and members of the association as follows:-

Table 1: profile of respondents

Description of respondent type	Number of Samples		
	Number of Distributed questionnaires	Number of Collected questionnaires	Variation
Administrative workers of the association (Manager, Officers, Accountants, etc)	10	9	1
Members	369	352	17
Total	379	361	18

NB: - The variation made was 4.7% of the sample size that was not collected from the respondents because of the selected respondents lost paper of the questionnaires before collection date. To collect primary data the researcher used similar questions for both members and workers of the association in the questionnaires.

3.4. Data Collection Instrument and Procedures

The researcher used both primary and secondary data sources. Primary data was collected from employees and members of the sampled ESCA using questionnaires to obtain perceptions of the respondents. Original information was collected from a first-hand experience. Primary data was received first hand from instruments such as questionnaires where a person collected the data using drop and pick approaches.

The data collection instrument that was used in this study was the questionnaire for primary data source. A likert scale questionnaire is a set of questions that seeks to find out information about variables. This is because the type of data source is original and would be collected specifically for the study. The researcher used self-administered questionnaires for primary data as the data collection instrument. The questionnaires was comprised questions in order to give the respondents room for airing well thought information adequate to base good judgment. Questionnaires are instruments for data collection that are defined to elicit written respondents from the subject in the study. The advantage of using the questionnaire sourced from members and workers of the selected ESCA is that; the data obtained was easy to process and analyze statistically (Saunders *et al.*, 2007).

Secondary data was collected through examining the documents and archival records of the selected employees saving and credit association.

3.4.1. Reliability and validity test

To check validity and reliability for the questionnaires the researcher used SPSS statistical software analyzing method, Cronbatch’s Alpha. And the result was discussed as follows:

Table 2: case processing summary

		N	%
Cases	Valid	361	100.0
	Excluded	0	.0
	Total	361	100.0
a. List wise deletion based on all variables in the procedure.			

Table 3: Reliability Statistics

Cronbach's Alpha	N of Items
.851	31

As showed in the above table reliability statistics for the questionnaires was resulted 85.1% based on all variables in the procedure. Thus, the result implies that the questionnaires were reliable.

3.5. Data analysis and interpretations

The researcher used questionnaires that enabled him to gather the necessary data used for the study. The collected data would be used to analyze the determinant factors influencing ESCAs' performance in Ethiopia. Descriptive statistics method was applied to analyze the data by calculating the percentages, mean and standard deviation. This will be done using Statistical Package for Social Sciences (SPSS) computer software. SPSS was used to generate tabulated reports, charts, and plots of distributions and trends, as well as generate descriptive statistics and more complex statistical analyses.

Inferential statistics was applied through the use of multiple linear regression analysis to establish the nature of the existing relationship between the research variables. Finally, to get reliable results from the study, the researcher tested for the five multiple linear regression model assumptions by using the results analyzed by EVIEWS-8 statistical analyzing software. Among them the major ones are: test for constant variable, heteroscedasticity, autocorrelation, multicollinearity and normality was addressed based on the theoretical concepts of the assumptions and results of the statistical analyzing software.

3.5.1. Analytical Regression Model

The multiple linear regression equation for the study was took the following form;

$$\text{PESCA} = \beta_0 + \beta_1 \text{LM} + \beta_2 \text{SC} + \beta_3 \text{TA} + \beta_4 \text{LS} + \epsilon_{it}$$

Where;

LM	Loan Management of the association
SC	Saving Capacity of members of the association
TA	Technology Adoption of the association
LS	Literacy Status of workers and members of the association
PESCA	Performance of Employees saving and Credit Association
ϵ_{it}	Stochastic Error term with value 0
β_0	constant term of the regression equation
$\beta_1, \beta_2, \beta_3, \beta_4$	coefficients of the independent variables of the study

CHAPTER FOUR

DATA RESULTS, ANALYSIS AND DISCUSSION

4.1. Introduction

This chapter presents the study findings based on objectives to identify the determinants of performance of employees saving and credit associations in Ethiopia, These data were collected from the ETC ESCA. Multiple linear regressions were used to determine the effects of loan management, saving capacity of members, technology adoption and Literacy status of workers and members on performance of employees saving and credit associations.

4.2. Questionnaires return rate

Out of the 379 questionnaires distributed for this research 361 were filled and returned giving a response rate of 95.3 %. This is an indication that the respondents took this research seriously and they had trust with the researcher. According to Mugenda (2003), 50% response rate is adequate, 60% good, above 70% is rated very good. Therefore in this study there was almost excellent response on the return of the questionnaires.

4.3. Demographic characteristics of respondents

The researcher was interested in the distribution of respondents by gender, age, marital status, and level of education, work experience and their nature of status in the association. These characteristics are further discussed in the following sub-themes.

4.3.1. Distribution of respondents by gender

Gender was a matter of concern in this study because male and female have different ideologies on matters of savings and credit. The researcher wanted to establish how savings and credit in ESCAs can be influenced by an individual gender status. The findings are presented in table 4.

Table 4: Respondents by Gender

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	173	47.9	47.9	47.9
	Female	188	52.1	52.1	100.0
	Total	361	100.0	100.0	

Out of the 379 respondents who participated in the study 173(47.9%) were males, 188(52.1%) were females. This implies that majority of ESCA members are females probably because females do not own collaterals like land and other fixed assets as much as males does hence the females end up joining ESCAs because they use group guarantee mechanisms to secure loans.

4.3.2. Distribution of respondents by Age

The researcher sought to establish the age distribution of respondents so that it can be ascertained how age disparity affects the membership of SACCOs and appointments in ESCA management. The findings of this study are presented in table 5.

Table 5: Respondents by Age

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	20-25	37	10.2	10.2	10.2
	26-35	144	39.9	39.9	50.1
	36-45	145	40.2	40.2	90.3
	46-60	35	9.7	9.7	100.0
	Total	361	100.0	100.0	

Table 5 shows that out of the 379 respondents who participated in this study, 37(10.2%) fell in the age bracket of 20-25 years, 144(39.9%) fell in the age bracket of 26-35 years, 145(40.2%) were in the age bracket of 36-45 years while 35(9.7%) fell in the age bracket of 46-60 years respectively. This implies that majority of ESCAs members are in the age bracket of between 36 and 45 years probably because this is the age of young adults who seek money from financial institutions to establish their homes and educate their children.

4.3.3. Distribution of respondents by marital status

The researcher sought to establish the marital status of respondents with the aim of establishing how it affects the saving and credit culture.

Table 6: Respondents by marital status

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Single	167	46.3	46.3	46.3
	Married	194	53.7	53.7	100.0
	Total	361	100.0	100.0	

Table 6 shows that 194(53.7%) were married while 167(46.3%) were single. This implies that married people have more financial demands as compared to single because they need to educate their children and establish their families.

4.3.4. Distribution of respondents by educational level

Level of education was a matter of differences among respondents in holding diploma, first degree and second degree. The researcher wanted to establish how savings and credit in ESCAs can be influenced by an individual educational status. The findings are presented in table 7.

Table 7: Respondents by level of education

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Diploma and below	49	13.6	13.6	13.6
	First Degree	249	69.0	69.0	82.5
	2nd degree	63	17.5	17.5	100.0
	Total	361	100.0	100.0	

Table 7 shows that majority of the respondents are first degree holders 249(69%). This implies that people who are holder of first degree have more financial demands as compared to the others, because they need to continue second degree education.

4.3.5. Distribution of respondents by nature of experience

Nature of experience was a matter of duration of respondents in serving the corporation. The researcher wanted to establish how savings and credit in ESCAs can be influenced by respondents' job experience.

Table 8: Respondents by experience

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 2 years	26	7.2	7.2	7.2
	2 to 5 years	137	38.0	38.0	45.2
	6 to 10 years	76	21.1	21.1	66.2
	more than 10 years	122	33.8	33.8	100.0
	Total	361	100.0	100.0	

Table 8 shows that out of the 379 respondents who participated in this study, 137(38%) fell in the experience bracket of 2-5 years.

4.3.6. Distribution of respondents by nature of status in the association

The researcher sought to establish the nature of status either worker of the association, member or managerial position. This was supposed to enable the researcher to get varied responses from the different categories.

Table 9: Respondents by nature of status

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Managerial	19	5.3	5.3	5.3
	Worker	9	2.5	2.5	7.8
	Member	333	92.2	92.2	100.0
	Total	361	100.0	100.0	

4.4. Descriptive Statistics

In section 4.4 the study present the research finding on the descriptive statistic in the data collected.

Table 10: Descriptive statistics

		LM	SC	TA	LS	PESCA
N	Valid	361	361	361	361	361
	Missing	0	0	0	0	0
Mean		3.5341	3.2161	3.6560	3.0340	3.4997
Std. Deviation		.75820	.66151	.93433	.62640	.77519
Minimum		1.20	1.00	1.00	1.00	1.00
Maximum		5.00	5.00	5.00	4.86	5.00

From the findings, the study found that there was mean of 3.5 out of 5 questions for a variable Loan Management, 3.2 out of 6 questions for the Saving Capacity of members, 3.7 out of 5 questions for Technology Adoption, 3.03 out of 7 questions for Literacy Status of workers and members of the association, 3.5 out of 7 questions for Performance of Employees saving and Credit Associations. That is, except mean for Literacy Status of workers and members of the association the other variables of the study have a mean of greater than half of their questions.

This implies that the majority of respondents were almost agreed in concepts of the questions asked for the desired variables except for Literacy Status of workers and members.

4.5. Correlations Analysis

The study presents the research finding on the Pearson product moment correlation. Pearson product moment correlation was conducted to determine the strength of relationship between the study variables.

Table 11: Correlations

		LM	SC	TA	LS	PESCA
LM	Pearson Correlation	1	.274**	.291**	.211**	.493**
	Sig. (2-tailed)		.000	.000	.000	.000
	N	361	361	361	361	361
SC	Pearson Correlation	.274**	1	.240**	.429**	.259**
	Sig. (2-tailed)	.000		.000	.000	.000
	N	361	361	361	361	361
TA	Pearson Correlation	.291**	.240**	1	.161**	.348**
	Sig. (2-tailed)	.000	.000		.002	.000
	N	361	361	361	361	361
LS	Pearson Correlation	.211**	.429**	.161**	1	.280**
	Sig. (2-tailed)	.000	.000	.002		.000
	N	361	361	361	361	361
PESCA	Pearson Correlation	.493**	.259**	.348**	.280**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	361	361	361	361	361

To discuss the correlation of the study variables, the researcher conducted a Pearson Product Moment correlation. From the findings on the correlation analysis between performance of employees saving and credit association and independent variables, the study found that there was positive correlation coefficient between PESCA and loan management as shown by correlation factor 0.493** , the study also found a positive correlation between PESCA and saving

capacity of members as shown by correlation coefficient of 0.259^{**}, association between PESCA and technology adoption was found to have positive relationship as shown by correlation coefficient of 0.348^{**}. The study also found a positive correlation between PESCA and literacy status of workers and members as by correlation coefficient of .280^{**}

4.6. Trend Analysis

Additionally, other than the primary data collected through questionnaires the researcher had tried to assess through examining the documents and archival records of the association to collect the secondary data. ETC ESCA is one of the biggest associations in Ethiopia. It was organized in 1961 E.C with 601 members in Br 70,000 capital. Currently it has 7,200 members and Br 306,293,767.73 capital amount. The association incurs 5% interest rate for members' saving and collects 8.5% interest rate from borrowers. Its spread margin is 3.5% with maximum borrowing capacity of Br 300,000 and minimum members' saving amount of 14%. Collection of saving and loan of members' are directly associated with payroll of the corporation. To protect loan default while lending the association guaranteed by two witnesses of the borrowers.

Table 12: Secondary data (in birr)

Descriptions	Years (E.C)					Growth rate
	2004	2005	2006	2007	2008	
Total Saving	264,526,539.51	286,362,137.60	321,560,372.63	374,311,839.19	390,523,940.30	9.2%
Total loan issued	283,324,538.63	293,805,025.77	307,724,062.20	364,550,262.09	409,888,259.64	8.7%
Net profit after Tax	-2,656166.78	-981,970.51	946,694.10	4,193,592.60	12,632,216.30	44.4%
Total loan default	379,110.08	379,110.08	379,110.08	379,110.08	379,110.08	0%
Efficiency of the association in performing its annual plan	Fair	Fair	Good	Very good	Very good	

Determinants of Performance of Employees Savings and Credit associations in Ethiopia

Members and workers satisfaction	Good	Good	Good	Very good	Very good	
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Source: ETC ESCA Employees saving and credit association annual report and audit report.

An improvement in members and workers satisfaction is because of an increment in maximum borrowing capacity for borrowers and an increment of salary for workers with good facilitation of working environment. In case of an improvement in efficiency of the association in performing its annual plan is because of there is hiring of well educated workers with almost good salary that arise from an improvement in profit of the association.

The negative profit result recorded on 2004 E.C and 2005 E.C were arise from the termination of about 3,500 employees from the corporation on 2003 E.C, from those terminated employees about 1,000 are members of the association and they had compensated by Br 9,410,757.02. During this time the amount of composition was directly deducted from income of the year 2004 E.C Br 6,002,148.15 and 2005 E.C Br 3,408,608.87 as expense of the fiscal years.

The amount of default Br 379,110.08 was resulted from those terminated 29 members of the association was disappeared with their witnesses on 2003 E.C. Other than this the association didn't face additional amount of default.

In 2007 E.C and 2008 E.C because of there was high requisition of loan by members, the association was donated by the corporation the amount of Br 50,000,000 in both years.

To summarize, as showed in the above table 18 the data recorded for the described items were implying that the association was performing well. That is, an increment in loan issued and profitability, and minimization of loan default throughout the desired years were the result of proper loan management; an increment in saving amount was the result of saving capacity of members; an improvement in efficiency, satisfaction of workers and members of the association could be the result of technology adoption and literacy status. Hence, from the above discussion it is possible to understand independent variables of the study have positive correlation with the performance of employees saving and credit association, similar to the correlation analysis result discussed for the primary data.

4.7. Regression Analysis

In this section the study presents the research findings on the relationship between various independent variables on the regression model and the dependent variable performance of employees saving and credit association. The study was conducted multiple regression analysis to test the influence among predictor variables by using statistical package for social sciences (SPSS) to code, enter and compute the measurements of the multiple regressions.

Table 123: Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.562 ^a	.315	.308	.64502
a. Predictors: (Constant), Literacy Status, Technology Adoption, Loan Management, Saving Capacity				

Adjusted R squared is coefficient of determination which tells us the variation in the dependent variable due to changes in the independent variable, from the findings in the above table the value of adjusted R squared was 0.308 an indication that there was variation of 30.8% on performance of ESCAs due to changes in loan management, saving capacity of members, technology adoption, and Literacy status of workers and members at 95% confidence interval. This shows that 30.8% changes in performance of ESCAs could be accounted for by changes in loan management, saving capacity of members, technology adoption, and Literacy status of workers and members.

R is the correlation coefficient which shows the relationship between the study variables, from the findings shown in the table above there was a strong positive relationship between the study variables as shown by 0.562.

Table 134: Analysis of variance

ANOVA						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	68.217	4	17.054	40.991	.000 ^b
	Residual	148.113	356	.416		
	Total	216.330	360			
a. Dependent Variable: Performance of Employees saving and Credit Associations b. Predictors: (Constant), Literacy Status, Technology Adoption, Loan Management, Saving Capacity						

From the ANOVA statistics above, the study established the regression model had a significance level of 0.000 which is an indication that the data was ideal for making a conclusion on the population parameters as the value of significance (p-value) was less than 0.05. It indicated that loan management, saving capacity of members, technology adoption, and Literacy status of workers and members significantly influence performance of ESCAs. The significance value was less than 0.05 indicating that the model was significant.

4.8. Tests for Multiple Linear Regression Model Assumptions

This sub-section presented the tests for multiple linear regression model assumptions. To get reliable results from the study, the regression model of this study was tested for multiple linear regression model assumptions. Among them the major ones are: test for constant variable, heteroscedasticity, autocorrelation, multicollinearity and normality assumptions. To test the assumptions the researcher used EVIEWS-8 statistical analyzing software result of the primary data collected. Accordingly, they were discussed as follows:-

4.8.1. Assumption One

The errors have zero mean ($E(\epsilon) = 0$) or constant variable

The first assumption states that the average value of the errors should be zero. According to (Brooks 2008) if the regression equation contains a constant term, this presumption will never be

violated. Therefore, since from the regression result table the constant term (i.e. $\beta_0 = 0.767$) was included in the regression equation; this assumption holds good for the model.

4.8.2. Assumption Two

Homoscedasticity (variance of the errors is constant ($\text{Var}(\mu_t) = \sigma^2 < \infty$))

Heteroskedasticity is a systematic pattern in the errors where the variances of the errors are not constant. When the variance of the residuals is constant it is referred as homoscedasticity, which is desirable. To test for the absence of heteroscedasticity white test was used in this study. In this test, if the p-value is very small, less than 0.05, it is an indicator for the presence of heteroscedasticity (Gujarati 2004).

But from Table 15 presents three different types of tests for heteroscedasticity. Since the p-values of all the three tests are considerably in excess of 0.05 it's a clear indicator that there is no evidence for the presence of heteroscedasticity. Hence, the model passed the second test.

Table 14: Heteroscedasticity Test: White test

F-statistic	4.630527	Prob. F(14,346)	0.1328
Obs*R-squared	56.96476	Prob. Chi-Square(14)	0.0549
Scaled explained SS	86.68598	Prob. Chi-Square(14)	0.6750

4.8.3. Assumption Three

Covariance between the error terms over time is zero ($\text{cov}(u_i, u_j) = 0$)

This assumption states that covariance between the error terms over time or cross-sectionally, for that type of data is zero. That is, the errors should be uncorrelated with one another. If the errors are not uncorrelated with one another it is an indicator for the presence of Autocorrelation or serial correlation (Brooks 2008). According to Brooks (2008), presence/absence of autocorrelation is by using the Breusch–Godfrey test (shown in table 16).

The result of the statistic labeled “obs*R-squared”, which is the LM test statistic for the null hypothesis of no serial correlation shows a p-value of 0.4350 (which is far greater than 0.05) which strongly indicates the absence of autocorrelation.

Table 15: Breusch-Godfrey Serial Correlation LM Test

F-statistic	0.820074	Prob. F(2,354)	0.4412
Obs*R-squared	1.664866	Prob. Chi-Square(2)	0.4350

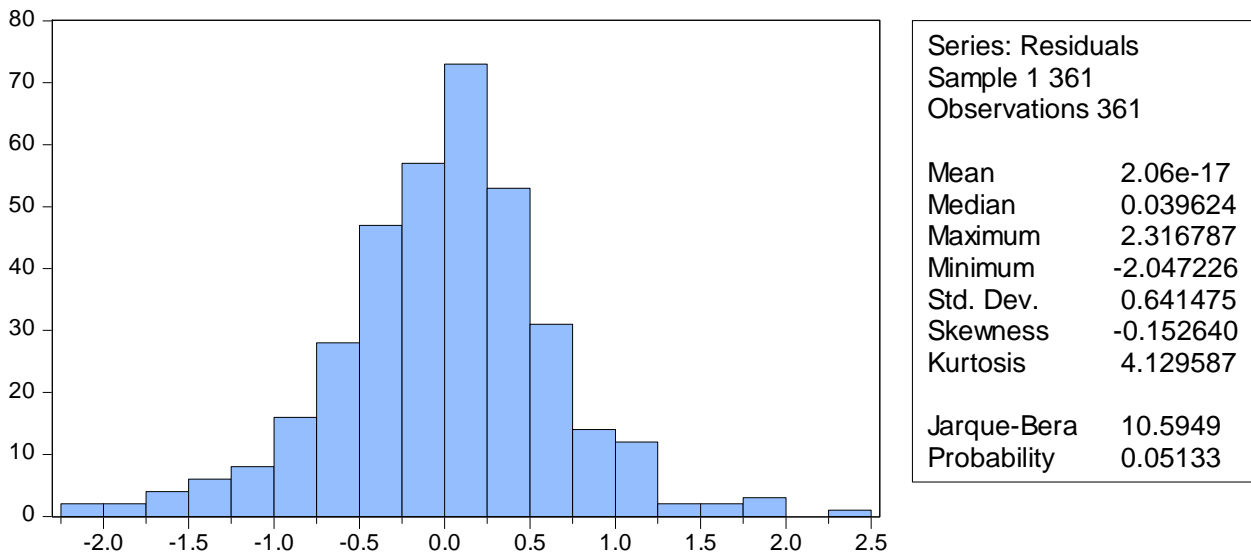
4.8.4. Assumption Four

Normality (errors are normally distributed $\mu_t \sim N(0, \sigma^2)$)

Normality assumption of the regression model can be tested with the Jarque- Bera measure. Normal distribution is not skewed and is defined to have a coefficient of kurtosis 3. Jarque-Bera formalizes this by testing the residuals for normality and testing whether the coefficient of skeweness and kurtosis are zero and three respectively. If the probability of Jarque Bera value is greater than 0.05, it's an indicator for the presence of normality (Brooks 2008).

The normality tests for this study as shown in Figure 2 the kurtosis is close to 3, skewness close to 0 and the Jarque-Bera statistic has a p-value of 0.05133 which is greater than 0.05 implying that the data were consistent with a normal distribution assumption.

Figure 2: Normality Test Result



4.8.5. Assumption five

Multicollinearity Test

According to (Churchill and Iacobucci 2005), multicollinearity is concerned with the relationship which exists between explanatory variables. When there exists the problem of multicollinearity, the amount of information about the effect of explanatory variables on dependent variables decreases and as a result, many of the explanatory variables could be judged as not related to the dependent variables when in fact they are.

How much correlation causes multicollinearity, however, is not still clearly identified. Many authors have suggested different level of correlation to judge the presence of multicollinearity. While (Hair, et al. 2006) argued that correlation coefficient below 0.9 may not cause serious multicollinearity problem. (Malhotra 2007) stated that multicollinearity problem exists when the correlation coefficient among variables is greater than 0.75. This indicates that there is no consistent agreement on the level of correlation that causes multicollinearity.

Therefore, in this study correlation matrix for four of the independent variables is shown below in Table 17. The result of the estimated correlation matrix shows that the highest correlation of 0.428856 which is between independent variables saving capacity of members and literacy status of workers and members of the association. Thus, there is no correlation above 0.75 and 0.9 according to (Malhotra 2007) and (Hair, et al. 2006) respectively. Hence, the researcher concluded that there is no problem of multicollinearity.

Table 16: Correlation matrix between explanatory variables

	LM	SC	TA	LS
LM	1.000000	0.273912	0.290683	0.210509
SC	0.273912	1.000000	0.240253	0.428856
TA	0.290683	0.240253	1.000000	0.160726
LS	0.210509	0.428856	0.160726	1.000000

Table 178: Regression Model Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.767	.235		3.270	.001
	Loan Management	.402	.048	.393	8.333	.000
	Saving Capacity	.046	.059	.040	.791	.430
	Technology Adoption	.166	.039	.200	4.302	.000
	Literacy Status	.183	.060	.148	3.019	.003
a. Dependent Variable: Performance of Employees saving and Credit Associations						

The established regression equation was

$$Y = 0.767 + 0.402 X1 + 0.046X2 + 0.166 X3 + 0.183X4$$

The above regression equation revealed that loan management, saving capacity of members, technology adoption, and Literacy status of workers and members to a constant zero, performance of ESCAs would stand at 0.767, a unit increase in loan management of the ESCAs would lead to increase in performance of ESCAs by a factors of 0.402, a unit increase in technology adoption would lead to increase in performance of ESCAs by factors of 0.166 , also a unit increase in Literacy status of workers and members would lead to increase in financial performance of ESCAs by a factor of 0.183. But a unit increase in saving capacity of members has no effect on performance of ESCAs.

At 5% level of significance and 95% level of confidence, loan management had a 0.000 level of significance; saving capacity of members had showed a 0.430 level of significance, technology adoption had a 0.000 level of significance while Literacy status of workers and members had showed 0.003 level of significance. Hence, the most significant factor is loan management and the next one is Technology Adoption. Except saving capacity of members the variables were significant ($p < 0.05$).

Therefore, the researcher rejected the null hypotheses such as; there is no dependence between performance of ESCAs and loan management. There is no dependence between performance of ESCAs and technology adoption of the association. And there is no dependence between performance of ESCAs and Literacy status of employees and members.

And not rejected the null hypothesis there is no dependence between performances of ESCAs and saving capacity of members of the association.

This shows that, a unit increase in loan management, technology adoption, and Literacy status of workers and members would lead to increase in performance of ESCAs by 40.2%. A unit increase in technology adoption would lead to increase in performance of ESCAs by 16.6%. And a unit increase in Literacy status of workers and members would lead to increase in performance of ESCAs by 18.3%. That is, loan management, technology adoption, and Literacy status of workers and members have a positive significant effect on performance of employees saving and credit associations. But saving capacity of members has no significant effect on performance of employees saving and credit associations.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION

5.1. Introduction

From the data collected and analysis made in previous chapter, the following discussions, conclusion and recommendations were made. The responses were based on the objectives of the study. The researcher had intended to determine the effects of the explanatory variables on performance of employees saving and credit associations.

5.2. Summary of findings

The objective of the study was to determine to what extent the loan management, saving capacity of members, technology adoption, and Literacy status of workers and members had affected performance of employees saving and credit associations. The study adopted descriptive research design study and inferential statistics in which multiple regression analysis was applied to the data to examine the effects of explanatory variables on performance of ESCAs. The study was facilitated by use of primary data and secondary data.

The study revealed the findings that variation in performance of ESCAs could be accounted to change in loan management, saving capacity of members, technology adoption, and Literacy status of workers and members. The study showed that there was a strong relationship between performance of ESCAs and loan management, saving capacity of members, technology adoption, and Literacy status of workers and members as shown by strong correlation coefficients. There is highly significant positive relationship between loan management, saving capacity of members, technology adoption, and Literacy status of workers and members and performance of ESCAs.

An adjusted R squared 0.308 has an indication that there was variation of 30.8% on performance of ESCAs due to changes in loan management, saving capacity of members, technology adoption, and Literacy status of workers and members at 95% confidence interval. This shows that 30.8% changes in performance of ESCAs could be accounted for by changes in the desired explanatory variables of the study.

From the regression equation, there was a positive relationship between loan management, saving capacity of members, technology adoption, and Literacy status of workers and members and performance of ESCAs. This shows that, a unit increase in loan management, technology adoption, and Literacy status of workers and members would lead to increase in performance of ESCAs. That is, loan management, technology adoption, and Literacy status of workers and members have a significant effect on performance of employees saving and credit associations. But saving capacity of members has no significant effect on performance of ESCAs.

5.3. Conclusion

From the findings the study established that loan management is positively significant to influence on performance of ESCAs thus the study concludes that loan management had positive influence on performance of ESCAs.

The study also revealed that technology had a positive effect on performance of ESCAs. Additionally this study concluded that literacy status of workers and members is one of the explanatory variables that has positive significant effect on performance of employees saving and credit associations. Finally, loan management, technology adoption, and Literacy status of workers and members have positively significant effect on performance of ESCAs. But saving capacity of members has no significant effect on the performance of ESCAs.

5.4. Recommendation

Based on conclusion of the findings, the study recommends that the management on ESCAs should consider proper loan management that effectively operated by loan evaluation, loan disbursement, loan repayment, and loan protection. This will reduce default and enhance loan collection of the association. Adopting technologies also should be considered by the association. This will allow the management to create a comprehensive understanding that can be creates better decisions and it helps to avoid information asymmetry among workers and members.

The study also recommends that it is very crucial that the association to hire and accept as membership should be well educated persons. That is, they can be more committed to the desired

jobs of the association and performs as per the plan of the association to optimize ESCA's performance.

Finally to optimize its performance a given employees saving and credit association should give big concern to loan management by following well organized credit procedure. And give big accent to technology adoption by utilizing the necessary technological packages that can support its performance and enhancing literacy status of workers and members through training and other options.

5.5. Suggestion for Further Research

Explanatory variables of this study can explain performance of ESCAs at an extent of 30.8%, as showed by the result of an adjusted R squared 0.308. This implies that there are about 69.2% other than explanatory variables loan management, saving capacity of members, technology adoption, and Literacy status of workers and members which can determine performance of ESCAs. Thus researcher ought to recommend that a study should be done on the factors that can determine performance of employees saving and credit associations to find out other factors different from explanatory variables of this study.

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APPENDICES

APPENDIX I: Time frame and schedule of activities to accomplish the study

2016/2017 G.C											
SN	Task to be performed	Implementation period									Remark
		Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	
1	Research topic preparation	✓									
2	Topic selection		✓								
3	Research proposal preparation			✓							
4	Approval of the proposal				✓						
5	Questionnaire preparation					✓					
6	Data collection					✓					
7	Data presentation, analyzing and interpretation						✓	✓			
8	Report writing							✓	✓		
9	Final report								✓		
10	Presentation and defense									✓	

APPENDIX II: The questionnaire used to collect primary data

ADDIS ABABA UNIVERSITY COLLEGE OF BUSINESS AND ECONOMICS

Masters of Business Administration Program Questionnaire to be completed by Management, workers and members of ETHIO TELE COM Employees Savings and Credit association.

Dear Respondents,

I, the undersigned, am conducting a research on “ **Determinants of Performance of Employees Savings and Credit associations in Ethiopia**”. This is conducted in partial fulfillment of the Masters of business administration. The study is intended to examine factors that determine performance of employees savings and credit associations in Ethiopia in the case of ETHIO TELE COM. In this regard, the questionnaires are designed to obtain pertinent information, which is believed to be pedestal for the accomplishment of the research objectives.

I kindly request your cooperation in completing the questionnaire attached herewith. I would like to assure you that the information provided in this survey will be used for the stated purpose and will be kept confidential. Please don't hesitate to contact me through the under mentioned address should you have any queries about the subject

Thank you in advance for your cooperation and assistance, despite your work burden.

Kind and warm regards,

Tadael Wakgari

MBA Candidate

Mobile phone number: - +251911927574

Email address: - whwakuma@gmail.com

The questionnaire has two parts. The first part focuses on the demographic aspect of the participants. The second part consists of five sub sections soliciting answers related to examine factors that determine performance of employees savings and credit associations.

Part I: The Profile- Please indicate your information

Tick (✓) the answer and fill the blanks when necessary

1. Gender : Male Female
2. Age: 20-25 26-35 36-45 46-60
3. Marital status: Single Married
4. Educational level: Diploma and below First Degree 2nd degree
5. Years of experience: Less than 2 years 2 to 5 years
 6 to 10 years more than 10 years
6. Status Managerial Worker Member

Part II: Please indicate your level of agreement or disagreement with each statement by putting a tick “✓” mark using the following five measurement scale:

Strongly disagree	Disagree	Neutral	Agree	Strongly agree
1	2	3	4	5

Section A

Loan management

SN	Description	Level of agreement				
		1	2	3	4	5
1	Proper loan management system will enhance					

	performance of the association.					
2	The association has proper loan evaluation structure.					
3	The association has an effective loan disbursement system.					
4	The association has an effective loan repayment system.					
5	The association has an effective loan protection system.					

Section B

Saving capacity of members

SN	Description	Level of agreement				
		5	4	3	2	1
1	Saving capacity of members has positive impact on performance of Employees saving and credit association.					
2	Saving capacity of members has negative impact on performance of Employees saving and credit association.					
3	Saving capacity of members has no impact on performance of Employees saving and credit association.					
4	Voluntary savings can enhance deposit of the association.					
5	Involuntary savings can enhance deposit of the association.					
6	Forced savings can enhance deposit of the association.					

Section C

Technology adoption

SN	Description	Level of agreement				
		5	4	3	2	1
1	Technological innovations need to be accepted and actually used by the association to enhance performance.					
2	Using social media supports performance of the association.					
3	Using website supports performance of the association.					
4	Using internet supports performance of the association.					
5	Using intranet supports performance of the association.					

Section D

Literacy status of workers and members

SN	Description	Level of agreement				
		5	4	3	2	1
1	Literacy status of workers and members of the association has positive impact on performance of the association.					
2	Literacy status of workers and members of the association has negative impact on performance of the association					
3	Literacy status of workers and members of the association has no impact on performance of the association					
4	More educated worker is more committed to the desired jobs of the association than less educated.					
5	More educated member is more committed to loan repayment than less educated.					

6	Less educated worker is more committed to the desired jobs of the association than more educated.					
7	Less educated member is more committed to loan repayment than more educated.					

Section E

This section attempts to assess performance of employees saving and credit association

SN	Description	Level of agreement				
		5	4	3	2	1
1	The association has experienced an improvement in profitability.					
2	The association has experienced an improvement in total deposit.					
3	The association has experienced an improvement in members satisfaction.					
4	The association has experienced an improvement in internal processes.					
5	The association has experienced an improvement in workers satisfaction.					
6	The association has experienced an improvement in increasing amount of loan issued.					
7	The association has experienced an improvement in reducing amount of loan defaults.					

Thank You!!!