

# THE PRACTICES AND CHALLENGES OF SAVING AND CREDIT COOPERATIVES: THE CASE OF SANKURA WOREDA, SILTE ZONE, SOUTH REGIONAL STATE, ETHIOPIA.

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## Abstract

*The purpose of the study was to assess the practices and challenges of saving and credit cooperatives in Sankura woreda. To come up with trustworthy findings a mixed-method research approach was applied. In order to achieve the objectives designed, the researcher employed both primary and secondary data sources. The relevant primary data was collected through questionnaires from selected 196 members who were taken from three (3) saving and credit cooperative and key informant interviews with SACCO Managers, Cooperative Promotion Office Head, Cooperative Promotion Core Process Coordinator, Union Manager and Woreda saving and credit cooperative Accountant. The secondary data were collected from annual reports of the woreda cooperative office and from saving and credit cooperative office of sampled kebele. To select participants in the study, systematic random sampling techniques were employed. The data collected from primary and secondary sources were analyzed using descriptive data analysis using frequencies, percentages, standard deviation and mean. To facilitate the processing and analysis of quantitative data SPSS version 20 was used. Accordingly, the findings of the study revealed that there is a weak practices and implementation of cooperative principles such as member democratic control, member economic participation, autonomy and independence, training, education and information, as well as concern to community in saving and credit cooperatives in the study area. In addition to this, support from different governmental and nongovernmental organization is weak except the cooperative promotion office that gives training, audit service, technical support and financial accounting skill building. Finally, the study has recommended.*

**Key words:** *Challenge, principles, Practices, cooperatives, saving and credit cooperatives*

## CHAPTER ONE

### 1. INTRODUCTION

In this chapter background of the study, description of the study area statement of the problem, research questions, research objectives, significance of the study scope of the study and limitation of the study were discussed.

#### 1.1 Background of the study

According to International Cooperative Alliance (1995), cooperative organization is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically- controlled enterprises. As argued by Tran, V. D. (2014) cooperatives are: “Association of persons, small producers or consumers, who have come together voluntarily to achieve some of common purpose by a reciprocal exchange of services through a collective economic enterprise working at their common risk and with resources to which all contribute”.

#### 1.2. Statement of the Problem

Regardless of SACCOs economic and social contribution, many of saving and credit cooperatives (SACCOs) have been short-lived and others are still vulnerable to many challenges in developing countries in general and in Ethiopia in particular. The challenges are due to: lack of adequate knowledge on cooperative principles, low level of skill of cooperative leadership and management, undeveloped networks and value chains, and lack of support from government and other organization (Khumalo, 2014). In addition, Mohammed and Wan Lee (2015) stated both internal and external challenges that hamper the role of cooperatives in Ethiopia.

*Internal challenges* are mainly; weak linkage between members and saving and credit cooperatives, lack of awareness, knowledge, and skill on significance of cooperatives, poor management, ethical problems are related to managers and board members, weak participation of members and unwillingness of increasing their equity.

*External challenges* were the challenges that belong to government structures ,which were established to support cooperative sector are: weak leadership and supervision; weak and irregular technical assistance; expertise lack knowledge and skill by the tie of establishing cooperative expertise intend to focus on number of cooperatives rather than giving outstanding attention to quality; shortage of efficient-qualified and committed leaders and expertise; weak documentation and information; attitudes and practice of corruption/reluctant to fight corruption are the major challenges that hindered SACCOs growth.

These shows that it needs finding out why some SACCOs were dismissed and number of new members became low. In addition to this in Silte Zone and Sankura *woreda* there is no any research that has been done to assess the practices and challenges of SACCOs contextually. It is on this ground that this study was conducted to

assess the current practices of basic cooperative principles and challenges facing SACCOs. The study was also suggested some recommendations to help overcome the challenges.

#### 1.4. Basic Research Questions

1. What are the existing practices of cooperative principles in SWSACCOs?
2. What are the challenges facing SACCOs in SW rural area?
3. Who are the concerned stakeholders and what is their support to SACCOs in SW?

#### 1.5. Objectives of the Study

##### 1.5.1. General Objective

The general objective of the study is to assess the practices and challenges of saving and credit cooperatives in the case of Sankura *Woreda*, Silte Zone, SNNPR Regional State.

##### 1.5.2 Specific objectives

- To assess the exiting practice of cooperative principles in SWSACCOs.
- To identify the challenges facing SACCOs in Sankura *woreda* rural areas.
- To identify the stockholders and their support to SACCOs in SW.

#### 1.6. Significance of the study

In this study attempts will make to assess the practices and challenges of SACCOs in Sankura *Woreda* in-depth. Thus the research findings and recommendations are helpful for SNNPR regional state cooperative promotion agency, Sankura *Woreda* cooperative promotion office, SACCOs leaders and members, policy makers and further researches.

#### 1.7. Scope of the Study

The scope is the boundary of the study, according to (Orodho, 2003) which defines the extent to which the study will go. The study was delimited to examine the practices, challenges and support of other governmental and non-governmental organization to saving and credit cooperatives of the three selected SACCOs in the *Woreda*. Only SACCO managers, members, committees, *woreda* cooperative office head and experts participated in the study because cooperative office and SACCO have similar set up guided by the policies of federal cooperative agency (FCA). The research will particularly devote to give strong emphasis in assessing current practices of cooperative principles in SACCOs in meeting their objectives and challenges that face them.

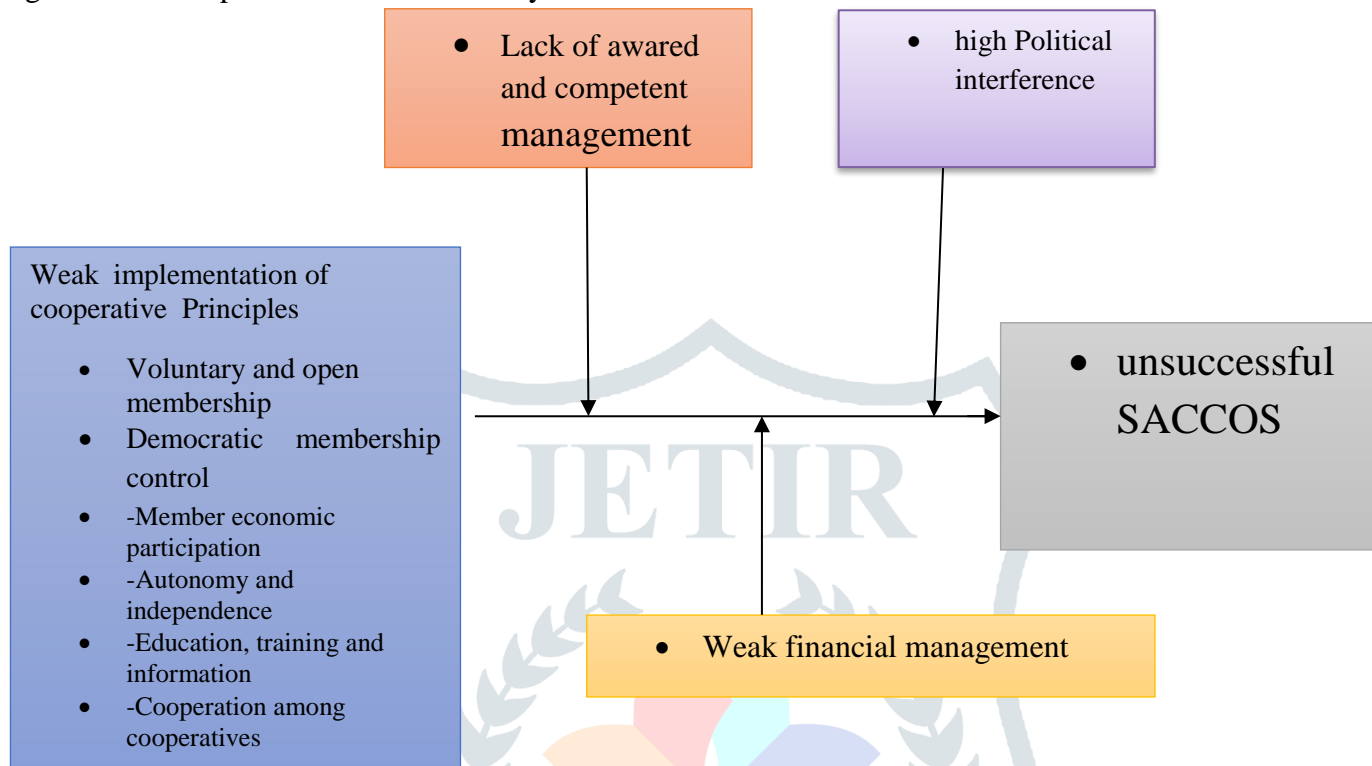
#### 1.8. Limitations of the Study

There were factors that bear impacts on the completeness of this study. As the target populations of the study were not familiar with the basic principles of their cooperative societies due to illiteracy, the response that they

gave to provided questionnaire was not based on knowledge and it was difficult to collect valuable information from the SACCO members.

## 2.5 Conceptual Framework

Figure 2.1 Conceptual framework of study



Source: developed by researcher,

## Methodology of the Studies

### 3.2 Research Types and Approach

#### 3.2.1 Research Type

Depending on the nature of the problem under study as well as the purpose of the research, descriptive research type was employed in this study. According to Kalyanaram, G., & Winer, R. S. (1995) descriptive research type helps to describe and interpret the current condition such as practices, existing challenges and opportunities. Similarly, Kothari (2004) stated that the major purpose of descriptive research is description of the state of affairs as it exists at present. Thus, this study has employed the descriptive type of research to describe the practice and challenges as well as the extent of stakeholders' support to SACCOS in Sankura Woreda.

#### 3.2.2 Research Approach

To come up with a valid result in the study, mixed method research approach was used, because, these method enables the researcher to cross check the results obtained from both quantitative method and qualitative analysis. Hence, here to comprehend the practices and challenges of SACCOS a mixed method research approach was used.

### 3.3 Sampling Design

#### 3.3.1. Population

The population of the study here was the members of the sixteen (16) SACCOs of the *Woreda*. Therefore male 1,504 female 41 total 1,545 was the total population of the study. The sampling frame is the list of all members in the thirteen SACCOs (woreda cooperative office 2013 EC report).

#### 3.2 Sample Size

There are a total of sixteen (16) SACCOs among 29 rural kebele at every 16 kebele one SACCO existing and one thousand five hundred forty five (1545) SACCOs members in Sankura Woreda.

Therefore, SACCOs having below 100,000 birr capital were five (6) which were categorized as with low capital, between 100,001-1,000,000 birr capital were five (6) which were categorized as with medium capital and above 1,000,000 birr were three (4) which were categorized as with high capital. After categorized in this way, SACCOs one at each category was taken randomly by using lottery method. So, as woreda cooperative promotion office 2013 EC report shows members of those three SACCOs (i.e Barcho (206), Getamgurbaye (133) and Regdina (44) with total of 383 members) were the target population to determine sample size. Therefore, the sample size for this study was determined using Slovin's (1960) formula i.e.  $n = N / (1 + N e^2)$ , the formula usually applied when the population parameter is known. Accordingly,  $n = N / (1 + N e^2) = 383 / (1 + 383 * 0.05^2) = 195.65 \sim 196$

N = refers total population of three (3) SACCOs

n = the required sample size,

e = Marginal error

#### 3.3 Sampling Technique

There were a total of thirteen (16) SACCOs with total members of one thousand five hundred forty five (1,545) in Sankura Woreda. These sixteen entities were stratified in to three (3) strata based on their amount of capital size as having high capital, medium capital and low capital. According to Kothari, CR (2004), stratified random sampling helps to achieve the desired representation of various sub-groups in the population. The total population embraced three categories of SACCOs with different capital sizes. Therefore, the frame was organized by the three categories into separate strata. The researcher chosen this method so as to have existing sub-groups fairly and randomly represented within the sample. The method also ensures that every group in each category could be proportionally represented.

### 3.5 Data Source and Data Collecting Technique

The necessary data was collected from both primary and secondary data sources. The data required from primary sources were included in the questioners and interview concerned on the present status of the implementation of cooperative principles, the main challenges facing SACCOs and the support of stakeholders to SACCOs. In addition, primary data were collected from key respondents who are cooperative office head, cooperative promotion coordinator, *Woreda* SACCO union manager, *Woreda* cooperative promotion office SACCO accountant, and managers of selected target SACCO in kebele and from the SACCO members. The interview was from *woreda* cooperative office and SACCO office .Hence, a total of seven (7) individuals were interviewed.

### 3.6 Data Analysis Methods

Responses to questions in the questionnaires was first checked for errors and coded. This involved allocating numerical values to the answers given by respondents for the ease of data entry and analysis (Vandenberg, R. J. (2003). Descriptive data was summarized into frequencies, percentages and histograms. In this study the data collected through different data gathering instruments was edited, organized and coded through standardized procedures to make suitable for analysis.

### 3.8 Validity and reliability test

Table: 3.3 Reliability and Validity Test

Cronbach's Alpha	Number of Items
0.811	34

As shown from the above table 3.3 that was based on the minimum acceptable level of 0.7 that is stated by Cronbach's *et al.* (1972), the Cronbach's alpha reliability coefficient is acceptable. Therefore, for this study, the reliability statistics shows having Cronbach's alpha of 0.811 which is greater than the minimum acceptable level of 0.7.

## Results, Discussions and Interpretation

### 4.1 Introduction

This chapter presents the analysis and interpretation of both quantitative and qualitative data collected from respondents on 'the assessment of practice and challenges of SACCOs' in Sankura *woreda* of Silte Zone SNNPR Region. The data were gathered through questionnaire, face to face interview and focus group discussion and document review in cooperative promotion office at *woreda* level. Data collected from respondents are summarized in tabular and bar-graph under each subsection of the questionnaire and the result

of each section is interpreted, analyzed and discussed. Accordingly, the chapter begins with the analysis of the socio-demographic characteristics of the respondents.

## 4.2. Respondent Rate

**Table 4.1: The respondent rate of the participants**

No.	Participants	Total number of sample	Frequency	Percent
1	SACCO members	196	193	98.5
2	Interviewees	7	7	100
3.	FGD	9	7	77.8
	Total	212	207	97.6

Source: survey result 2018

As show in Table 4.1, a sample of 196 was drawn from target population of 1,545 members of saving and credit cooperative in Sankura *Woreda*. Thus, 196 questionnaires were distributed for the sample respondents. Among the questionnaires distributed 193 questionnaires were properly filled and returned, which yields 98.48% of the response rate.

## 4.3. Background Characteristics of the Respondents

This section is designed to analyze socio-demographic characteristics of the respondents. It indicates gender, age, educational status, duration of members in SACCO, monthly self-deposit amount of the respondents, whether the respondents have loan or not, amount share the respondent have and benefits that the respondent gain from SACCO.

**Table 4.2: Socio-demographic characteristics of sample respondents (N=196)**

No.	Description	Frequency	Percent	
1	Gender	Male	186	96.4
		Female	7	3.6
2	Age	18-25	20	10.4
		26-35	103	53.4
		36-45	59	30.6
		Above 45	10	5.2
3	Educational status	1-4	95	49.2
		5-8	45	23.3
		9-10	4	2.1
		11-12	3	1.6
		Certificate and above	44	22.6
4	Duration time of membership	Less than one year	14	7.3
		1-2 year	46	23.8
		3 and above years	133	68.9
5	Monthly deposit amount	Less than 100 birr	37	19.2
		101-500	120	62.2
		501-1000	29	15

		1001-1600	1	0.5
		Above 1600	6	3.1
6	Member have loan	Yes	149	77.2
		No	43	22.3
7	Amount of share the respondent have	Below 100 birr	86	44.6
		1001-5000	90	46.6
		5001-10,000	11	5.7
		10,001-15,000	5	2.6
		Above 15,000	1	0.5
8	Benefit gained from SACCO	1.Saving and credit	46	23.8
		2.Dividend	12	6.2
		3.Training	1	0.5
		4. Saving, credit and dividend	108	56
		5. Saving, credit and Training	0	0
		6. Dividend and training	0	0
		7. Saving, credit, dividend and training	24	12.4

Source: Field survey 2018

Table 4.2 presents the socio-demographic characteristics of respondents from sample SACCOs in Sankura Woreda of Silte zone, South Regional state. As shown in Table 4.2, the majority of the respondents (93%) were male and remaining 7% were female. This indicates that the program composes more male than female counterparts. This was also supported by data obtained from secondary sources that shows out of 1,545 members of SACCO female share is only 41(2.65%).

During **focused group discussion** one group member commented that:

The problem was due to patriarchal system which left women behind in development issues. Most of the womens were being overworked with activities assigned to them that are why they sometimes didn't attend to various issues that happened in the kebele. They always engage in home-based activities therefore they lack opportunity like attending meetings".

The extent to which institutions reach out to women and the conditions under which they do vary noticeably, but women are at a disadvantage when institutions did not participate women in every activity. Therefore in this study area the participation of women is very low and which shows that women are disadvantaged in economic activities of the country as a whole and particularly in study area.

With regard to respondents' age, 10.4% of respondents were between 18-25 age ranges, 53.4% between 26 to 35 age ranges, 30.6% of respondents range between age of 36 to 45 and 5.2% respondents were above 45 ages. This implies that the majority (63.8 %) of the respondents are in adult stage (between 18 and 35 years) that is believed to be productive and could actively participate in saving and credit cooperatives to achieve the expected objectives. In current, Ethiopia's youth development package and small and microenterprise development strategies designed different opportunities to youth. From such opportunities working and selling place, business skill training, short term technical and vocational training and access to agricultural inputs to rural areas are in better conditions.



#### 4.4 Practice of Cooperative principles in SACCOs

In the introduction section of this research, it was promised that the first research objective focuses on assessing how cooperative principles are practiced in SACCO of the study area. Accordingly, this section is devoted to achieving the first research objective of the study. As it was discussed in the review of the literature section, cooperatives have their own principles that make them unique from other business organizations and the proper application of these principles is so essential for the development of cooperatives.

##### 4.4.1 Practice of Democratic Membership Control Practice

Democratic member control is one of the fundamental principles of the cooperatives that guide the practice of cooperatives. It is the governance or control of an organization by its members through majority decision making (ICA, 2015). In addition to this, Odigbo, J. (2012) argued that men and women serving as elected representatives have equal voting right (one member one vote) and cooperatives at other levels are organized in democratic member control. Democratic member control practice in SACCOs is manifested largely in the form of participation in general meeting, participatory and transparent nature of meeting, democratic election of committee members and gender equality. Accordingly, the respondent members were asked to indicate the degree of their agreement on the issues related to the practice of democratic member control in their saving and credit cooperative and their response is presented in Table 4.3. 16.24+6.335+1.022+18.66+4.06

**Table 4.3: respondents' opinion on the practice of democratic member control**

Democratic member control	Frequency and percent	Respondents level of Agreement					Total	Mean	Std.
		Strongly disagree	Disagree	Neutral	Agree	Strongly agree			
All members attained the meeting properly	Freq.	56	35	14	60	28	193	2.84	1.490
	Perce.	29	18.1	7.3	31.1	14.5	100		
Meeting is highly democratic	Freq.	3	6	5	104	75	193	4.25	0.786
	Perce.	1.6	3.1	2.6	53.9	38.9	100		
Leaders are elected directly by members	Freq.	6	5	2	93	86	193	4.29	0.873
	Perce.	3.1	2.6	1.0	48.2	44.6	100		
Women participation is balanced in membership and leaders	Freq.	54	37	19	67	46	193	2.76	1.394
	Perce.	28	19.2	9.8	34.7	8.3	100		

Source: Field survey, 2018

## SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

### 5.2.1 Major Findings on the practice of cooperative principles in SACCOs

Under this heading, the survey finding about the practice of democratic member control, economic participation of members, autonomy and independence, education, training and information, cooperation with cooperatives, concern to community cooperative as well as voluntary and open membership principles in saving and credit cooperatives were presented. Accordingly, the major findings of the study will be presented as follows.

Co-operatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions.

### 5.4.1 Recommendation for Southern national regional state cooperative agency

SNNPR regional state cooperative promotion agency should give greater attention to enhance the current technical support and access of awareness creation on rules regulations and quality of rules and regulations as well as could prepare strategies to promote SACCOs as they are newly emerging development facilitating and inclusive organizations of poor rural societies in region as well as zone and woreda level.

### 5.4.2 Recommendation to Woreda Cooperative Promotion office

To ensure the success and sustainability of SACCOs woreda cooperative promotion office should intensify its' effort in providing training and information regularly to the community, members and leaders towards the guiding principles of cooperatives. This can enhance the participations of poor community and women in saving and credit cooperatives and to improve their livelihood.

### 5.4.3 Recommendation for SACCO managers

Cooperative societies can be stronger, effective and more sustainable if and only if all cooperative principles are observed and applied in the day to day operations. So that, SACCOs management bodies and committees should improve the practice of guiding cooperative principles in their day to day activities enhancing level of community and member awareness on guiding principles of cooperatives.

### 5.4.4 Recommendation for policy makers

Policy related saving and credit facilitation and provision for SACCOs and their members is critical issue in rural financial problem solving strategy and needs to be reviewed because woreda government organizations except cooperative promotion office were not giving attention for sustainable growth of SACCOs. As the program promotes saving culture and also enhance investment, policy and strategy issues could be forwarded to woreda level organizations as well as needs promotion for those nongovernmental organizations to participate in supporting SACCOs in different issues.

#### 5.4.5 Recommendation for further studies

The researcher recommends for further researches in the study area of practice and challenges of SACCOs in other woreda within the region as well as zone because other woredas in zone are in different context. Therefore, it is valuable to study deeper and larger scale research at woreda, zone, and regional level as well as country level in order to derive rigorous conclusions and policy recommendations on the practice of cooperative principles and challenges facing SACCOs. Here the researcher studied more about challenges those hinder sustainability and growth of SACCO and the current practice of seven internationally accepted cooperative principles and found that concern to community and education, training and information principles were in weak performance and need improvement.

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