

ORIGINAL ARTICLE

Impacts of Saving and Credit Cooperatives in Sustaining the Livelihoods of its Members in Elfeta Woreda, Oromia Region, Ethiopia

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Abstract

Saving and credit cooperatives play a great role in the livelihood of rural communities. Yet their role varies across cooperatives and places. Thus, the objective of this study was to assess the impacts of saving and credit cooperatives in improving the livelihoods of its members' in Elfeta district. The study employed descriptive research design, and both primary and secondary data were collected. Primary data were collected from 146 members through scheduled interview and 3 key informant interviews. The result of the study indicated that the major source of livelihoods of respondents was agriculture alone (i.e., 62.32%). The cooperative in the study area were established mainly for delivering credit services to its members', with the role of poverty reduction followed by employment creation. The study also indicated that saving and credit cooperatives were facing lack of awareness and knowledge, lack of access to credit facilities and poor management as major challenges hindering their role in poverty alleviation. Therefore, the government and the other financial sectors should provide support to cooperatives, which could allow them to expand and diversify their business operations.

Keywords: Cooperative, Livelihood, Saving and Credit.

Introduction

Cooperatives play a significant role in the world in improving the livelihood of poor households and in being part of rural life as they enable in poverty reduction, promote income generating activities and improve access to close banking services (Mhembwe and Dube, 2017; Tesfamariam, 2015). Yet, their contribution varies depending on whether they operate according to the values and principles of the cooperatives (ICA, 2018); as cooperatives around the world operate according to the same set of core principles and values (NRECA, 2016). As a result, cooperatives need additional support to adopt the successful model for ensuring livelihoods of the members (Kumar et al, 2015).

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Similarly, Savings and Credit Cooperatives (SACCO) are such types of cooperatives to pool savings for the members and in turn provide them with credit facilities (Tadael, 2017). They also develop material wellbeing by raising the living standards of members, by making possible regular savings and by using money wisely, by providing loans at low interest rate, and by making possible economic emancipation of members (Wolff, et al., 2011). Recently, there has been great recognition for rural finance like SACCO as a strong tool to used reduce poverty and contribute towards rural development (Biruk and Yuvaraj, 2013; Daniel, 2014; Gebrehiwotet al, 2011).by providing small scale financial services, mainly savings and loans, just like any other microfinance institutions, to their members in the presence of credit market failure (Nyankomo and Meshach, 2015; Pradhan, 2016).

Moreover, as studies conducted by Biruk and Yuvaraji, (2013) and Ergetew(2014) show SACCOs face the problem of loanable funds, absence of technical assistance of professionals, and failure of members to pay loan repayment on the due date, as most of members become a member in cooperatives forcefully by cooperative promoters,without assessing whether they could provide diversified services. Similarly, in Ethiopia, rural households have been experiencing livelihood challenges resulting from unemployment, climate change and decline in agricultural production and productivity. This implies that rural saving and credit cooperatives are becoming a huge force to count on as they have a potential to boost food security, increase employment opportunities and improve means of household. Hence, this study sought to identify the impacts of cooperatives in sustaining the livelihoods of rural communities' thereby ensuring sustainable livelihood at household level

Principles of SACCOs and their Contribution Towards Livelihood

Savings and Credit Cooperatives (SACCOs) are associations of people who have come together with a common goal of improving their livelihood economically. SACCOs share similar principles and values with other types of cooperatives. According to International Cooperatives Alliance (ICA, 2018) a cooperative is defined as an independent group of people who collectively own and democratically control an organization that would meet the social, cultural and economic needs shared by all members. Similarly, SACCO is a type of cooperative whose objective is to pool savings for the members and in turn provide them with credit facilities (Tadael, 2017).

Moreover, as stated by NRECA (2016), cooperatives around the world operate according to the same set of core principles and values adopted by the International Co-operative Alliance. Those principles and values are as follows:

1. *Open and Voluntary Membership*: this is the first principle that states that membership in a cooperative is open all persons who can reasonably use its services and stand willing to simply accept the policies of membership regardless of differences in race, religion, gender, or economic conditions.
2. *Democratic member control*: cooperatives are self-governing organizations controlled by their members, who vigorously participate in setting policies and making decisions. Elected representatives (directors/trustees) are elected from among the members and are responsible to the membership. In primary cooperatives, members have the same voting rights (one member, one vote); cooperatives at other levels are prepared during a democratic manner.
3. *Members' economic participation*: members contribute equitably and control democratically the capital of their cooperative. At least, a part of that capital remains the

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

4. *Autonomy and independence:* cooperatives are autonomous, self-help organizations managed by their members. If they enter into agreements with other organizations or raise capital from external sources, they are doing so on terms that ensure democratic control also as well as their unique identity.
5. *Education, training, and information:* education and training for members, elected representatives (directors/trustees), CEOs, and employees help them effectively contribute to the event of their cooperatives. Communications about the character and benefits of cooperatives, particularly with the overall public and opinion leaders, help boost cooperative understanding.
6. *Cooperation among cooperatives:* by working through local, national, regional, and international structures, cooperatives increase services, strengthen local economies, and deal more effectually with social and community needs.
7. *Concern for community:* cooperatives work for the viable development of their communities through policies sustained by the membership.

Under effective management and strength, a cooperative can be effective institutional arrangement in breaking the vicious cycle of poverty in the rural socio-economic context. The major roles of the cooperatives in the rural communities include poverty reduction, employment creation, improved food security, women empowerment, and human capital development (Bharadwaj, 2012).

Similarly, SACCOs played great role towards reducing poverty and achieving the expansion and promotion of income generating activities through improving access to close banking services to rural households (Tesfamariam, 2015). Different studies also indicate that SACCOs contribute to positive economic wellbeing and sustain livelihoods of many rural societies (Mhembwe and Dube, 2017; Oluyombo, 2010).

Moreover, in addition to sustaining livelihoods, microcredit delivered by SACCOs play vital role in leading family's economic condition towards having better education, health and social life (Chowdhury and Salleh, 2017). As Studies conducted by Dahir (2015) and Pradhan (2016) concluded, cooperatives through micro credits played vital roles in reducing poverty and creating employment opportunity.

Research Methods

Description of the Study Area

This study was conducted Elfeta district, which is one of the 22 districts in West Showa zone. The district is located 120km south west of Addis Ababa and 68km north of Ambo. It was established as an independent in 2007 detached from Dandi district. Elfeta has total land area of 39,342 hectares, out of which 66% is used for farming, 19.57% for grazing, and 9.3% is covered with forest, 2.5% with rivers and water bodies, and 2.7% is unusable (Elfeta District Agriculture and Natural resource Office, 2019).

Agro ecologically, the district is divided into dega/highland(45%), woinadega/mid-land(40%) and kolla/lowland(15%) with elevation range from 1800 to 3266m above sea level. Average annual rain fall of the district is 800 to 1172 mm (Elfeta District Agriculture and Natural Resource Office, 2019). The district has a total population of 114, 155 , out of which 75,902 are males and 38,253 females (CSA, 2008). The economic activity of

the district is mostly Agriculture. There are also others including trade which constitute only a very small percent. The district has 17kebeles out of which 15 are rural and the remaining 2 are urban.

Research Design

The research design used in this study was descriptive design employed to examine the relationships between saving and credit cooperatives and the livelihoods of its members (Best and Kahn, 2007).

Sampling Frame, Sampling Technique and Sample Size

Sampling Frame

The target population of this study were members of saving and credit cooperatives in Elfeta district. Accordingly, the total population(members) of saving and credit cooperatives in Elfeta district were 2,247,and these were considered as sampling frame for this study.

Sampling Technique

The respondents were purposely selected from Elfeta woreda saving and credit cooperatives because they have the knowledge of the area and that there was no research conducted in the area. Then, out of 12 rural saving and credit cooperatives, two cooperatives namely; Bekamtu and Biftu saving and credit cooperatives were selected by a simple random sampling technique due to time and financial constraints. Finally, sample respondents were selected by systematic random sampling using list of members in the two selected cooperatives, and interviews were carried out with the respondents.

Sample Size Determination

The sample size for collecting quantitative data for this research was determined by using a formula given by Yamane (1967). The following steps were used to determine sample size derived from the formula to collect quantitative data using interview schedule.

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

Where; n = Sample size, N= total numbers of members (2,247), e = the level of precision with 95% confidence level and with level of precision of 8%. Hence, the desired sample size is 146 saving and credit cooperative members.

Methods of Data Collection and Instruments

To conduct a tangible and reliable study, the researchers collected both primary and secondary data. Primary data were collected through scheduled interview given to 146 members using structured questionnaire. Interview is a two-way conversation process that involves the researcher (interviewer) asking questions from the participants (interviewees) to gather data or to learn about the ideas, beliefs, views, opinions and behaviours of the participants (Maree, 2016), it was supplemented by qualitative information gathered through 3 key informants picked from cooperative promotion agency workers. The sec-

ondary data were also collected through reviewing relevant published and unpublished cooperative records, manuals, report and other documents.

Method of Data Analysis

The collected quantitative data were encoded to SPSS ver. 21 for statistical analysis and were analysed through descriptive statistics, and then, were presented in figures and tables, where as qualitative data were analysed by paraphrasing and narrations.

Results and Discussion

General Characteristics of Respondents

The study result shows that about 24.66 % of sampled respondents were male and 75.34 % of respondents were females (See Table 1). This indicates that females were in a better position in saving and credit practices or membership to cooperatives.

Table 1. General Characteristics of Respondents

Variable	Categories	Frequency (N=146)	%
Sex of respondents	Male	36	24.66
	Female	110	75.34
Age of respondents	18-30	44	30.13
	31- 43	63	43.15
	44- 56	25	17.12
	>56	14	9.60
Educational level	Illiterate	94	64.38
	Primary	32	21.92
	Secondary	16	10.96
	Degree and above	4	2.74
Means of livelihoods	Agriculture only	91	62.32
	Agriculture and trade	32	21.91
	Trade	18	12.32
	Others	5	3.45

Source: Field Survey, 2020.

From the total of 146 respondents, it was found that 30.13% were in the age group of 18-30, 43.15% fell in the age group of 31-43 years, 17.12% in the age group of 44-56 years, and 9.60% were above year 56 years. This indicates that majority of respondents are youngsters in comparison to other age groups. With regards to educational level of members, majority (64.38%) were unable to read and write, followed by 21.92% who were at primary level (21.92, %) and 10.96% secondary and 2.74% above (13.7%) were degree and above. This indicates majority of respondents were unable to read and write that may limit utilization of services delivered by the cooperatives.

With regard to the respondents' means of livelihood, majority (62.32%) were working in agriculture only, 21.91% in both agriculture and trade; and 12.32% in trade, and 3.45%

in other means. This implies that majority of members rely only on agriculture as a means of livelihood where livelihood diversifications was still low and vulnerable to climate and related shocks.

Reasons for the Establishment of Rural Saving and Credit Cooperatives

The majority of respondents (69.17%) responded that the major reasons for establishment of saving and credit cooperative in the study area were to get access to credit services for different purpose (Table 2). This indicates that members of the cooperative were motivated to get access to credit services so as to improve resilience and to diversify means of livelihood of farming households. A study conducted by Ferguson (2012) confirmed that cooperatives have contributed to building sustainable livelihoods through providing access to financial services such as credit. Similarly, a study undertaken by Delelegne et al, (2016) on agricultural cooperatives in Ethiopia revealed that cooperatives provide credit by supplying inputs on loan to be paid back when the harvest has been sold.

Therefore, the fundamental reason of getting involved in cooperatives is to access credit/loan services and to enable its members to diversify the means of livelihood.

Reasons	Frequency (N=146)	%
To meet members' economic needs	25	17.12
Empowerment tool	3	2.09
To increase bargaining power on the market	8	5.47
As a defense against adverse social-economic conditions	4	2.73
To access credit for different purposes	101	69.17
To purchase bulk inputs at lower prices	5	3.42

Source: Field survey, 2020

Impacts of Rural Cooperatives in Improving Livelihoods of Rural Communities

The major role of the cooperatives in the rural communities as shown in the study area was poverty reduction (55.48%), followed by employment creation (27.40). Key informant interview result also indicates that while cooperatives were found to directly benefit their members, they also offered positive externalities to other members of the society. A study by Churk (2015) and Kumar et al., (2015) showed results similar with the findings of this study.

Roles	Frequency (N=146)	%
Employment creation	40	27.40
Poverty reduction	81	55.48
Improved food security	8	5.48
Women Empowerment	7	4.79
Human capital development	3	2.06
Creation of rural market	2	1.37
Social integration	5	3.42

Source: Field survey, 2020

Challenges Faced by Cooperatives in Sustaining Livelihoods of Rural Communities

Like any business and other types of cooperatives, rural saving and credit cooperatives in the study area face different challenges in delivering services to their members. Accordingly, the result of the study confirmed that the major challenges of saving and credit cooperative in the study area were lack of awareness and knowledge (54.10%), followed by lack of access to credit facilities (23.98%), poor management (14.38%), and the small value of shares (7.54%).

Table 4. Challenges for saving and credit cooperatives in sustaining livelihoods

Roles	Frequency (N=146)	%
Poor management	21	14.38
Small values of shares	11	7.54
Lack of access to credit facilities	35	23.98
Lack of awareness and knowledge	79	54.10

Education, training and information are among the basic principles of any cooperatives. Hence, the success of saving and credit cooperatives depends on the knowledge and awareness of its members towards their cooperatives. This indicates that cooperatives found in the study area were not working according to the principles and values of cooperatives because of members' limitation in education, training and information. Saving and credit cooperatives in the study area also face challenges of access to credit facilities. This shows that saving collection of the cooperatives and the credit needs of the members cannot be balanced with each other's that essentially requires more saving to deliver credit service for its members.

Other challenges of saving and credit cooperatives in the study area were related topoor management that implies that the committee members of the cooperatives lackleadership skills used for the proper management of the business of the cooperatives. These findings agree with the study conducted by Mohammed and Lee (2015) that concludes for cooperatives to be viable, there should be capable management and governance, as well as the ability to adapt to the prevailing business conditions, whereby rural cooperatives are expected to develop professional management which is democratic, inclusive, fair, transparent and strong in leadership.

Conclusion and Recommendations

Saving and credit cooperatives are the main financial solutions of the people who are at low income level and poorly accessed by conventional banks. The finding of the present study confirmed that saving and credit cooperatives in the study area were established for delivering credit services to their members as there were limited financial services. Thus, the major roles of saving and credit cooperatives in the area were poverty reduction, employment creation, food security improvement, women empowerment, social integration and human capital development. On the other hand, the cooperatives in the study area face challenges such as lack of awareness and knowledge, lack of access to credit facilities and poor management which prohibit them from operating at full capacity. Therefore, attention should be given to them by such stakeholders as cooperative promotion agency, non-government organization, and others in their efforts to overcome the challenges.

Conflict of Interest

The author declares there is no conflict of interest.

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