

Revised Final Report:

Project Number: 205095-001

SAVINGS AND CREDIT COOPERATIVES AND UNION FORMATION AND DEVELOPMENT FOR OROMIA AND SNNP REGIONS IN ETHIOPIA

I. Executive Summary:

- A. Project Number: 205095-001 conducted by Dennis L. Sharpe, Ph.D.
- B. Host Organization and Country: Oromia Cooperative Promotion Bureau (OCPB), Ethiopia
- C. Organization/Company: Agricultural Cooperative Development International/Volunteers In Overseas Cooperative Assistance (ACDI/VOCA)
- D. Assignment Dates: January 1 to February 4, 2005
- E. Scope of Work Revised: The objective of this assignment was to identify problems/constraints in the development of Savings and Credit Cooperatives (SCCs) and present recommendations and plans on how best to alleviate them. The Government believes that one of the best solutions and needed action for SCC development is the formation of Savings and Credit Cooperative Unions (SCCUs). (Note: in Ethiopia a Savings and Credit Cooperative Union is a federation of local Savings and Credit Cooperatives).

The second objective of the assignment was to review the feasibility of a SCCU and its impact on SCC sector growth. If SCCUs were deemed to be appropriate and feasible, the consultant was to develop plans and guidelines to establish SCCUs in the Oromia Region AND in the Southern Nations National Peoples (SNNP) Region. However, the consultant was told (during his fifth week in Ethiopia) that the title of the Scope of Work was incorrect, i.e., “SAVINGS AND CREDIT COOPERATIVES AND UNION FORMATION AND DEVELOPMENT FOR **OROMIA AND SNNP REGIONS** IN ETHIOPIA,” and instead the title to the project should have read, “SAVINGS AND CREDIT COOPERATIVES AND UNION FORMATION AND DEVELOPMENT FOR **OROMIA REGION** IN ETHIOPIA (eliminating union formation in the SNNP Region from the consultant’s scope of work).

Recommendation Summary: While conducting the feasibility study, it was discovered that, unknown to ACDI/VOCA and the Oromia Cooperative Promotion Bureau (OCPB), two Savings and Credit Cooperative Unions had already been registered in the SNNP Region. ***However, it should be noted that Action Aid donated one million birr to the formation of these two Savings and Credit Cooperative Unions.***

It is the opinion of the consultant that (at this time) an Oromia SCCU with only rural SCCs as members is neither feasible nor sustainable (without donor capital). Consequently, it is recommended that the SCCU be composed of both rural AND Urban SCCs. However, the consultant cannot stress too strongly that (in his opinion) the initial SCCU should be composed of rural SCCs in the Debre Zeit area. After the SCCU is formed, the urban SCCs will be invited to join and have delegates to the General Assembly. This plan of action should help dispel the fear that the urban SCCs will take over immediate control of the SCCU.

It is recommended that the OCPB proceed with the formation of a SCCU in Debre Zeit (located in the Oromia region), use the documents prepared by the SNNP Promotion Bureau as a model, and pay the manager's salary for at least two years. It is the consultant's opinion that Ato Umer Kassim would make an excellent choice as manager of the Debre Zeit Savings and Credit Cooperative Union.

While urban SCCs have (in many instances) shown tremendous growth, viability and sustainability, rural SCCs have (in many instances) shown little growth, viability and sustainability.

In addition, many urban SCCs have large sums of cash lying around idle, while, many the rural SCCs do not have enough cash to finance their members' credit needs.

SCCUs are an important step to service and sustain present (and future) SCCs. In the consultant's opinion, SCCUs would have a tremendous positive impact on all member SCCs.

SCCUs could provide (among many other services) the needed oversight and adherence to financial disciplines, such as **PEARLS** (**P**rotection; **E**ffective Financial Structure; **A**sset Quality; **R**ates of Return and Costs; **L**iquidity; and **S**igns of Growth) monitoring and reporting.

The Key Really Comes Down To Management. If The Resources Can Be Found (by the SCCUs) To Attract And Retain Key Employees (To Facilitate, Educate, And Support The SCCs) Major Accomplishments Will Be Achieved For Both The Urban And The Rural Economies.

It should be noted that the consultant was unable to adequately present the case (to VOCA's Ethiopian staff) that a Savings and Credit Cooperative should be addressed differently than other types of cooperatives. The consultant acknowledges that perhaps his opinion is biased and incorrect. However, in the consultant's opinion, membership in savings and credit cooperative unions can and must be economically diversified. While other cooperatives may specialize in one product or a related group of products and services, the credit portfolio of a savings and credit cooperative must be spread among many activities. Rural banks in the United States have historically diversified their loan portfolios as: 20% production credit, 40% secured consumer loans, and 40% trade and industry loans. The rationale for this procedure is that if one sector of the economy suffers the others will likely buoy the weak sector up within the bank's loan portfolio. Note carefully that even with the level of sophistication found in US banks and among US farmers, production credit is rare to exceed 20% due to its implicit risk. This strategy of diversification is sound for rural Ethiopia. Savings and credit cooperatives must diversify their loan portfolios (and hence their memberships) to include not only farmers, but also traders, processors, civil servants, etc. Using this strategy, there will be greater stability in the credit (and the savings) portfolio. The institution will be more capable of coping with default risk. However, it must be observed that this type of cooperative, by definition cannot be composed sole of one sort of producer or another.

II. Body of the Report:

- A. Host Institution Background: Located in the Horn of East Africa, Ethiopia (with an estimated population of 70 million) is a land-locked nation surrounded by Eritrea to the north, Djibouti and Somalia to the east, Kenya to the south and Sudan to the west. It is the 10th largest country in Africa.

In addition, Ethiopia is endowed with vast agriculture, mineral, and energy resources, which remain virtually untapped. In 1992, following the collapse of the military dictatorship (The Derg) and command economy, Ethiopia took a major policy shift towards democracy and economic development.

The Government of the Federal Democratic Republic of Ethiopia has introduced an economic reform plan that emphasizes the use of the free market mechanisms and liberalized trade and investment laws to encourage foreign investment and trade, as well as domestic entrepreneurs.

Agricultural cooperative development objectives are to organize farmers and build their capacity to take control of the products of their labor and

economic decisions affecting their production and lives. The cooperatives are fundamentally self-help business-oriented organizations. Farmers and their “Cooperative Organizations” learn to treat agriculture as a business.

Cooperatives are a means to bring millions of Ethiopian small-scale farmers together. Smallholder farmers can reach distant and high value markets through cooperatives. Government and Donors can reach down to the smallholder farmers through cooperatives.

Socialist and political cooperatives during “The Derg” tended to make the cooperatives and farmer associations wither in Ethiopia. However, the 1994 and 1998 Proclamations established new principles for cooperation.

The Ethiopian Proclamation Principles are those accepted around the world:

- Voluntary and open to all;
- Democratic, i.e., one person, one vote;
- Private and self-governing;
- Free from government involvement in decision making and operations;
- Professionally managed and business/service oriented;
- Farmer cooperation and self-help.

The Federal Cooperative Commission is small and focused on national policy and cooperative system structure and development. The Regions through their Cooperative Promotion Bureaus are the main channels for direct involvement with cooperatives and unions.

The programs implemented by ACIDI/VOCA work on an operational level with the Cooperative Promotion Bureaus in the Regions of Tigray, Amharha, Oromia, and Southern Nations. ACIDI/VOCA has on going agreements with all four regions.

There are over 93 Savings and Credit Cooperatives operating in four regions of Ethiopia whose development and operation have been facilitated by ACIDI/VOCA. They operate as independent business entities controlled by their boards and members. In addition, they operate as self-managed savings and credit institutions regulated (as per federal cooperative proclamations) by the Cooperative Promotion Bureaus of the regional governments.

The cooperatives have a total membership of 5,157 members (1,158 are female). Thirty-two percent (32%) of the ninety-three (93) SCCs are in the Oromia Region and twenty-nine percent (29%) of the SCCs are in the SNNPR Region.

To more effectively reach out to small scale farmer clients (members) the cooperatives require (among other things):

- Additional Organizational Development
- Additional Knowledge
- Additional Skills
- Additional Products

B. The Assignment Was Expected To Result In The Following Major Outcomes:

- Identification of SCC constraints and strengths;
- Recommendations and plans on how to address the weaknesses and build on the strengths in the areas of:
 - SCC Structure;
 - Procedures to improve lending and savings products;
 - Policy and regulations;
 - Management structure and capacity building.
- A feasibility study on forming Savings and Credit Cooperative Unions (SCCUs) which would include:
 - Identification of threats and opportunities for a SCCU;
 - Procedures for SCCU formation;
 - An Organizational Chart for a SCCU;
 - Operational and financial relationships between a SCC Union and its member SCCs;
 - Method(s) for SCCU capitalization;
 - A SCCU Business Plan.

C. Scope of Work/What Was Done:

1. Using ACDI/VOCA's facilities and technical support the consultant conducted the following activities:

- The consultant met with ACE (Agricultural Cooperatives in Ethiopia) technical staff to discuss the assignment:
 - ACE–Oromia Field Staff in Addis Ababa
 - ACE-South Field Staff in Awassa (275 Km South of Addis Ababa)
- The consultant traveled and conducted field interviews with representatives of the following organizations:

- Oromia Cooperative Commission Staff
 - National RUFIP Coordination Office
 - Oromia Savings and Credit Share Company
 - Commercial Bank of Ethiopia
 - Cooperative Bank of Ethiopia
 - SNNPR Cooperative Bureau Staff
 - Federal Cooperative Commission
 - Specialized Financial & Promotional Institution
 - Hidi Savings and Credit Cooperative
 - Babo Gayait Savings and Credit Cooperative
 - Lume-Adama Sugar Cane Union
 - Woji Sugar Cane Union
 - Tede and Kolba Savings and Credit Cooperative
 - Wonji, Kurufu Savings and Credit Cooperative
 - Sidama Zone, Coffee Cooperative Working In Collaboration With a Savings and Credit Cooperative
 - Gedo Zone, Coffee Cooperative Working In Collaboration with a Savings and Credit Cooperative
 - Sasamo Dela Savings and Credit Cooperative
 - Telamo Berhan Savings and Credit Cooperative
 - Atote Savings and Credit Cooperative
 - Chabicho Savings and Credit Cooperative
- The consultant read, reviewed and assessed existing proclamations, by-laws policies, regulations, policies, procedures, and strategies;
 - **Cooperative Societies Proclamation No. 147/1998**
 - A proclamation to provide for the establishment of cooperative societies
 - **Council of Ministers Regulation No. 106/2004**
 - This regulation was issued by the Council of Ministers pursuant to Article 5 of the definition of Powers and Duties of the Executive Organs of the Federal Democratic Republic of Ethiopia Proclamation No. 4/1995 and Article 59 of Cooperative Societies Proclamation No. 147/1998
 - **Cooperative Societies Amendment Proclamation No. 402/2004**

- Any cooperative society, which has been legally registered pursuant to Sub Article 3 of this Article, shall engage in any business as of the date of registration without the necessity of securing additional trade license.
- Any cooperative society shall, after securing the decision of the general assembly, shall sell shares that shall have equal number and par value with the view to enable the society to obtain capital necessary to start its function.
- Any cooperative society shall collect upon its formation from its members at least 1/5 of the amount of the shares that the general assembly has decided to be sold within four years of its establishment.
- The shares that the society sells may be sold either in cash or in kind. Shares paid in kind shall be determined by the by-laws of the society.
- Any cooperative society shall deduct 30% of its net profit allocate for the reserve fund. The amount allocated for the reserve fund shall not exceed 30% of the capital of the society and it shall be deposited in the savings account of the society.
- The distribution of the remaining net profit shall be distributed by the general assembly.
- Any member who has received net profit as per Sub Article 2 of this Article can buy additional shares.

➤ **Savings and Credit Cooperative Limited Model By-Laws**

- 65 Articles
- 60 Pages

➤ **Selected Readings for the Management of Savings and Credit Cooperatives by Richard John Pelrine, December 2001**

- **Introduction To Rural Finance**
 - a. Supply and Demand Review (3 pp)
 - b. Fragmentation, Causes of Fragmentation and a Solution for Fragmentation in Ethiopia's Rural Financial Markets (3pp)

- c. ACE Cooperative Savings and Credit Strategy (10 pp)
- **Savings And Credit Cooperatives**
 - a. Committee Function in Saving and Credit Cooperatives (10 pp)
 - b. Linking Rural Saving and Credit Cooperatives to Urban Banks (5 pp)
 - c. Concentrating on Function in Saving and Credit Cooperatives (4 pp)
- **Tools For Savings and Credit Cooperative Operations**
 - a. Interest Rate Determination (4 pp)
 - b. Compound Interest (4 pp)
 - c. Compound Interest for On-Lending(3pp)
 - d. Declining Balance (18 pp)
 - e. Profit, Risk and Cost in Saving and Credit Cooperatives (14 pp)
- **Model Policies For Savings And Credit Cooperatives**
 - a. Financial Solutions (FINASOL) Model Statutes (31 pp)
 - b. Guideline For Accepting Members To Savings and Credit Cooperatives (3 pp)
 - c. Guidelines For Saving Policies for Saving and Credit Cooperatives (5 pp)
 - d. Guidelines for Lending Policies for Saving and Credit Cooperatives (13 pp)
 - e. Liquidity Risk and Liquidity Management for Saving and Credit Cooperatives (9 pp)
- **Tip Sheets**
 - a. The Role of Share Equity in Cooperatives (3 pp)
 - b. Strategy for Maintenance of Sound Leverage Ratios (2 pp)
 - c. Encouraging Members to Save On Time (2 pp)
 - d. After Receiving Interest From A Bank, How Does a SCC Pay Interest On Savings (3 pp)
 - e. Allocating Dividends (3 pp)
 - f. Saving Up (2 pp)

➤ **CARE International’s Village Savings & Loan Programs in Africa – Micro Finance for the Rural Poor that Works, by Hugh Allen, Tanzania 2002**

“What makes the Village Savings and Loan model unusual is that it attempts to build sustainable traditions rather than sustainable institutions. Only time will tell if it succeeds. But if it does succeed, its principles could be transferred to other parts of the world where reliable savings clubs may exist but may be unfamiliar to parts of the population. The story told in this paper is therefore a fresh and intriguing one, and Mr. Allen tells it with enthusiasm.”

- The consultant identified constraints faced by savings and credit cooperatives and suggested appropriate remedies covering, SCC structure and organization, procedures to improve lending and saving products, management structure and capacity building.
- Before listing the services that could be provided by a SCC Union, it is important to review some of the problems/constraints faced by existing (and future) primary SCCs:
 - Late savings deposits because some members do not save on the designated savings day;
 - Problems getting guarantors for loans;
 - Loan delinquency;
 - Lack of understanding of the SCCs by the members;
 - Very slow (small) growth in SCC membership;
 - The space reserved for voluntary savings in SCC passbooks is inadequate;
 - Lack of technical know-how to run the SCCs;
 - Different committees not fulfilling their duties and responsibilities;
 - Lack of office space;
 - Lack of office equipment;
 - Lack of technical assistance;
 - Insufficient loan funds;
 - Too much idle cash;
 - Lack of financial management;

- The consultant addressed that fact that the Savings and Credit Cooperatives need to offer **THE RIGHT PRODUCT; AT THE RIGHT PRICE; AT THE RIGHT PLACE; AND MAINTAIN OPEN AND APPROPRIATE COMMUNICATION WITH ALL STAKEHOLDERS.** For example the consultant offers the following problems and recommendations.
 1. **Problem:** Rural Savings and Credit Cooperatives stop growing once they are formed. One SCC even lost members during the past year. The farmers in the Coffee Union see no reason to join.
 - **Recommendation:** Offer a product like no other type of financial institution offers. The SCC could offer its members loan protection insurance, i.e., if a member with a loan should die, his/her loan would be forgiven. Another product that the SCC could offer would be life savings insurance, i.e., if a member dies his/her voluntary savings account would be doubled (up to a limit).
 2. **Problem:** Coffee growers have money 3 or 4 months out of the year and then they are broke for the rest of the year.
 - **Recommendation:** Offer to farmers (at no charge) the service of holding their money (earned during the coffee growing season) and letting them have 1/12th each month. They could always borrow against this money with no guarantors. At the same time, the SCC could offer training in budgeting and cash handling.
 3. **Problem:** VOCA trains employees of the Promotion Bureau (via a Training of Trainers Program). However, there is a high turnover of employees in the Promotion Bureau and the trainers, in many cases, are no longer around.
 - **Recommendation:** Form Savings and Credit Cooperative Unions and train the employees of the SCCU (via a Training of Trainers program) who will, in turn train the members, directors, committee members, etc. of the SCC.
 4. **Problem:** Rural Savings and Credit Cooperatives lack technical expertise. The board members of one SCC said their SCC was formed two years ago and they are still waiting for follow-up training.

- Recommendation: Budgetary Resources and Human Resources would be better utilized by forming SCCUs and letting the SCCUs' employees (with VOCA's assistance) provide the necessary technical expertise.
5. Problem: Lack of effective communication between VOCA and the Promotion Bureau. This lack of communication will, ultimately, negatively affect the SCCs.
- Recommendation: Leaders of both organizations should meet (with 1 senior level staff person) at least monthly. The purpose of the meetings would be to discuss all ongoing and future projects that are being contemplated. There should be a written agenda (prepared in advance). In addition, each organization (subsequent to the meeting) should prepare a written Letter of Perceived Understanding as to what transpired at the meeting.
6. Problem: Lack of personnel who can properly manage the SCC's finances.
- Recommendation: Additional training for SCC members, directors, committee members, etc. Possibly outsourcing this function to a SCCU.
7. Problem: Inability to meet loan demand
- Recommendation: Form conditions for cooperation among other SCCs multipurpose unions, and banking organizations. In addition, provide additional training to SCC for savings mobilization. The formation of a SCCU would greatly enhance a SCC's ability to meet an increased loan demand.
8. Problem: Inability to access external credit that can facilitate the best interest rate.
- Recommendation: If a SCCU is not available, then an appropriate education, training and development program should be provided.
- The consultant addressed that fact that a Savings and Credit Cooperative Union could address the many of the needs of a SCC. However, in the event that a SCCU is not formed, the following

needs can be met with appropriate training and organizational development.

1. Need to knit capacity;
 2. Need to develop self-reliance;
 3. Need to hire an internal auditor;
 4. Need to facilitate training at the primary SCC level;
 5. Need to link rural and urban economies;
 6. Need to have the ability to provide different office documents;
 7. Need to have the ability to buy in bulk;
 8. Need to have (and possibly provide) appropriate legal services;
 9. Need to have timely and up-to-date preparation of financial statements;
 10. Need to have the ability to purchase appropriate investments;
 11. Need to have assistance in the purchase of fixed assets, office supplies, etc.
 12. Need to have the ability to respond to the amalgamation and formation of other financial institutions and/or other forms of production;
 13. Need for a federation and membership participation (at local, regional, national and international levels);
 14. Need to have the ability to assist SCCs (and members of SCCs) in taking out loans.
- The consultant presented the case for forming a Savings and Credit Cooperative Union;
 - Initially, it was envisioned that there would be rural Savings and Credit Cooperative Unions for the farmers and separate urban Savings and Credit Cooperative Unions for the city dwellers.
 - However, as the assignment progressed, the consultant became convinced that a SCC Union would be more efficient and sustainable if it were composed of both urban AND rural SCCs
 - The assignment then became an OD (organizational development) issue with political considerations. According to Burke (1987) organization development is, “... *a planned process of change in an organization’s culture through the utilization of behavioral science technology and theory.*” Burke went on to say that, “*OD practitioners have been fairly*

naïve about and reluctant to deal with power and politics in organizations.”

- According to Schien, (1987), “... *managers have a common problem: how to influence situations toward desired goals in the human systems in which they intervene.*” Schien went on further to state, “*But observe effective managers in their day-to-day behavior. You will notice that a great deal of what they do resembles strikingly what consultants would advocate as helpful intervention. So I argue that effective managers can and should operate in a manner similar to consultants, and they can learn much from consultants on how to intervene helpfully to achieve the desired results.*”
- The consultant proposed Savings and Credit Cooperative Union Activities that would:
 - Ensure that there is efficient financial management at both the SCC Union level and at the primary SCC level;
 - Ensure that the primary SCCs produce timely reports;
 - Facilitate the exchange of financial reports between SCCs;
 - Facilitate intermediation between SCCs to eliminate idle funds at the SCCs;
 - Create a strong financial center;
 - Create a strong body, which will be recognized by other formal financial institutions and governmental entities;
 - Access loan funds from other sources;
 - Organize training at the SCC level;
 - Develop SCC self-reliance and sustainability;
 - Link the urban and rural community with financial services;
 - Provide audit and internal control services to primary SCCs.
- The consultant conducted a Savings and Credit Cooperative Union Opportunities and Threats Analysis;

- Cooperative Unions have generally been organized where there are problems that cannot be solved individually. In these cases, the cooperatives bring together those facing similar problems. .
- A Savings and Credit Cooperative Union could assist the primary Savings and Credit Cooperatives develop the necessary administrative and financial capacity to serve the SCCs. In addition, a SCC Union could assist in serving the multipurpose cooperatives that join the member Savings and Credit Cooperatives.
- It is obvious that Savings and Credit Cooperative Unions are needed if the rural Savings and Credit Cooperatives are to grow and become self-sustainable.
- It is also obvious that there are numerous internal and external threats. However, in the consultant's opinion, *one of the greatest threats to this project. is paralysis by analysis.*
- The consultant conducted a feasibility study, which indicated that the formation of a SCC Union, based only on rural Savings and Credit Cooperatives, is neither feasible nor sustainable (without donor capital). **It should be noted that VOCA's Ethiopian staff does not share this opinion.** However, a SCC Union (made up of both urban **AND** rural SCCs) would address many of the problems encountered by Savings and Credit Cooperative and would stand a better chance of growth and sustainability.

EXECUTIVE SUMMARY

FEASIBILITY STUDY CONCERNING THE FORMATION OF SAVINGS AND CREDIT COOPERATIVE UNIONS IN THE OROMIA AND SNNP REGIONS IN ETHIOPIA:

Project Number: 205095-001 conducted by Dennis L. Sharpe, Ph.D.

Host Organization and Country: Oromia Cooperative Promotion Bureau (OCPB),
Ethiopia

Organization/Company: Agricultural Cooperative Development International/Volunteers
In Overseas Cooperative Assistance (ACDI/VOCA)

Assignment Dates: January 1 to February 4, 2005

Purpose: The government of Ethiopia believes that one of the best solutions and needed action for Savings and Credit Cooperative (SCC) development is the formation of Savings and Credit Cooperative Unions (SCCUs). (Note: in Ethiopia a union is a federation of local Savings and Credit Cooperatives). If SCCUs were deemed to be appropriate and feasible, the consultant was to develop plans and guidelines to establish SCCUs in the Oromia and SNNP Regions in Ethiopia

Method: The direct interview method was chosen as the primary data-gathering vehicle. Clearly, interviews are time consuming and unfeasible when there is a vast population to reach. However, it was determined that the relatively small size of the population lent itself to using the direct interview method. In addition, if strong feelings exist about a subject, only a direct interview can permit two-way affective exchange.

Results: Results yielded 23 usable field interviews. SCC problems and constraints were identified and addressed. The typical respondent felt that the best solution and needed action for the development of existing (and future) SCCs would be the formation of SCCUs. While conducting the feasibility study, it was discovered that, unknown to ACDI/VOCA and the Oromia Cooperative Promotion Bureau (OCPB), two Savings and Credit Cooperative Unions had already been registered in the SNNP Region.

Conclusions: In view of the findings of this study, it is recommended that the OCPB proceed with the formation of SCCUs in Debre Zeit (using the documents prepared by the SNNP Promotion Bureau as models). It is also recommended that SCCUs' members include both rural AND urban primary SCCs. It is the consultant's opinion that (at this time) rural SCCUs, with only rural primary SCCs as members, are neither feasible and/or sustainable without donor capital.

**FEASIBILITY STUDY CONCERNING THE FORMATION
OF SAVINGS AND CREDIT COOPERATIVE UNIONS
IN THE OROMIA AND SNNP REGIONS IN ETHIOPIA**

It was discovered that both ACDI/VOCA and the Oromia Cooperative Promotion Bureau were equally unaware that two Savings and Credit Cooperative Unions were already registered in the SNNP Region (*note, part of the assignment was “UNION FORMATION AND DEVELOPMENT FOR THE SNNP REGION IN ETHIOPIA”*).

This discovery made the assignment a great deal easier. The consultant was able to acquire a set of approved documents that could be used as a model for the forming of SCC Unions in the Oromia Region. Although it might be embarrassing that ACDI/VOCA and the OCPB were not kept apprised of the registering of the two Savings and Credit Cooperative Unions in the SNNP Region, it would be counter-productive not to use the finished product.

Reviewing the documents and refining them to meet the requirements of the Oromia Region, will save a great deal of time.

The Following documents were presented (in the national Language of Ethiopia) to ACDI/VOCA and the Oromia Cooperative Promotion Bureau:

- A Sample Savings and Credit Cooperative Union Feasibility Study and Five-Year Business Plan
- A Sample Savings and Credit Cooperative Union Background Information
- A Sample Savings and Credit Cooperative Union Organization Manual.
- A Sample Savings and Credit Cooperative Union Organization Manual (Revised Version)
- A Sample Savings and Credit Cooperative Union Credit Manual
- A Sample Savings and Credit Cooperative Union Formation
- A Sample Savings and Credit Cooperative Union Credit Manual

- A Sample Savings and Credit Cooperative Union Formation Documents
- A Sample Savings and Credit Cooperative Union By-Laws
- A Sample Savings and Credit Cooperative Union Promotion Desk Evaluation/Formats/Forms
- A Sample Savings and Credit Cooperative Union Request for Application and Registration
- A Sample Savings and Credit Cooperative Union Letter of Certification of Registration

Although the documents could certainly be improved upon, they adequately address the requirements for the assignment. The sample documents:

- Show an Organizational Chart for a SCC Union
- Clearly stipulate the duties and responsibilities of each function under the proposed organizational structure and delineates accountability for each function
- Identify and suggest manpower required to make the SCC Union function and the appropriate job descriptions
- Describe methods of representation of the Savings and Credit Cooperatives in the SCC Union and the number of SCC Union board members
- Describe the size of a SCC Union, which would make the union economically feasible
- Stipulate how the SCC Union is to be capitalized by its members and indicates also the parameters that are needed to make the system work
- Identify other sources of funds
- Show a written Five Year Business Plan
- Show the effective working relationship(s) between a SCC Union and its SCC members

**LOCATION OF OROMIA
PILOT SAVINGS AND CREDIT COOPERATIVE UNION**

Criteria For the Selection of the Ideal SCC Union Office Location:

1. Should be in the middle of the primary SCC locations;
2. Should be the shortest distance to travel for the delegates;
3. Should have electricity, telephone and water connections available;
4. Should be easy to reach by public transport;
5. Should have a Postal Service Office nearby;
6. Should be near a commercial bank;
7. Should have access to “rent free” office space; and
8. Should be close enough so that meetings are 1-day long (so that the only costs are travel and a small per diem).

Recommendation:

After considering all of the criteria, it is recommended that the Pilot SCC Union be located in Debre Zeit.

Actually, only two locations fulfill most, if not all of the criteria:

1. Debre Zeit; and
2. Modjo

In fact, Modjo fulfills all of the criteria except the availability of “rent free” office space. Thus Modjo would be the most logical location except that this will require rent payment and some form of office security arrangement. The choice of Debre Zeit, on the other hand, would provide access to “rent free” office space, at the Multipurpose Cooperative Union Office and no extra cost for security considerations.

REPRESENTATION TO THE OROMIA PILOT SAVINGS AND CREDIT COOPERATIVE UNION

Recommendation:

It is recommended that each SCC have 1 delegate plus 1 delegate per 50 primary members or part thereof (to a maximum of 10 delegates).

It is further recommended that each delegate:

1. Must be able to speak Oromifa and Amharic;
2. Must have a minimum Grade 4 Level of education;
3. Must never have been involved in any embezzlement of funds;
4. Must be loyal to the SCC and its principles;
5. Must be honest;
6. Must be willing (and able) to serve and participate in any work required, as well as training; and
7. Must be able to effectively communicate information and ideas from the primary SCC to the SCC Union and from the SCC Union meeting back to the primary SCC (both at a board level and at a general membership level).

Participation.

Its dictionary meaning is: “Having a share, taking part and having something to do with”, which in turn, means:

- Sharing burdens and responsibilities of the society equally as we share the rights.
 - All should share burdens as all are endowed with the rights.
- Taking part in decision making
 - People should be given the chance to be led by their own decisions.
 - Taking part in social issues (actions for common good)
 - Since the action is for the common good of the people, everyone should participate as equally as possible. There are two ways of participation in both civic & political issues of a society.
 - i. Direct participation
 - Fulfilling our responsibilities by carrying them out ourselves.
 - ii. Indirect participation
 - *This one is fulfilling our responsibilities through representatives.*

**DOCUMENTATION REQUIRED FOR THE OROMIA
PILOT SAVINGS AND CREDIT COOPERATIVE UNION**

I. REQUIRED FOR REGISTRATION:

A. By-laws

1. Name and address;
2. Definitions;
3. International Cooperative Alliance's Principles
4. Objectives and activities;
5. Area of operation;
6. Membership;
7. Member rights and duties;
8. Management bodies;
9. Termination of membership
1. Credit policy;
2. Accounts and records;
3. Allocation of net surplus;
4. Auditing;
5. Fiscal years;
6. Amendments;
7. Internal regulations;
8. Settlement of disputes;
9. Amalgamation;
10. Federation;
11. Logo;
12. Capital;
13. Ownership;
14. Borrowing;
15. Validation of the by-laws;

B. Three Year Business Plan;

C. Statement of Office Hours of Operation;

D. Credit Policy and Procedures Manual;

II. NOT REQUIRED FOR REGISTRATION (But should be developed):

Accounting Manual;

Development of Savings Products;

Personnel Policy Manual;

Financial Report Formats and Instructions;

Database Format and Data Collection Requirements.

Recommendation:

Reviewing the documents and refining them (using the documents prepared by the SNNP Bureau as models) to meet the requirements of the Oromia Region, will save a great deal of time.

**ESTIMATED INITIAL MINIMUM CAPITALIZATION REQUIRED
FOR A FOR A PILOT SCCU
(Exchange Rate 1 US\$ = 8.5 Birr)**

	Amount Ethiopian Birr
1) Authorizing 1,500 Shares @ At a Nominal Value of 1,000 Birr/Share and Selling 500 Shares	500,000
2) Based On 8 SCCs (With a Total Membership of 1,000 Members) Each Paying a 375 Birr Registration Fee	<u>3,000</u>
TOTAL INITIAL MINIMUM CAPITALIZATION REQUIRED FOR A PILOT SCCU	503,000

In view of the findings of this study, it is recommended that the OCPB proceed with the formation of SCCUs in Debre Zeit and use the documents prepared by the SNNP Promotion Bureau as models.

It is further recommended that a SCCU's members include both rural AND urban primary SCCs. It is the consultant's opinion that rural SCCUs, with only rural primary SCCs as members, are neither feasible and/or sustainable (without donor capital).

Membership in Savings and Credit Cooperative Unions can and must be economically diversified. While other cooperatives may specialize in one product or a related group of products and services, the credit portfolio of a savings and credit cooperative must be spread among many activities. Rural banks in the United States have historically diversified their loan portfolios as: 20% production credit, 40% secured consumer loans, and 40% trade and industry loans. The rationale for this procedure is that if one sector of the economy suffers the others will likely buoy the weak sector up within the bank's loan portfolio. Note carefully that even with the level of sophistication found in US banks and among US farmers, production credit is rare to exceed 20% due to its implicit risk. This strategy of diversification is sound for rural Ethiopia. Savings and credit cooperatives must diversify their loan portfolios (and hence their memberships) to include not only farmers, but also traders, processors, civil servants, etc. Using this strategy, there will be greater stability in the credit (and the savings) portfolio. The institution will be more capable of coping with default risk. However, it must be observed that this type of cooperative, by definition cannot be composed sole of one sort of producer or another.

LIST OF EQUIPMENT/ OFFICE SUPPLIES FOR A PILOT SCCU OFFICE
ESTIMATED INITIAL START-UP COSTS
(Exchange Rate 1 US\$ = 8.5 Birr)

	Amount Ethiopian Birr
TRANSPORTATION:	
1 175 CC Motorcycle	<u>22,000.00</u>
Transportation Sub-total	22,000.00
LARGE OFFICE EQUIPMENT	
1 Lateral filing cabinet for box file	1,073.00
1 4-drawer filing cabinet	920.00
1 Double pedestal office desk	974.00
1 Conference table	395.00
1 Medium-back managerial swivel chair	1,148.00
1 bookshelf with one door	640.00
6 Guest chairs, steel tube legs	930.00
1 Flip chart stand	1,600.00
1 Computer, including UPS	22,000.00
1 DeskJet printer	10,000.00
1 100 Kg. office safe	<u>3,000.00</u>
Large Office Equipment Sub-total	64,680.00
SMALL OFFICE EQUIPMENT	
3 Paper trays	20.40
1 Omega pencil sharpener	58.00
2 Staplers – rapid 18	62.00
2 Pin trays – Omega	22.00
2 Punchers	50.00
1 Olympia desk calculator	1,200.00
1 Hand-held business calculator	265.00
2 Waste buckets	<u>19.00</u>
Small Office Equipment Sub-total	1,696.40
OFFICE SUPPLIES	
20 Reams of printer paper	1,000.00
20 Writing pads big – Sinar line	136.00
5 Flip char paper (pads)	225.00
10 pin packs	14.00
12 Pencils	3.00
2 Packs of bic pens – 1 blue and 1 black	99.00
10 Packs of fasteners	95.00
500 Flat files – 250 gm.	355.00
5 Packs of clips	5.50
10 Toner cartridges for printer	5,000.00
100 Suspended files	1,000.00
4 Minute books	80.00
10 Payment voucher books – Triplicate – 50 receipts per book	<u>250.00</u>
Office Supplies Sub-total	8,512.50
TOTAL ESTIMATED COST TO EQUIP 1 SCC UNION OFFICE	74,888.90
(Not Including the 175 CC Motorcycle)	

ANNUAL ESTIMATED BUDGET FOR A PILOT SCC UNION
(Exchange Rate 1 US\$ = 8.5 Birr)

	Amount Ethiopian Birr
ANNUAL SOURCES OF REVENUE (After Initial Capitalization)	
Interest on investments	20,000.00
Dues	10,000.00
Fees for services	600.00
Income from selling services	1,000.00
Income from selling products	<u>1,000.00</u>
ESTIMATED ANNUAL GROSS REVENUE	32,600.00
 ANNUAL OPERATING EXPENSES (After Initial Capitalization)	
Rent and security services (0.00% of Gross Income)	0.00
Salaries & related (76.69% of Gross Income)	25,000.00
Board & staff development (1.135 of Gross Income)	368.00
Association dues ((0.75% of Gross Income)	245.00
Office operations (9.32% of Gross Income)	3,038.00
Office occupancy (6.0% of Gross Income)	1,956.00
Marketing (1.06% of Gross Income)	346.00
Legal (2.0% of Gross Income)	652.00
Supervision & examination (0.23% of Gross Income)	75.00
Annual general assembly meeting (0.33% of Gross Income)	108.00
Miscellaneous (2.5% of Gross Income)	<u>812.00</u>
ESTIMATED ANNUAL OPERATING EXPENSES	32,600.00

**The Above Estimated Budget is Based Upon An Initial Capitalization of 503,000
Ethiopian Birr and Earning A Minimum of 6.48% on Assets.**

III. Additional Comments and Observations:

The consultant was unable to adequately present the case (to VOCA's Ethiopian staff) that a Savings and Credit Cooperative should be addressed differently than other types of cooperatives. The consultant acknowledges that perhaps his opinion is biased and incorrect. However, in the consultant's opinion:

Membership in Savings and Credit Cooperative Unions can and must be economically diversified. While other cooperatives may specialize in one product or a related group of products and services, the credit portfolio of a savings and credit cooperative must be spread among many activities. Rural banks in the United States have historically diversified their loan portfolios as: 20% production credit, 40% secured consumer loans, and 40% trade and industry loans. The rationale for this procedure is that if one sector of the economy suffers the others will likely buoy the weak sector up within the bank's loan portfolio. Note carefully that even with the level of sophistication found in US banks and among US farmers, production credit is rare to exceed 20% due to its implicit risk. This strategy of diversification is sound for rural Ethiopia. Savings and credit cooperatives must diversify their loan portfolios (and hence their memberships) to include not only farmers, but also traders, processors, civil servants, etc. Using this strategy, there will be greater stability in the credit (and the savings) portfolio. The institution will be more capable of coping with default risk. However, it must be observed that this type of cooperative, by definition cannot be composed sole of one sort of producer or another.

The purpose of this assignment was to transfer knowledge to cooperative promoters in order that they will further transfer this knowledge to rural people managing Ethiopian Savings and Credit Cooperatives.

At first glance, it may appear that this "transfer of knowledge" is beyond the ability of rural people to understand and apply. However, through careful education and dedicated organizations like ACDI/VOCA, USAID, World Council of Credit Unions, etc., it has been proven that rural people are capable and eager to learn and apply their knowledge.

Rural people are just like anyone else. They are business people looking for a better opportunity to better their standards of living. They are no different from Wall Street Investors, millionaire traders, small business people, or you and me.

However, Ethiopians do have a multitude of obstacles in front of them (such as HIV/AIDS). According to Holger Wagner, an ACDI/VOCA

project coordinator in Africa and the Middle East: ***“One in ten of the world’s 40 million people infected with HIV/AIDS lives in Ethiopia. Although 90 percent of Ethiopia’s population is aware of HIV/AIDS, only 60 percent know how to prevent the disease, and far too few sexually active men and women use condoms.”***

ACDI/VOCA Deputy Country Director, Teddy Freshna, noted:

“Often HIV/AIDS is portrayed as a health issue, but in rural Ethiopia it is much more of a social and economic issue. Many cooperative members have died leaving families without heads of households, loans without repayment and farmland unattended. The entire financial health of a cooperative is in jeopardy if a number of members die prematurely. Our training has provided farmers with information on prevention as well as treatment measures, and has created a kind of blanket awareness in rural Ethiopia about HIV/AIDS... And with condom sales beginning soon in cooperative shops, even more can be done in terms of prevention. Behavioral change is taking place every day, and it is because of training in rural areas.”

Another major obstacle facing Ethiopia’s rural poor is the lack of financial services. In forming Savings and Credit Cooperatives in Ethiopia, ACDI/VOCA has adopted the very successful “savings up” methodology – as opposed to a “savings down” methodology.

According to Hugh Allen, in his paper, *Micro Finance for the Rural Poor that Works* (2002), ***“There is a fundamental difference between lending and borrowing, centered on the perception of risk, most crucially from the client’s perspective. Financial service programs that encourages ‘savings up’ (save first) are far more attractive for the very poor than ‘savings down’ (borrow first) because they provide enabling psychological conditions that facilitate the acceptance and management of risk.”***

Stuart Rutherford in his book, ***“The Poor and Their Money”*** points out that periodic savings contributions can take place before a useful lump sum is withdrawn for investment (savings up) or can be made after a useful sum has been disbursed in the form of a loan (savings down).

It is useful to remember that a loan is not an asset: it is a liability that must be repaid, and when it is taken out, a period of time must elapse before a return is generated. A loan, therefore, increases risk to livelihoods: it does not diminish them. Before anyone takes out a loan, they calculate the probability of being able to repay. Most borrowers will only take out a loan when they have some form of risk-insurance, usually in the form of

savings, and when their confidence is high that returns on investment are reasonably assured.

One of the most common reactions to the offer of rural credit is fear and caution (as was the case in Ethiopia before the Ethiopian Cooperative Movement adopted the “savings first” methodology). The Ethiopian rural poor take debt very seriously. For them it may, quite literally, be a matter of life and death. Ranked at 170th out of a total of 177 countries in its human development index (HDI), by the most recent Human Development Report (UNDP Report 2004), Ethiopia is, by any measure, one of the poorest countries on earth. The miserable condition of the Ethiopian economy is reflected in every sector and by all social and economic indications one chooses to use. Ethiopia’s per capita GNP calculated in dollar terms for 1997 was \$110, which surpassed only Mozambique with a GNP per capita of \$90. The average figure for low-income countries for the same year was \$350 while the average for sub-Saharan Africa was \$500. If we use purchasing power parity (PPP), which is more indicative of people’s buying power in their own countries, Ethiopia’s real GDP per capita for 1995 was \$455, which is the second figure (only better than the Democratic Republic of Congo with a value of \$355). This is a low figure even compared to other developing countries. The level of poverty in the country is rather staggering. As of 1998, over 46% of the population lived under a dollar a day. Only 27% of the population had access to safe water and 10% to sanitation (while the infant mortality rate stood at 109 deaths per 1,000 live births). To quote the Addis Ababa Tribune, Friday January 7, 2005:

“In sum, although Ethiopia is the only African country to have successfully resisted colonialism and despite having an ancient and proud civilization, it now trails behind in the long list of countries when it comes to development...The real source of our national humiliation in our time is abject poverty and backwardness. It is the lack of democracy and good governance.”

Organizations like ACDI/VOCA, USAID, and the World Council of Credit Unions are actively promoting the growth of cooperatives. A cooperative exemplifies economic democracy. However, we should remember the words of Gandhi, ***“The spirit of democracy cannot be imposed from without. It has to come from within.”***

In addition, I offer the words of another “Consultant” who came to Africa:

“It is not enough to merely exist. It is not enough to say ‘I am earning enough to live and support my family. I do my work well, I am a good churchgoer.’ That is all very well. But you must seek something more. Seek always to do some good somewhere. Every man has to seek in his own way to make his own way to make his self more noble and to realize his own true worth. You must give time to your fellow man. Even if it is a little thing, do something for those who have need of a man’s help. Even if it is a little thing, do something for which you get no pay but the privilege of doing it. For remember, you don’t live in a world all your own. Your brothers live here too.”

-- Dr. Albert Schweitzer