

THE DROP OUTS OF WOMEN MEMBER IN RURAL SAVING AND CREDIT COOPERATIVES

The case of Meskan District in SNNPR of Ethiopia



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DEDICATION

This piece of work is dedicated: To my beloved husband Girma Tadesse Alemu and my children Natinael Girma, Nahom Girma, Zekarias Girma and my sister Emebet Tufa Boku.

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ANNEXES

ANNEX (A) CHECK LIST

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ACRONMY

| | |
|----------|--|
| AEMFI | Association of Ethiopian micro finance institution |
| CBOs | community based organization |
| EPRDF | Ethiopian People's Revolutionary Democratic Force |
| FCA | Federal Cooperative Agency |
| SMFIs | Small micro finance institutions |
| NBE | National Bank of Ethiopia |
| NGO | Non governmental organization |
| ROSCAs | Rotating saving and credit associations |
| RUFIP | Rural financial intermediary programme |
| RUSACCOs | Rural saving and credit cooperatives |
| SACCOS | saving and credit cooperatives |
| SMES | Small micro finance enterprise |
| SMFI | Small micro finance institution |
| SNNPRS | South Nation Nationalities People's Regional State |
| VO | Village organization |

ABSTRACT

Women are specifically targeted because they make up the majority of the poor in rural areas and are responsible for the social and economic welfare of the family. Like other part of the country especially in that rural area women are economically dependent on men, mean they have no access to land and other assets. So women couldn't get loan easily from convectional bank since it needs collateral. To overcome these problems and to enable them exercise saving, women have organized in RUSACCOs (rural saving and credit cooperatives) by the initiation of regional and district cooperative organizations.

In rural Meskan district, RUSACCOs have facilitated and have delivered credit to women since 2005. In order to increase their incomes thereby improve the living condition of their family, women have pursued animal fattening, small animal rearing and petty trading according to their market accessibility and resource availability. Therefore to improve their business and enhance it, they do need sufficient amount of credit within the specific time, when the business activity will be conducive. Based on organization aim and to meet their credit and saving need, the cooperatives have provided saving and credit services to them, but these services especially the credit service, have not yet solved their financial problem. So this condition increases the defaults and the drop outs. Therefore the main goal of this study is to understand the constraints of RUSACCOs as well as the role of regional and district cooperative organization in credit delivery way to women members, which are the initiator of the RUSACCOs organizing.

To meet this goal the study uses the case study obtained data from RUSACCOs members located in Meskan district (SNNPR) Ethiopia. The study applies triangulation method to analyze the case study data. This helps to cross check the functioning and the problems of RUSACCOs in different angle. The findings underline useful points. Regarding the support of regional bureau to district cooperative and to RUSACCOs is under expected and the relationship also very loose. Thus the out come is poor performance of district cooperative desk and RUSACCOs. The role of district cooperative promotion desk in relation to the support of cooperative is weak rather organizing. RUSACCOs access to regulation and supervision is very poor as a result makes them weak in managing of the cooperatives.

In other way the functioning of RUSACCOs in terms of management is poor which means, elected committee are not accountable and transparency; no general assembly meeting. Some members are not accountable to repay the loan within the loan repayment time. Therefore they default on. The remained loan of the defaults made the RUSACCO unable to repay the loan to union. As a result the cooperative itself become default on. Consequently the credit channel between the RUSACCOs and the union blocked. Similarly, the credit flow is blocked between the cooperative and the members. To conclude, the sum total of these problems made the women members access to poor credit delivery system. Consequently the number of drop outs is increased.

1. INTRODUCTION

This research was carrying out in Ethiopia Gurage zone rural area of Meskan district. In the district there are sorts of scattered small tribes mainly dependent on subsistent farming. Though the people living in the area especially women are hard working and business oriented, they are mostly suffering from food insecurity, due to insufficient and unpredictable rain fall, causing drought and famine or high rain fall sometimes causing a flood which damage their farm .To alleviate the problem, there are various NGOs and governmental organizations implementing different developmental intervention at district level. Rural saving and credit cooperatives are amongst one.

The number of RUSACCOs is still much smaller and with much lower membership of only 65.000 in the whole of Ethiopia, however the growth in membership of RUSACCOs over the last 2 years has been almost 300% (membership in 2004 was 16.500). Regional distribution of RUSACCOs varies a lot with most of the RUSACCOs concentrated in Addis Ababa and Oromya. Currently RUSACCOs, but also other Community Based Organizations (CBOs), are considered as potentially interesting outlets for microfinance services. Their self-governed and self-managed character allows for lower transaction costs, and they are progressively seen as a useful extension mechanism for MFIs in more remote rural areas.

The RUSACCOs' are marked by poor administrative and financial procedures: outstanding loan amounts and numbers are for example not always well recorded and portfolio at risk not well known. A recent study of AEMFI in 2007 noted high levels of illiteracy especially in RUSACCOs even among the leaders of these organizations. This puts a challenge to any training program. Furthermore, insufficient loan able fund also add to limitations of the RUSACCOs. Female membership in savings and credit cooperatives is higher in the RUSACCOs with 47 %.(MicroNed, 2005).

Alike other parts of the country, RUSACCOS which are located in Meskan district are exercised the whole mentioned problems. Thus women members have lacked sufficient credit amount as a result the drop out of female members is increased. Moreover RUSACCOs are support, supervised and regulated by the regional and district cooperative organization. Therefore this research is assessed to the role of regional and district cooperative organization as well as the functioning of RUSACCOs thereby their constraints in relation to credit delivery. The output of the research is believed in contributing to Regional and district cooperative organization in giving relevant support for improving RUSACCOs service delivery.

1.1. Problem statement

Women more often than not trapped in poverty because on the one hand commercial banks will not lend them money as they are often neither in a position to offer collaterals nor are they considered "creditworthy" enough; while on the other, local money-lenders, who are often their only source of credit, charge exorbitantly high interest rates. Thereby depleting them of whatever little possible savings they can manage. To over come these problem women have organized in RUSACCOs (rural saving and credit cooperatives) by the initiation of regional and zonal cooperative bureaus and district cooperative desk in rural Meskan since 2004. There are about 25 basic rural saving and credit cooperatives with 2268(1409 female and 859 male) members. These cooperatives lend small sums

of money at a reasonable interest rate (12%) with saving deposit collateral. In order to increase their incomes thereby improve the living condition of their family, women have pursued some activities, mainly animal fattening, small ruminant rearing and petty trading according to their market accessibility and resource availability. Therefore this money is then used to set up or boost the activities that can provide a sufficient income for them to easily repay the loan and generate enough profit for a better standard of living. To achieve these goals the loan should be sufficient and within the specific period of time, when their business activities will be conducive.

The activities are not similar, so the requirement of credit interims of time and amount are also different. For instance some of them required a little bit more amount of money than others, while some need credit during summer season when the price of purchasing material (agricultural products) is low. And the rest need in other season according to their business character.

The time/season of credit required is varying as the situation of market, since the price of the resources (animals and crops) is fluctuated followed by the seasons.

For instance during rainy season the price of animals will be cheap while the price of crops to become expensive.

Based on organization aim and to meet women credit and saving need, the cooperatives have provided saving and credit services to them, but these services especially the credit service, have not yet solved their financial problem as expected by them. So many times women members have presented complain to cooperative desk about what they have got the loan is not adequate and it does not available on the right time when they need. This situation affects negatively the repayment and membership; mean in some cooperatives, members have left while in some others membership is to be stagnant. Therefore the cooperative desk is concerned about the drop outs of women members in RUSACCOs and believes that it is due to lack of adequate and timely delivery of credit.

1.2. Objective and research question

Objective

To make recommendation to regional and district cooperative organizations and RUSACCOs about the improvement of credit delivery mechanism to members, by assessing the credit delivery process of RUSACCOs and supporting system of the organization. So that improves the services successively to fulfill the credit need of the women members.

Main research question.

What are the limitations of RUSACCOs and the two level of cooperative organization in relation to credit delivery mechanism to women members?

Sub research questions

1. What are the roles of regional cooperative bureau in relation to district cooperative office and RUSACCOs through credit delivery process?
2. What are the roles of district cooperative office in relation to RUSACCOs credit delivery mechanism?
3. How RUSACCOs are functioning in relation to credit delivery to women members?
4. What are the needs of women members in RUSACCOs?
5. Why women members are not satisfy by their membership of RUSACCO?

1.3. Significance of the Study

The result of this study may provide useful information to improve saving and credit delivery and implement appropriate mechanism to Meskan district Cooperative desk as well as SNNRS cooperative Agency (government Organization who are responsible to organize, promote and regulate primary and secondary cooperative societies) thereby to improve the income and to empowering the rural women. The possible out come is, the actual share of institutions (cooperative organization and RUSACCOs) was identified, Intermediate obstacles were identified and solutions can be assessed with concerned bodies, problems for further research was identified. The output of the research will contribute to improving the credit supply system of saving and credit cooperatives and hence motivate women to increase their saving amount.

1.4. Outline and Delineation of the Study

This study organized in to five main chapters. Chapter 1 begins with general overview of the study and it further describes the objective and significance of the study. Chapter 2 deals with research methodology.

Chapter 3 introduces the theoretical perspective of the study. This chapter will dealing with general overview of saving and credit cooperatives, micro- credit and lending model and related concepts from world perspective in general and Ethiopian perspective in particular.

Chapter 4 presents a country profile relevant to this study and gives description for study areas. It summarizes location ,socio economics characteristics, agrarian structures, And Chapter five and six presents the empirical findings of the study in qualitative ways using tables and graph and gives analysis and discussion of the findings objectively. The thesis report was finalized by giving conclusion and set recommendation.

2. METHODOLOGY AND METHOD OF DATA COLLECTION

2.1. Methodologies

The main aim of this research is to make recommendation about the improvement of RUSACCOs credit delivery to women members, and the support of cooperative organization to RUSACCOs, therefore to provide information and recommendation to RUSACCOs and regional and district cooperative organizations, how to improve service delivery for these cooperatives and credit delivery to their women members, the study has intended to the literature study and case study in the field. To provide information and recommendation can not just be fulfilled only by gathering primary data on the field. It is needed to understand theoretical aspect of saving and credit cooperatives; the nature of the services; the challenges and the causes of drop outs globally and country level in the literature study.

Besides, to fulfill the objective it is important to get a clear understanding of the current situation, difficulties and current support to cooperatives. In order to achieve this understanding the research was developed the main and sub research questions which are important to identify the limitations of RUSACCOs and the role of regional and district level of cooperative organizations, in relation to credit delivery to women members. To answer these questions and fulfilled the research objectives, the researcher has carried on interview women members, cooperative leaders and regional and district cooperative promoters.

2.2. Methods of data collection

This research is a practical oriented field research and has therefore been designed likewise. The study dealing with credit delivery mechanism, it has interviewed 20 clients who were aiming ensured representation of various loan levels and situations. The sample was selected through random sampling and the sample was driven from two rural saving and credit cooperatives. The one is women only (Edget saving and credit cooperative) and the other is mixed members (Koché limat rural saving and credit cooperative). These have been required to compare the amount of women drop out has been high whether in women only or mixed member cooperatives and how the services are delivered among similar cooperatives. Moreover, to get a clear understanding the drop out is whether due to the unsatisfactory credit delivery system, the researcher has interviewed five drop out members. These drops out members were selected through purposive sampling from the two cooperatives.

In order to provide necessary recommendation accordingly, the research has to have assessed the processes of RUSACCOs and cooperative organization at regional and district level. Since, all RUSACCOs have not worked independently, but they have received different services from both regional and district cooperative organization. Therefore, the researcher has interviewed one regional and one district saving and credit cooperative promoters about the services, which they have delivered to RUSACCOs, and the difficulties what they have faced during the processes. In addition, four cooperative leaders (two from each cooperative) have interviewed in regard of the loan size, time of credit delivery, credit duration the causes of drop outs. By doing so the researcher has got necessary information's that are used to develop recommendations based on the needs and problems found in the research.

2.2.1. Data Analysis

Data collected from the case study, was systematically organized, processed and analyzed qualitatively way of triangulation. The triangulation helped the researcher to see the functioning of RUSACCOs in different angles that are regional and district cooperative organizations, members and cooperative management itself. The data described qualitatively with interview and secondary data using tables, graph to assess the services, the needs of women members and the problems of RUSACCOs in terms of credit delivery to women members. Results interpreted, and compared with relevant literature.

2.2.2. Limitation of the Study

First and fore most the study was developed in the language of the academic discipline, English that is different from the language of the study subjects (Amharic and Gurage language) which were the main medium of communication in the data collection. Given the language differences, it was often difficult to translate some of the academic concepts and words from English to the local language. Besides, due to the time and financial constraint the case study consist of only two rural saving and credit cooperatives.

Moreover there was a conflict between the two ethnic groups which called Meskan and Dobe. Thus, the government offices were closed so that to get secondary data like the area map was difficulty. To go to the target cooperatives was highly in secured and tension. Thus necessary secondary data were not able to get at RUSACCOs level as needed. As result members saving and credit amount per individual per year couldn't present. Moreover women business in the market place couldn't observe. The interview was conducted in each individual house. Hence it has demanded much effort and long time for walking house to house. However the interview was conducted successfully.

2.2.3. Area Selection

During the inception of the research design before I had decided where the research would be conducted, relevant institutions and individuals have formally been contacted. They helped me in selecting appropriate cooperatives relevant for the study, though many cooperatives are found in Meskan district only 25 are lending saving and credit to rural poor.

Based on the information obtained, and personal experience in study area, two cooperatives one mixed member (Koche limat) and one women only cooperative in Meskan district were selected.

3. Global over view of saving and credit cooperatives and the reality of Ethiopia

This chapter is dealing with general overview of saving and credit cooperatives, micro-credit and lending model and related concepts from world perspective in general and Ethiopian perspective in particular.

3.1. General over view of saving and credit cooperatives

3.1.1. Microfinance Institution (MFI)

A microfinance institution (MFI) is an organization that provides financial services to the poor. This very broad definition includes a wide range of providers that vary in their legal structure, mission, methodology, and sustainability. However, all share the common characteristic of providing financial services to a clientele poorer and more vulnerable than traditional bank clients.

Historical context can help explain how specialized MFIs developed over the last few decades. Between the 1950s and 1970s, governments and donors focused on providing subsidized agricultural credit to small and marginal farmers, in hopes of raising productivity and incomes. During the 1980s, micro enterprise credit concentrated on providing loans to poor women to invest in tiny businesses, enabling them to accumulate assets and raise household income and welfare. These experiments resulted in the emergence of nongovernmental organizations (NGOs) that provided financial services for the poor. In the 1990s, many of these institutions transformed themselves into formal financial institutions in order to access and on-lend client savings, thus enhancing their outreach.

An MFI can be broadly defined as any organization credit union, down-scaled commercial bank, financial NGO, or credit cooperative that provides financial services for the poor.

Focus of some providers is exclusively on financial services to the poor. Others are focused on financial services in general, offering a wide range of financial services for different markets. Organizations providing financial services to the poor may also provide non-financial services. These services can include business-development services, like training and technical assistance, or social services, like health and empowerment training.

Services that poor people need and demand the same types of financial services as everyone else. The most well-known service is non-collateralized "micro-loans," delivered through a range of group-based and individual methodologies. (<http://www.gdrc.org/icm/what-is-ms.html>)

3.1.2. Micro-credit

Micro credit is the extension of small loans to entrepreneurs too poor to qualify for traditional bank loans. It has proven an effective and popular measure in the ongoing struggle against poverty, enabling those without access to lending institutions to borrow at bank rates, and start small business. The key implication of micro credit is in its name itself: 'micro'. A number of issues come to mind when 'micro' is considered: The small size of the loans made, small size of savings made, the smaller frequency of loans, shorter repayment periods and amounts, the micro/local level of activities, the community-based immediacy of micro credit etc. Hence micro credit is not the solution,

but is a menu of options and enablement's, that has to be put together based on local conditions and needs.

With the current explosion of interest on micro credit issues, several developmental objectives have come to be associated with it, besides that of only "credit". Of particular importance is savings - as an end in itself, and as a guarantee for loans. Micro credit has been used as an 'persuader' in many other community development activities, used as an entry point in a community organizing programme and as an ingredient in larger education/training exercises. (<http://www.gdrc.org/icm/what-is-ms.html>)

3.1.3. Saving and credit Cooperatives (SACCOs)

A Savings and Credit Co-operative (SACCO) is a democratic, unique member driven, self-help cooperative. It is owned, governed and managed by its members who have the same common bond: working for the same employer, belonging to the same church, labour union, living/working in the same community. A Savings and Credit Cooperative's membership is open to all who belong to the group, regardless of race, religion, color, creed, and gender or job status. These members agree to save their money together in the SACCO and to make loans to each other at reasonable rates of interest. Some amount of interest is charged on loans, to cover the interest cost on savings and the cost of administration. There is no loan for out side of the members. Hence there is no payment or profit to outside interest or internal owners. The members are the owners and the members decide how their money will be used for the benefit of each other. This is formulated by their bylaws.

Savings and Credit Cooperatives are democratic organizations and decisions are made in a structured democratic way. Members elect boards that in turn employ staff to carry out the day-to-day activities of the SACCO. The number of board members is varying according to areas which the SACCO is operating. However the range is between nine and fifteen. Members also elect a supervisory committee to perform the function of an internal audit if member's capability is good. (<http://www.gdrc.org/icm/what-is-ms.html>)

A) Origin

The first credit and saving cooperatives were established in the mid - 19th century, mainly in Germany. Two men are considered as the founding fathers of the credit cooperative movement: Herman schultze- Delitsche, who established a credit cooperative for minor artisans and the urban middle classes, and Freidrich Reifeisen, the founder of the rural credit cooperative. In Italy, Luigi Luzzatti established credit cooperatives which combined the principles established by his two German predecessors. After the consumer cooperative, the credit cooperative is the most common type of cooperative to be found in the modern world, including the Third World. This form of cooperative has been established in both rural and urban districts by labor unions and other organizations, including government bodies. Because of its very abundance, it provides an answer to the most pressing need of large groups of people: the necessity of obtaining monetary credit for various purposes (Z. Galor).

B) Membership

The initial sources of cooperatives capital is member's registration fee and share capital. Any member who needs to become a member of cooperative he/she have to pay registration fee and share capital.

Share capital is effectively a ticket for entering the cooperative. Paying it in full allows the prospective member to become a member equal to all the others. Secondly, share capital represents the member's relative portion in the total investment necessary to establish the cooperative. The cooperative running cost is not the part of share capital.

The credit and saving cooperative usually has a very large number of members. The amount of investment required for establishing such a cooperative relative to other enterprises is very low. If we take the total number of members and divide them into the total investment required, then we will have the amount of share capital per member. Usually, the amount in question is relatively, very low. This fact makes it easy for a large number of members to join the cooperative. The most important criterion for joining a cooperative is the size of the member's savings, and not the size or number of his shares. In practice, there is no need for a member to buy more than one share. When the cooperative needs to invest capital, then the size of the member's share must be increased and the difference financed out of his own pocket (Z.Galor).

C) Management

Cooperative management is a pure democratic self governance system of managing a cooperative entity based on in complying with the principle, value and philosophy of cooperation through the appropriate and effective organization machinery that include management and administrative professionals at various level/layers of functioning within the parameters legal of provisions and policy frame work of the government, keeping in view the prevailing socio-economic environment to change the administrative culture, management and control systems, and the mind set and work culture of the members and work force of cooperative enterprise

The cooperative management concept relates to the quality of the relationship between the government and the citizens that is cooperative system and its members for whom it exists to serve, and protect. To put more precisely and simply governance means the way those with power use that power. The concept, therefore, has political and economic dimensions. The cooperative management framework encompasses the four pillars as key components of management via, accountability, transparency, predictability and participation.

Accountability is the capacity to call officials and members of cooperative to account for their actions. Effective accountability has two elements via, answerability and consequences without accountability is only a time consuming formality. In addition both internal and external accountability is needed.

Transparency entails low-cost access to relevant information. Reliable and timely economic and financial information is a must for the public. It is essential not only that information be provided but also that is relevant and understandable. Both the public and members and other external authorities should know the economic and financial information.

Predictability results primarily from laws and regulation that are clear, known in advance and uniformly and effectively enforced. Predictability of government economic actions is also needed as an indicator on which the cooperative sectors and other sectors can rely to make its own production, making and investment decisions.

3.1.4 Regulations and Supervision

Regulation refers to the set of government rules (including laws, regulations, and their implementation) that apply to microfinance. It aims at overseeing the financial soundness of licensed intermediaries' businesses in order to prevent financial system instability and losses to depositors. But Supervision is the process of ensuring compliance with those rules. There are two types of regulation which are prudential and non prudential.

Regulation is "prudential" when it is aimed specifically at protecting the financial system as a whole as well as protecting the safety of small deposits in individual institutions. When a deposit-taking institution becomes insolvent, it cannot repay its depositors. If it is a large institution, its failure can undermine confidence enough so that the banking system suffers a run on deposits. Therefore, prudential regulation involves the government in attempting to protect the financial soundness of the regulated institutions.

Prudential regulation is relatively difficult, intrusive, and expensive because it involves understanding and protecting the core health of an institution.

"Non-prudential" rules encompass regulations about the institution's business operations, and as such do not have the ultimate aim of protecting the entire financial system. These rules tend to be easier to administer because government authorities do not have to take responsibility for the financial soundness of the organization. These issues include, among others, the formation and operation of micro lending institutions; consumer protection; fraud and financial crimes prevention; credit information services; interest rate policies; limitations on foreign ownership, management, and sources of capital; tax and accounting issues; and a variety of cross-cutting issues surrounding transformations from one institutional type to another (Mugwanga, 1999).

3.1.5. The Nature of the Credit and Saving Cooperative

Savings and credit cooperatives are user-owned financial intermediaries. They have many names around the world, including credit unions, SACCOs. Members typically share a "common bond" based on a geographic area, employer, community, or other affiliation. Members have equal voting rights, regardless of how many shares they own. Savings and credit are their principal services, although many offer money transfers, payment services, and insurance as well. Sometimes savings and credit cooperatives join together to form secondary cooperative which is called union. The purpose of forming union is building capacity in terms of finance or else.

The credit cooperative satisfies the requirements of its members without excessive complications. Thus, it provides them with interest on their respective shares and rewards for participating in its operation. The credit cooperative helps to prevent or overcome poverty. It furthers members' education, as well as a spirit of mutual aid and self-reliance. This form of cooperative also encourages productive activity by providing credit required by its members. (CGAP, 2005).

A) The Saving Aspect

It is a cooperative which encourages its members to save money and enables them to obtain loans they may require for various purposes from their accumulated savings. This definition provides an indication of the two main tasks of the cooperative. The first task is to enable members to save their money on a regular basis, or according to their needs. The member saves his/her money within the framework of the cooperative. Knowing that, he/she will receive a suitable return for his effort, in the form of interest on his savings or in the form of credit. Accordingly, in order to encourage savings, it is desirable to pay members interest at a higher rate than that obtainable at any other type of financial institution like Bank. The member will then realize that it is preferable to save with his/her own cooperative (Aredo, D. (1993).

B) The Credit Aspect

The second task of the cooperative is to grant loans to its members. Loans are granted from the members' accumulated savings. Obviously, not all the members can take out loans, or obtain them immediately or simultaneously. Members are granted loans in accordance with their seniority within the cooperative and the amount of their savings deposit. Basically the size of loans granted to members does not exceed the total of their savings. But there are some exceptional cases where the cooperative serves as an intermediary for obtaining additional credit for a member. This may be the economic level of the members. If members are very poor their saving deposit will be small as a result the loan also become small. Thus, by taking in to consideration the economic situation of their members, cooperatives usually provide the loan more than the total saving deposit (Aredo, D. (1993).

3.1.6. System of service giving

The credit lending, saving mobilization and the repayment system of credit lending institution which are serving for the poor are varied in different countries. For instance

A) SANASA Thrift & Credit Cooperative Societies (Sir Lanka)

SANASA Thrift & Credit Cooperative Societies in Sri Lanka depend on a broader concept of member responsibility based on stronger collective management among the members, and the provision of a variety of mechanisms which minimize the perception of risk, actively encourage mutual trust and support, and provide protectional support for members facing economic difficulties. These protective mechanisms underline the importance of providing flexible financial services in general, and savings facilities in particular.

The striking features of SANASA financial services are variety and flexibility. This derives from individual societies responding to local needs, based on the occupational composition of the membership and the nature of the local economy. Societies operating near market centers with many members carrying out petty trading activities tend to have a different range of loan facilities than societies comprising mainly small farmers, who are more interested in seasonal production and consumption credit. This heterogeneity of financial services stems from primary societies' autonomy and their ability to determine their own rules. SANASA societies have a variety of loans in terms of

size, length of repayment and interest rates to reflect these differences in purpose, needs and risk. And the primary societies are run and managed completely by members, who make the decisions on what services their cooperative will offer, and what types of needs the cooperative will meet. SANASA strongly emphasizes savings mobilization through various forms of deposits, and village cooperatives offer a range of loan facilities (short and long term, with varying interest rates). Loan use is not prescribed. Short term (and higher interest) consumption loans are one of the most popular and common services provided. SANASA cooperatives provide a greater variety of more flexible financial services, which are controlled and adapted by solidarity groups themselves. (Montgomery, 1996)

B) BRAC's Rural Development Program in Bangladesh.

Another financial service delivery system has exercised by BRAC's Rural Development Program in Bangladesh. BRAC's has followed solidarity group lending model which are top-down repayment pressure.

Solidarity group lending schemes involve the formation of groups in which some or all members in the group are jointly liable for each individual's loans, thereby creating an alternative to conventional loan collateral requirements (which poor people can rarely fulfill). From the lenders' perspective such joint liability lending enables a transfer of default risks from the institution to the borrower, and can reduce the transaction costs of providing a large number of small loans (by concentrating clientele in groups, at regular village based meetings, rather than dealing with individual borrowers at different times). The reduction of costs and risks, and the maintenance of high repayment rates, facilitate financial viability for the lending institution.

BRAC's financial services focus predominantly on the provision of credit for productive activities, mainly in the form of one year term loans. Regular weekly savings (which are minimal) and security deposits and Group Trust Fund donations are deducted from loans, but these interest bearing savings deposits are not accessible to members. BRAC's repayment schedules for all loan sizes are uniform: weekly repayments of a loan are started soon after disbursement, and are divided into 52 equal installments including both principal and interest. An individual's difficulty in meeting such installments is quickly evident at the weekly VO (village organization) meetings. Staffs are eager to ensure no shortfall in the overall amount collected in such meetings, partly because one of their key performance indicators is on-time VO-level repayment. This emphasis on discipline means that individuals in difficulty will commonly seek immediate help to 'keep up'. If the individual continues to default on their installments, and the outstanding amount grows or the loan term expires, the VO leader and group (VO) as a whole comes under pressure from the field staff. In turn they made pressure to the defaulter. In cases where fellow embers had been reluctant to take such collective action they were either directed by field staff to do so, or the field staff themselves had carried out such actions.

Because of staff pressure, and the implications of an individual's late repayments or default for all VO (village organization) members, collective action against such individuals can be severe. Several VOs provided examples of individuals who had been made to drop out because of their lack of repayment discipline. Because of these peer and staff pressure the drop outs reached 16%. (Montgomery, 1996)

C) ROSCAs (Rotating savings and credit associations) in Kenya

In Africa it has been defined as the operations of savings and credit associations, rotating savings and credit associations (ROSCAs), professional moneylenders, and part-time moneylenders like traders, grain millers, smallholder farmers, employers, relative and friends, as well as cooperative societies (Aryeetey et al., 1997; Aryeetey and Udry, 1997).

Rotating savings and credit associations (ROSCAs) are also an important source of credit in most African countries. These are found in both rural and urban areas as either registered welfare groups or unregistered groups. They mainly provide credit to those who would likely be ineligible to borrow from other sources. ROSCAs have developed mostly in response to the lack of access to credit by SMEs (small and micro enterprise), forcing them to rely on their own savings and informal credit sources for their financing. It has been found that rural firms use ROSCAs more than urban ones. They mostly integrate savings into their credit schemes, thus mobilizing savings from their members. However, even for members of ROSCAs, not all their credit needs can be satisfied within the associations. This implies that there is some proportion of borrowing and lending that is not catered for by either formal institutions or such associations. This is catered for by personal savings as well as borrowing between entrepreneurs and other forms of informal transactions. Rural firms rely more on ROSCAs since they present easier access. SACCOs also provide both savings and credit facilities to their members. The amount of credit provided depends on the amount of the individual members' savings, but the use of money is not restricted.

In a rotating savings and credit association, a group of participants puts contributions into a pot that is given to a single member. This is repeated over time until each member has had a turn, with order determined by list, lottery, or auction. Most microfinance contracts build on the use of groups but mobilize capital from outside the area (Rosemary Atieno, 2001)

D) The Grameen Bank, Bangladesh

The Grameen has under taken the group lending model. The groups form voluntarily, and while loans are made to individuals, all in the group are held responsible for loan repayment. The groups consist of five borrowers each, with lending first to two, then to the next two, and then to the fifth. These groups of five meet together weekly with seven other groups, so that bank staffs meet with forty clients at a time. According to the rules, if one member ever defaults, all in the group are denied subsequent loans. (Kerstin Blyh, 2003).

3.1.7. What challenges do savings and credit cooperatives face?

The most critical challenges and constraints saving and credit cooperative societies face to expand their outreach and sustainability include inadequate support and weak regulation and supervision and management weaknesses of SACCO. The main causes for these are outlined below.

A) Inadequate support and weak regulation and supervision

Savings and credit cooperative systems in developing countries have a history of instability. Competent external regulation and supervision can identify, avoid, and resolve many common problems. Savings and credit cooperatives are often supervised by the same government agency that is responsible for all kinds of non-financial cooperatives, including agricultural and marketing. Such agencies do not have the financial skills and political independence needed to oversee financial intermediaries effectively. Supervising savings and credit cooperatives requires understanding their unique risk profile and adapting supervision accordingly. (CGAP, 2005).

B) Management weaknesses.

Savings and credit cooperatives are usually governed by a volunteer board of directors elected by and from the membership. Small, young savings and credit cooperatives are also often staffed entirely by volunteers. As they grow, more sophisticated and risky operations require professional managers. Problems occur when volunteer board members continue to make operational decisions, after professional managers have been recruited, instead of focusing on monitoring operations. Although “one person, one vote” decision-making is meant to ensure equality of user rights and responsiveness of service, many members do not exercise their control because they wield little individual influence. As a result, in some cases, community elites or net borrowers are able to dominate the structure for their own benefit. In Kenya, the elected directors of the railroad’s SACCO facilitated privileged loans to their supporters to maintain their control of the SACCO (CGAP, 2005).

3.1.8. Women Access to micro credit

The poverty reduction potential of micro-credit schemes is commonly perceived as a promotional process through which poor households ‘graduate’ out of poverty. This graduation can be simplified as breaking a vicious circle of ‘low investment - low income - and low investment’ by injecting capital in the form of credit to generate productive employment, higher incomes and more investment. Apart from facing limited investment opportunities in activities for which demand may be low, poor households need to cope with vulnerability to economic stresses caused by a variety of factors. Some of these factors are due to structural dimensions of an economy (inflation, seasonality, etc.), others are connected to familial or life cycle effects (such as variable household dependency ratios over time), and others are related to sudden crises such as death or illness in the family, natural calamities or other ‘acts of God’. In addition, poor households face sudden claims on expenditure which are difficult to cope with for cash flow reasons. These forms of economic stress induce fluctuations in income, purchasing power, consumption and threats to productive resources, and require households to use a range of coping strategies in order to survive. (Montgomery, 1996).

Clients have to pretend that they want micro enterprise loans (when they need to pay school fees, cope with a medical emergency, buy food, etc) and do not have access to the types of micro savings services that they desire. In extreme cases, such as the Kenya Women’s Finance Trust and several other East African MFIs, clients who wish to stop taking loans and only wish to make savings are ‘balanced out’ (i.e. have to leave the MFI).

In most MFIs the savings services are designed as a means of collateralizing loans and providing low-cost capital: they are not designed to meet the Poor's need for savings mechanisms. Therefore borrowers are not satisfied. Such loans are usually referred to as 'micro credit'. Micro debt can create considerable opportunities for people to utilize 'lumps' of money so that they can improve incomes and reduce vulnerability. But not all micro debt produces favorable results, especially for women working in low-return activities in saturated markets that are poorly developed and where environmental and economic shocks are common. Because of circumstances beyond their control (sickness, flood, drought and so on), lack of skills and knowledge or taking bad decisions, a proportion of poor borrowers encounter great difficulties in repaying loans. To overcome their household problems besides the business activities, rural women need better amount of credit. Therefore in order to reduce the drop out, the loan size should be increased (*David Hume, 2000*).

Access to financial services by women or smallholders is normally seen as one of the constraints limiting their benefits from credit facilities. However, in most cases the access problem, especially among formal financial institutions, is one created by the institutions mainly through their lending policies. This is displayed in the form of prescribed minimum loan amounts, complicated application procedures and restrictions on credit for specific purposes. Where credit duration, terms of payment, required security and the provision of supplementary services do not fit the needs of the target group. Because individuals have some independence of access and control over their income streams, the different character of these income streams, and the expenditure responsibilities they must meet with them will result in different demands for savings and loan services. Therefore the loan size and duration should be coinciding with their demand. (*Susan Johnson, 2004*).

The Grameen Bank experience shows that most of the conditions imposed by formal credit institutions like collateral requirements should not actually stand in the way of smallholders and the poor in obtaining credit. The poor can use the loans and repay if effective procedures for disbursement, supervision and repayment have been established.

3.2. Saving and credit cooperative in the reality of Ethiopia

3.2.1. Cooperatives in Ethiopia (Since 1991)

Following the overthrow of the military Government in May 1991, the Ethiopian People's Revolutionary Democratic Forces (EPRDF) led transitional government adopted a market-oriented economic system. Subsequently, a number of cooperative societies were either dissolved or had ceased to operate due to the following reasons:

- Removal of all subsidies;
- as most of the cooperative societies were formed forcefully, some took that opportunity to express their grief; and
- Most of the societies' wealth were misappropriated or embezzled, and as a result they could not finance their business. This, in addition to ruining the societies, had left bad impression about cooperative societies.

Afterwards, the Government issued Proclamation number 85/1994 with the major objective of restructuring the existed agricultural cooperatives so as to be able to

contribute to the development of the national economy. This Proclamation was generally featured by the principles of cooperation such as voluntary formation, business orientation and democratic member control. As a result, a number of cooperative societies were restructured.

The then Ministry of Agriculture was responsible for promoting agricultural cooperatives at federal level, while the regional Agricultural Bureaus were charged to promote, register and supervise cooperative societies in their respective regions. However, this Proclamation dealt with agricultural cooperatives to the neglect of these in other sectors.

Consequently, Proclamation No. 85/1994 was replaced by a more comprehensive and multi-sect oral cooperative promotion proclamation No. 147/1998. This Proclamation is based on universally accepted cooperative principles. It has also laid the ground for the development of all kinds of cooperative societies at different levels.

The Proclamation is also a comprehensive in its coverage. It embraces, among other things, the objectives, guiding principles, formation and registration, bylaws of cooperative societies, amalgamation and division of societies, rights and duties of members of a society, payment of shares, register of members, voting, transfer of share or benefit, management bodies of cooperative societies including their powers and duties, special privileges of societies, dissolution and winding up of societies, maintenance of assets and funds of societies, and settlement of disputes as well as other miscellaneous provisions. Based on this the government has sat up the responsibilities of different government bodies in relation to establishment and promotion of primary and secondary cooperatives (AEMFI, 2006)

3.2.2. Saving and credit cooperatives (SACCOS) in Ethiopia

Entirely saving and credit cooperatives including RUSACCOs are called SACCOS. RUSACCOs are part of SACCOS which are serving in the rural areas but SACCOS are serving in both rural and urban areas. The entire structure and service delivery models are similar in SACCOS and RUSACCOs.

Therefore in this paper SACCOS utilized to indicate the entire saving and credit cooperatives including rural saving and credit cooperatives.

These saving and credit Co-operatives are member-owned, controlled and capitalized organizations. They perform a critical function as financial intermediaries. They mobilize savings from members and return those to members in the form of loans. Saving and Credit Cooperative societies in Ethiopia operate within the framework of the Proclamation No. 147/98. According to the Proclamation, a minimum of ten members are required to form a cooperative society. Individuals are eligible for membership in SACCOS and RUSACCOs at age fourteen.

SACCOS and RUSACCOs are registered by the Federal Cooperative Agency or by the Regional Cooperative Promotion Bureaus¹ as limited liability company, i.e., member's

¹ The Cooperative Proclamation stipulated that the Federal Cooperative Agency or the Cooperatives Bureaus would regulate and supervise cooperative societies. The Federal Cooperative Agency is responsible to organize, register, and issue licenses of the legal personality to (i) two or more primary societies found in different regions, and unable to be organized at regional level due to their peculiar

liability is restricted to their share capital. While forming a cooperative, each member is allowed to hold a maximum of 10% of the total paid share capital of the cooperative. The Proclamation stipulates that cooperative societies can borrow from members based on their bylaws and at rates not exceeding the current interest rate of the banking system. Cooperative lending is restricted to members only. However, the law permits a cooperative to lend to another society. While lending, cooperatives are not restricted with regard to the interest rate they charge.

SACCOs are regarded as formal financial institutions, while Ekubs, Edirs (community based rotating saving and credit association in Ethiopia) and individual moneylenders are treated as informal money markets. The distinction between the formal and informal lies in that the formals are licensed and operate within the financial regulatory environment. The banks and the MFIs generally fall within the NBE's (National Bank of Ethiopia) regulatory rule and supervision. They are also required among others, a minimum capital adequacy ratio of 8% for banks and 12% for MFIs; a liquidity ratio of 15% for banks and 20% for MFIs. Both are subject to on-site and off-site supervision and inspection by the NBE. They are required to keep their asset quality healthy and set aside an adequate level of provision for assets with low quality. (Aredo, D. (1993).

Unlike the banks and MFIs, savings and credit cooperatives are not subjected to the relatively rigorous supervision and regulatory rule of the NBE. The Cooperative Proclamation allows them to operate as self-regulated entities with a few restrictions such as the allocation of profits, the maximum shareholding to a single member, etc. The Proclamation No. 147/98 is less restrictive in its approach compared to those faced by the banks and MFIs. The saving and credit procedures, the collateral holdings while lending, the interest rates they charge, etc are not reflected in the reports they periodically submit to the regulatory bodies.

The Federal Cooperative Agency and the Regional Cooperative Bureaus and are there to provide technical and training assistances, and do not interfere in the operation of the cooperatives. Besides, the district cooperative desk provides support in organizing and for the process of registering these cooperatives. Internal monitoring and controlling generally provides the checks and balances of the operation of the cooperatives. The final authority generally lies with the general assembly of the society who elects the management committee and control committee for a two years term of office with possibility of being renewed for another term. (Berhane Kidanu, 2008)

3.2.3. Organization and Management of SACCOs

The organizational structure of a typical primary saving and credit cooperative society in Ethiopia is shown in Figure 1. The organization and management of SACCOs essentially follow the cooperatives principles.

The 'democratic member control' principle of cooperatives allows for all management functions to be delegated to an elected management committees and to hired

nature; (ii) regional cooperative societies found in two or more regions; and (iii) the union cooperative societies organized by the union of different cooperative societies (Proclamation No. 274/2002).

management while the source of power remains with the members of the cooperative. SACCOs' day-to-day management rests with different committees. These are:

- Management Committee
- Control Committee
- Loan Committee
- Saving Committee
- Training and Education Committee
- Arbitration or dispute resolution committee

Figure 1. Typical organizational structure of primary SACCOs in Ethiopia

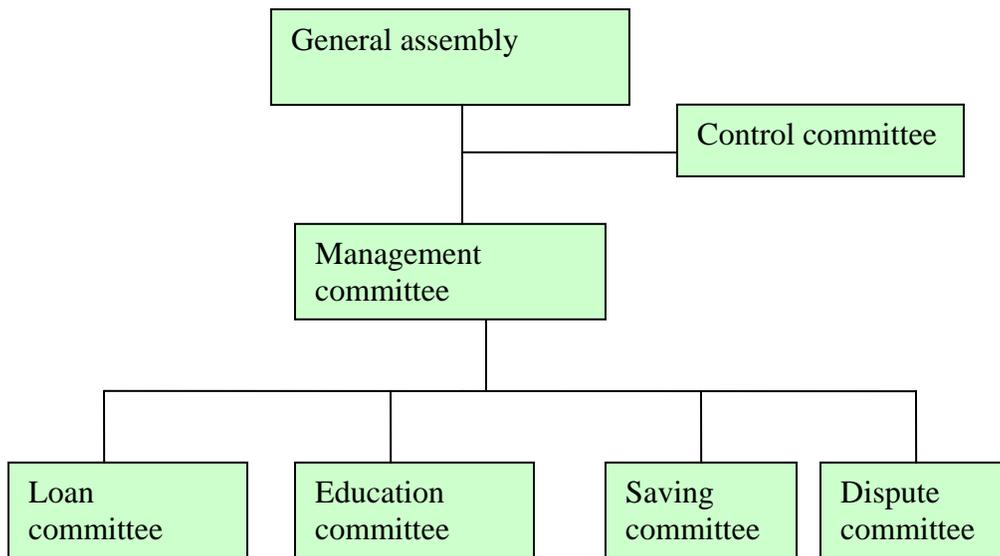


Table 1 The function, powers and duties of the organs of the SACCOs.

| Organ of SACCO | Major duties and responsibilities |
|------------------|--|
| General Assembly | Elect, supervise and dismiss committees members; Approve and amend bylaws and internal regulations and policies of the society; Approve the annual work plan and budget; Discuss the annual reports and the Audit report and pass needed decisions; Approve the maximum amount that the management committee can borrow for the expansion of the society's activities; Approve the number of shares to be sold and their face value; Determine whether the society should be amalgamated with other society, dissolved, join a cooperative union or be divided pursuant to proclamation No. 147/1998; Determine how surplus generated by the society will be distributed; |

| | |
|----------------------|--|
| | <p>Approve regulations regarding employment, promotion and maximum remuneration of employees;</p> <p>Determine annually, the saving policy of the society; and</p> <p>Determine the number of shares the society will purchase in a cooperative union.</p> |
| Management committee | <p>Maintain the minutes of the General assembly and the management committee meetings;</p> <p>Ensure that the funds of the society are utilized for the stated objectives of the society;</p> <p>Prepare balance sheets, income statements, portfolio reports, cash flow plans, budgets and any other relevant financial reports, and implement the plans and budgets upon approval by the General assembly;</p> <p>Ensure that the proper records of account are kept in the office;</p> <p>Call meetings of the General Assembly;</p> <p>Submit reports to the General Assembly on the activities of the society;</p> <p>Supervise the work of sub committees;</p> <p>Ensure the collection of registration fee, the sale of shares, the receipt of loan repayments and the collection of savings;</p> <p>Settle disputes that may arise between members before they are sent to arbitrators;</p> <p>Authorize borrowing and lending operations of the society; recommend to the General Assembly lending policies and interest rates that cover relevant costs of lending to the society and reflect the level of risk involved; and</p> <p>Pursue the collection of delinquent accounts and otherwise protect the assets of the society.</p> |
| Control committee | <p>Ensure that the management committee and all sub-committees carry out their responsibilities properly;</p> <p>Audit and inspect all documents of the society at least once a month;</p> <p>Check member pass books against existing ledgers at least once per year;</p> <p>Ensure that the funds and property of the society are properly utilized;</p> <p>Ensure that activities of the society are carried out in accordance with bylaws and internal regulations of the society;</p> <p>Prepare and present a report at least once per year to the General Assembly; and</p> <p>Call emergency meetings of the General Assembly at its discretion.</p> |
| Loan Committee | <p>Review and evaluate loan applications from members;</p> <p>Recommend to the management committee the approval or denial of all loan applicants;</p> <p>Study and recommend new loan products; and</p> <p>Maintain minutes and records of its actions.</p> |
| Saving Committee | <p>Maintain savings account records;</p> <p>Ensure that saving accounts are conducted in accordance with the internal regulations of the society</p> <p>Promote saving habits of members;</p> <p>Recommend to the management committee the terms and conditions of savings;</p> |

| | |
|---------------------|---|
| | Prepare and submit monthly reports on savings accounts; and Study and recommend new saving products. |
| Education committee | Organize, facilitate and promote education and training of the members, committee members and staff; Train the members on how to prepare a viable business plan with provisions for meeting repayment obligations to support loan applications; Promote the distribution and understanding of these bylaws to members; Arrange for educational tours in conjunction with the management committee. |

Source AEMFIs, 2006 draft report.

3.2.4. Structures for Support, Regulation and Supervision

The Government has set-up cooperative promotion bodies at all levels: at the Federal government level and at regional and city administrations levels extending to zonal and (district) levels. At the Federal government levels a Cooperative Agency (FCA) was established in 2002 (then Commission). It is answerable to the State Minister in charge of Agricultural Input and Marketing department of the Ministry Agriculture and Rural Development (MoARD). The FCA is led by a Director General assisted by a deputy and has different line departments and teams, i.e., Cooperative Promotion Department, Regulatory Department, Cooperative Marketing Department and Capacity Building Department. The FCA is responsible, among others, for registering and supporting cooperative societies organized at the Federal level, conducting research, rendering training and other technical support to smooth operation of cooperative societies.

There are also Cooperative Promotion Bureaus in the nine national regional states and two city administrations, Addis Ababa and Dire Dawa. In addition, there are district Cooperative Promotion Desks and in some regions zonal Cooperatives Promotion desks. The extensive structure is meant to ensure that cooperatives societies are widely promoted and properly regulated and supervised (AEMFIs, 2006).

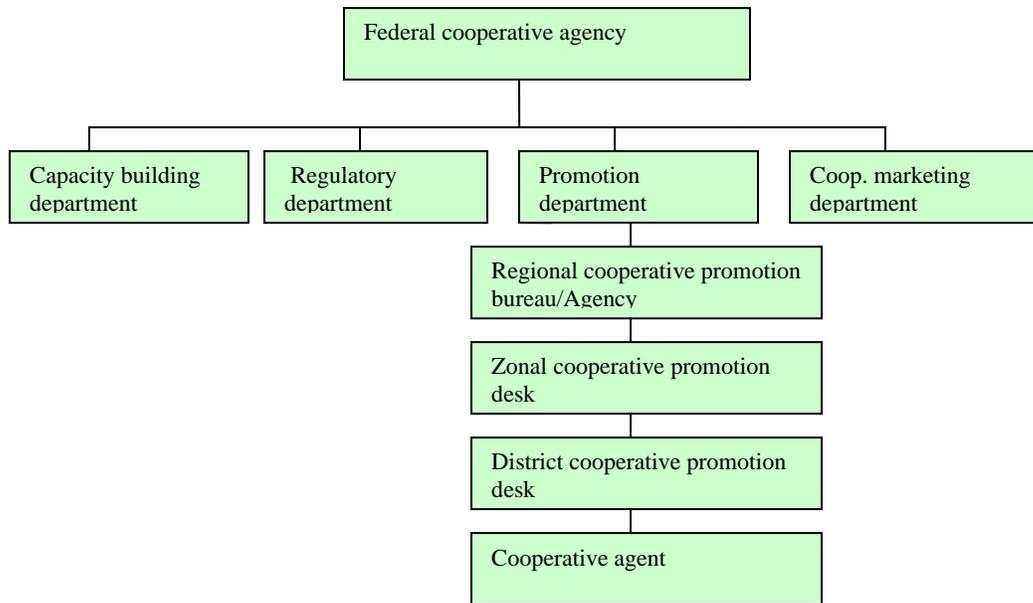


Figure 2 Organization for cooperatives support, regulation and supervision in Ethiopia

3.2.5. Regulation and supervision

Saving and Credit Cooperative societies in Ethiopia operate under the provisions of Proclamation No. 147/98. A saving and credit cooperative is registered as limited liability company to perform the much needed function of financial intermediation - mobilize savings from members and return those to members in the form of loans. Unlike other formal financial institutions (banks and microfinance institutions), however, saving and credit cooperatives are owned, controlled and capitalized by their members. This implies that the savings and credit cooperatives are not subjected to supervision and regulation of the National bank of Ethiopia (AEMFI, 2006). Therefore all regulation activities have relied on by the cooperative promotion organization which was set up at different level.

3.2.6. Saving and credit service of RUSACCOs in Ethiopia

A) Saving services

The saving products offered by RUSACCOs are compulsory saving, voluntary saving, time deposit and youth saving. Compulsory and voluntary savings are common, while child saving is practiced in Amhara region only and time deposit is virtually non-existent.

Compulsory savings are regular savings of fixed amount that is agreed upon by the General assembly while voluntary saving is to be decided by the individual member and is withdraw able at anytime, at times with a prior notice to the society. Only compulsory savings are thus used for loans to members.

B) Credit Services

Members of RUSACCOs become eligible for loans after making regular time deposits. The amount of loan extended depends on the amount of the saved money as well as the borrower's repayment capacity. In many cases, lending is limited by the size of deposit resources, and lending may be delayed until such time the size of deposit reaches a certain scale. Members of RUSACCOs are required to make savings for at least 12 months before they could be granted loans.

A member may obtain a loan, 3 to 5 times his/her saving balance. A loan is secured with 100 percent collateral. The collateral for loan is savings, while additional guarantors are required to secure the remaining value of loans. The collateralized savings cannot be withdrawn until the completion of loan repayment. This is likely to encourage low-income clients into a habit to save and of cash management, in addition to acting as a safety net.

Loans are disbursed to needy members according to the given loan Criteria's which are stated in the by-laws of the SACCOs. The RUSACCOs provide loans to their members mainly for purchase of agricultural inputs (seeds, fertilizer, tools, etc), animal fattening, animal rearing, off-farm activities such as spinning and weaving, and food and beverage preparation.

3.2.7. General Assembly Meetings of RUSACCOs

The Cooperative Proclamation requires cooperative societies to convene their general assembly meeting at least once a year. However, there appears significant variation across regions. For instance in Amhara, all surveyed RUSACCOs scheduled their meetings every six months.

In Oromiya, about 20 percent of the surveyed RUSACCOs adopted flexible schedules, while 40 percent meet every six months and the remaining 40 percent annually. On the other hand, general assembly meetings were scheduled too often in Tigray; about 35 percent had scheduled their meetings bi-annually, 24 percent every quarter, 12 percent monthly, in SNNRS most likely delayed. The excessive delays are in part due to reluctance of management committees to call general assembly meetings and in part due to the reluctance of RUSACCO members to attend meeting (AEMFIs, 2006).

3.2.8. What challenges do rural savings and credit cooperatives face?

The most critical challenges and constraints rural credit and saving cooperative societies face to expand their outreach and sustainability include, among other, weak capacity of SACCOs, low outreach to rural areas, insufficient loan able fund, inadequate support structure at all levels. The main causes for these are outlined below.

A) Weak capacity of management

The institutional capacity of RUSACCOs is weak because of: limited training opportunities available to RUSACCO management bodies and members; complete dependence of RUSACCOs on elected members for their day-to-day management and some members' reluctance to actively participate in the management of their societies;

weak management capacity; unsatisfactory or inadequate representation of women members in management bodies of the cooperatives; lack of offices and necessary office furniture and equipment, and lack of appropriate working systems (AEMFI, 2006)

B) Limited Loan able Fund

The loan outreach of SACCOs, particularly, RUSACCOs is likely to be constrained by the shortage of loan able fund. Loan able fund may be in short supply for the following main reasons:

small size of saving accounts (as low as Birr 1.00 per month) of RUSACCOs due to the incidence of high rural poverty; poor saving habits of members; small membership size of RUSACCOs (in 2006 the average membership was 55 persons); lack of vertical and horizontal linkages among cooperatives and as a result, RUSACCOs are not in a position to mobilize surplus funds, particularly in urban SACCOs and channel to deficit areas; Poor linkages with banking and other financial Institutions (Insurance, pension, etc.); negligible external revolving fund to RUSACCOs; rural and agricultural credit (food security revolving fund) are directed and managed by multi-purpose cooperatives; Low net surplus generated and retained within the RUSACCOs due to small-scale operations. In addition they are marked by poor administrative and financial procedures: outstanding loan amounts and numbers are for example not always well recorded and portfolio at risk not well known. A recent study noted high levels of illiteracy especially in RUSACCOs even among the leaders of these organizations. This puts a challenge to any training program. Also most RUSACCOs were lacking any basic physical facilities. (IFAD, 2001).

C) Inadequate support and weak regulation and supervision

Savings and credit cooperative systems in Ethiopia have a history of instability. Competent external regulation and supervision can identify, avoid, and resolve many common problems. Because the capacity of the federal cooperative agency and regional cooperative promotion bureaus to effectively promote, regulate and supervise SACCOs is severely constrained for the following main reasons: lack of trained manpower in cooperatives in general and in saving and credit cooperatives promotion, supervision and regulation high staff turn-over institutional instability or frequent restructuring of the cooperatives promotion, supervisory and regulatory bodies at the Federal, Regional, and Woreda levels absence of separate specialized units at the Federal, Regional and Woreda levels in charge of promoting, supervising and regulating saving and credit cooperatives limited local training institutions limited mobility of staff due to shortage of vehicles and motor cycles and operating costs; and poor working systems (AEMFI, January 2006).

4. BACKGROUND AND DESCRIPTIONS OF THE STUDY AREA

4.1. Location

Ethiopia is located between 3° 30' and 14° 55' North and 33 to 48 East. It is part of the Horn of Africa in the Northeast of the continent of Africa, bordered by Somalia to the Southeast, Djibouti to the East, Kenya to the South, Sudan to the West and Eritrea to the Northeast. It occupies the high plateau region between the Nile plains of Sudan and Eritrea. Ethiopia is one of the largest countries in Africa, with an area of over 1.13 million Km² (437,794 sq miles). It has a rugged topography with altitudes ranging from around 100 meters below sea level in the Danakil depression to 4600 meters above sea level in the Semien Mountains. The famous Rift Valley, which is a geographical phenomenon of Africa, starts here.

4.2. Population

Ethiopia's population was 77,120,000 (CSA, 2007) It is projected to increase to 83.5 million by 2010 and 106 million by 2020. Currently, about 85% of Ethiopia's population is rural and 15% urban. Approximately 81% of the country's population lives in three regional states, namely Oromia, Amhara and Southern Nations Nationalities and Peoples Region (SNNPR), constituting 35%, 26% and 20% of the total population respectively. Excluding the Harari city-state as well as the Addis Ababa and Dire Dawa city Administrative Councils, which have very high population densities, the SNNPR and Amhara Region have the first and second highest population densities among the 8 remaining Regions. Afar, Gambella and Benshangul-Gumuz are the regions with low population densities. (National Population Policy, 2006).

4.3. Meskan District

Meskan district is one of the districts of South Nation Nationality Peoples regional governments (SNNPR) in Gurage zone. The administrative center is Butagira town. Butagira is located at 132 km away from Addis Ababa that the capital city of Ethiopia.

The district has total land area of 54100 hectare and total population of 232,053 among which 116,129 are male, and the rest 115,924 are female.

This constitutes 1.51% of regional and 13.92% zonal population. It has forty rural kebeles (the lower level of administrative units) and two medium urban towns. The urban area is densely populated, and accounts for 224053 dwellers, which resulted in the population density of 429 persons per square kilometers.

Meskan is one of the major Mareko Fana red pepper growing districts in the country. This pepper is the famous type of pepper in the country. Red pepper is the main cash crop following chat. Maize and Enset are the main food crops. Moreover farmers are growing vegetables by using rain fall and cultural irrigation water when the dry season. They are highly dependent on pepper and chat production for their household income. However, the recent red pepper disease is creating severe hardships for red pepper growing farmers in Meskan district as well as supply shortage in the country. Thus the red pepper are replacing by maize and red onion. Many farmers are suffering from drastically reduced incomes from red pepper, so they are unable to buy food.

There are four small tribes; namely, Meskan, Dobbee, Sodo and Sltee. The Meskan tribe is the dominant one followed by Dobbe and the district identified by this tribe name. Currently there was series conflict between the two tribes, Meskan and Dobbe. The cause of their conflict was the name of the district. Dobee tribe has claimed to incorporate his name in the name of the district. But the Meskan tribe was refused. Then conflict was happened.

There are three religions; namely, Muslim, orthodox Christian and protestant. The Muslim religion is the dominant one as compared to the others. The society is male dominated and patriarchal system. Women have no access to land and they are subordinate to husbands therefore they can not to become a member of other cooperatives rather than saving and credit cooperative unless they are female headed. Since, to becoming a member of other cooperatives, ownership of assets such as land is necessarily needed.

Although gender roles do vary according to ethnicity, income, status, location and other factors, there are some overall distinctions between male and female roles. Thus women are responsible for nearly all reproductive tasks such as fetching fuel wood and water, cooking, washing, cleaning and child care, although there are instances where men help (for instance, after childbirth or if fuel wood sources are very distant). Men are the heads of households and are therefore the main decision makers in the household although some consultation may take place within the household on some issues. Women have longer working hours than men as not only do they carry much of the burden of reproductive work, they also engage in productive work. They are commonly responsible, along with their children, for the care of small livestock, production and marketing of butter and cheese, and vegetables. They may also engage in non-farm income activities such as petty trading, beer brewing, and the like. However, certain agricultural activities are only done by men such as tilling and threshing. (District women affairs, 2007).

Additionally, the drops out of women members are relatively high in RUSACCOs, as compared to other cooperatives. And hence this study was focused on RUSACCOs, mainly on women only and mixed member cooperatives. The society does not appreciate women property inheritance as well as it accepts polygamy. According to district women affairs report there are many domestic violence and early mirage. Girls do not have equal opportunity to go to school.

In the district there are sorts of scattered small tribes mainly dependent on subsistent farming. Though the people living in the area especially women are hard working and business oriented they are mostly suffering from food insecurity, due to insufficient and unpredictable rain fall, causing drought and famine or high rain fall sometimes causing a flood which damage their farm. Therefore peoples unable to buy food, they cannot pay for medical care, and are cutting back on school expenses another essential way to fight poverty in the district is to promote education for children. Nevertheless, when families face hard times, school expenses are hard to meet their basic needs. (MRADO, 2007).

5. FIELD RESEARCH RESULTS

The major objective of this chapter is to elaborate and describe the role of regional cooperative bureau and district cooperative desk in relation to regular functioning of saving and credit cooperatives in Meskan district based on the findings of the study. The result is organized through information obtained from regional and district saving and credit cooperatives promoters, cooperatives leaders, regular members and some drop outs.

5.1. SNNPR Cooperative Agency (regional cooperative bureau)

The cooperative Agency was established in SNNPR to organize and promote cooperatives the goal of the organization is to improve the organization and management problems of the cooperatives, create viable cooperatives capable of providing appropriate services, and to have a highly qualified management staff providing effective, timely products to the member in all cooperatives. (SNNPRS, 2007)

From the interview of regional saving and credit cooperative, the regional cooperative bureau is delivering different demandable services to district cooperative offices and to RUSACCOs directly in line of its responsibilities. These services have been delivered to two different bodies.

A) District cooperatives desk.

In order to improve the capacity of the desk at every direction, the bureau has planned and provided different services. Such as:

- Training to district promoter, auditor and accountant; therefore short term training for 2 district cooperative promoters
- It facilitates to study tour for district cooperatives promoters within the country as well as foreign countries like India and Kenya which have a good experience about cooperative. But not yet.
- Material support likes computer and motorbike: they provided one motor bike.
- Some amount of finance for fuel and maintenance of motorbike: therefore they provided (10,000-20,000 Birr per year since 2006).
- Professional and technical assistance

A) RUSACCOs

In order to strengthen the material and non material base of RUSACCOs, the bureau has planned and provided credit fund, books of accounts, safe box and office furniture. Young RUSACCOs have no sufficient capital base to cover such material and financial cost. The decided share capital and registration fee, which were collected from members would have been too small. This is because most of members were very poor.

Therefore, RUSACCOs have no capacity to deliver loan to their members by themselves.

To overcome those problems RUFIP (rural financial intermediately programme) has promised to provide financial support to RUSACCOs in line through regional cooperative bureau. Based on this, the bureau has promised and planned to provide credit in the form of revolving fund. However due to different bureaucratic exercise of the

development bank of Ethiopia who has been responsible to the approval and disbursement of the credit fund. The RUSACCOs have not yet obtained credit.

Besides, to improve the service that RUSACCOs are rendering to members, the bureau has trained 6 elected members of management and controlling committee from each of 15 RUSACCOs. And 1 table and 4 chairs have been provided for 7 RUSACCOs.

Regarding the time table of service availability, the regional promoter described as, even though the time of provision has its own schedule, due to internal and external problems of the bureau, they have not provided according to the time table.

5.2. District cooperative desk (office)

As the government set up of cooperative promotion bodies, the district Cooperative Promotion Desks are responsible to organize, promoted and properly regulated and supervised primary and secondary cooperatives at district level.

In regard of this, the district cooperative promoter described that based on the government policy of cooperative organization and promotion, the desk has established primary cooperatives in three ways. These are:

- The desk by itself has mobilized and aware people who are living in the same area and they have similar economic problems. Then it has organized volunteers under 15 RUSACCOs. These are organized in accordance of the regional cooperative bureau promises. In addition, the desk has believed that cooperatives are playing a vital role in poverty alleviation.
- Sometimes peoples are requesting the desk to organize them under cooperatives by observing the status of already organized cooperatives from their neighbors. Then, they have organized 6 RUSACCOs in similar manner.
- In the district, there are many self-help groups which were established by CHF (NGO), but they did not organize under cooperatives as well as they hadn't legal certificate. Therefore the desk has organized them under 4 RUSACCOs.

Moreover the desk is responsible to strengthen the RUSACCOs through training, inspection and audit service including regulation and supervision. Hence the desk did business plan and auditing for Koche limat saving and credit cooperative. But due to lack of financial recording in Edget saving and credit cooperative, the desk did not do auditing and business plan since the mid of 2007. The desk has provided training for 6 committee leaders from each cooperative before one year.

Although regulation and supervision is one of the desk responsibilities, due to lack of manpower and budget the desk has not monitored whether the bylaws are functioning properly. Hence in both two cooperatives, the bylaws were violated. For instance there were no general assembly meeting at all; elected committees have being more than the regular 2 years. As a result both cooperative committees especially Edget have not performed well. Members have not got regular services; the cooperative office did not open even on the regular saving date and when the experts were visiting.

There is quick readjustment of the staffs at office level. Surprisingly always there is a readjustment at the end of the year. Thus skilled staffs were dislocated from the department and/or the district. As the respondent indicated, now the total number of the cooperatives (no.94) in the district is being beyond the capacity of the desk staffs.

5.3. How RUSACCOs are functioning?

Koche limat and Edget are the rural saving and credit cooperative in Meskan district. There are 100 female and 20 male members in Koche limat, and 100 female members

in Edget. Both cooperatives are member of Netsanetfana women saving and credit cooperative union. Netsanet fana union was established in 2004. Although the office is in Meskan district, it gives credit services for three district primary saving and credit cooperatives. The union is regulated and supervised by zonal cooperative promotion office.

Koche limat and Edget are the rural saving and credit cooperative participate in saving and credit services to meet their members' credit need.

Both primary cooperative societies formed by women farmers organized in specific working areas Jole and Enseno on voluntary basis. However men members are in Koche limat cooperative. they have organized on the same bylaws. The saving mobilization and credit lending model is also similar. Both cooperatives are managed by the elected committee. The details are in both cooperatives as follows.

A) Koche limat RUSACCO

According the cooperatives bylaw, all the activities of this cooperative have run out by elected committees. The two leaders stated that, members were registered through their application. The application has issued by the cooperative chairman/women. Then they have paid registration fee and acquired one share unit/capital. This is the cooperative bylaw.

The amount of registration fee and share capital was 10 Birr and 30 Birr respectively. The payment of share capital was breaking down in to two payment period. This is because members have had no capacity to pay at once. Usually this is the challenge of rural poor women when they joined cooperatives.

The cooperative has given the saving service to members. There are two types of savings which are compulsory and voluntary. The amount of compulsory saving is 12 Birr per month. But the amount of voluntary saving was unlimited. Members were able to save as they like.

The compulsory saving is directly related to the credit amount which is members could take. But the voluntary saving does not matter.

Member's average compulsory saving deposit was 1523.30 Birr and 201.35 Birr from voluntary saving per individual since 2005. The number of voluntary saver were 6

There was fixed saving date which is every twenty ninth of the months. This date was decided by the general assembly on meeting.

The two leaders described that without the saving deposits, members were not able to get credit even the cooperative has sufficient amount of capital. Since, according the bylaw, saving is used as collateral while it determines the amount of loan to be taking. Members were able to take four times of his/her saving deposit. This amount was decided by the cooperative bylaw. The bylaws were approved by the general assembly.

According the respondents stated that the major source of loan capital is Netsanet fana saving and credit cooperative union including members saving deposit. But at initial stage the cooperative has granted 5,000 Birr from Self-help international (NGO). The granted money was utilized for share capital when entering to union. The union registration fee and share capital was 1000 Birr and 5000 Birr respectively.

The time table of loan taking from the union was once per year on December. The month was selected by most members through voting, however at early stage of establishment. The cooperative has borrowed 30,000-33,000 per year and distributed to members simultaneously. The duration of the loan was one year.

Regarding the repayment, Koche limat cooperative has repaid all the loan to the union with out any time lag. Since, members have repaid the loan to it properly. However the loan size was too small as compared to current price.

Thus, today members have demanding eight fold of their saving deposit though the decided amount was four fold of the saving deposit. Due to the bylaws the cooperative couldn't give to them more than the principal amount. Hence members were not satisfied by current loan size due to inflation.

In addition, few members were demanding the loan since early September when the red pepper was starting available in the market. But the cooperative has made available on December. December was decided initially by the general assembly.

B) Edget RUSACCO

This cooperative is women only saving and credit cooperative with 100 women members. As previously discussed that the entire working system was similar with Koche limat saving and credit cooperative.

The two cooperative leaders described, members were registered though their application. The applications were issued by the cooperative chair person. Members registration fee and share capital were 15 Birr and 45 Birr respectively.

Similar to Koche limat, the payment of share capital was breaking down in to two periods so that members have completed the payment within two months. This is because the entire members were poor.

The cooperative was involved in saving and credit services so that it has provided the services to members since establishment.

Saving service: As the respondents indicated that there were two types of saving which was the compulsory and voluntary saving.

The amount of compulsory saving per individual per month was 15 Birr. But the voluntary one was unlimited.

The compulsory saving deposit was playing the decisive role in member's loan acquisitions. Since, it was used as collateral. The total average saving deposit of the members was reaching about 1043.30 Birr per individual from 2004 to 2007. This is compulsory saving. Members were not exercising voluntary saving.

There was fixed saving date. Members have paid their compulsory saving every thirteenth of the month. This date was decided by the general assembly.

According the respondents the second role of the cooperative was credit delivery. This is the major aim of members to joining of cooperatives.

Credit service: The source of credit capital was Netsanet Fana women saving and credit cooperative union including members saving deposit. But before joining to the union, the cooperative has granted 45,000 Birr from Self-help international (NGO). Until becoming membership of union, the cooperative has provided loan from this grant.

Finally the grant money has utilized for buying share capital when the cooperative was becoming member.

Then the cooperative has granted 33,000-38,000 Birr from Netsanet fana union for 3 consecutive years. However the repayment of it was not well.

The 2 leaders described that the cooperative has not repaid fully, since more than 10 members have defaulted on, while they have drop out. The detailed reasons are below.

The cooperative needs husband's agreement including the saving deposit as collateral. The reason, if members default, their husbands were legally responsible to pay the loan. Based on this loan agreement, some husbands have taken away the money from the wife. Therefore the women were not able to do the business activities as previously. Hence they have default on. Moreover the husbands have not needed the repayment unless the cooperative has taken legal measure.

As mentioned by the leaders, surprisingly the husbands of some defaults have a good income as compared to other members, but they were reluctant to repay.

Defaults were not only due to this reason but also due to the presence of another microfinance institution around the area. This institution was supported by the regional government fund and it has provided loan in group collateral, with out saving deposit. So pre saving was not the decisive criteria. In addition it has provided loan with out study of individual business status.

In case of cooperative loan, most of RUSACCOs activities have performed by different committee so that, before giving the requested amount of credit, the credit committee and the management committee have studied about the type and status of the business which they would have enhanced or established. This is because some members would have saved more amount of money with out any business activities in order to get big loan size. If members have got big loan size with out business activity, they would have face challenge for repayment. Mostly they may default.

By looking for this institution (name Tikakin), some members default and they have started the loan process. However they were not sure whether they have successful. And I couldn't get them due to the conflict.

Due to these defaults, the cooperative also has being default. As a result the union has blocked totally until the repayment complete since the mid of 2007. Consequently, the cooperative has failed to give credit service to members since September, 2007. Thus, many members are going to prepare themselves to drop.

Regarding the demand of member's loan size, the respondents described that, the members were demanding 8 fold of their saving deposit. The principal loan size was four fold of the compulsory saving depots. The principal loan size was decided by the general assembly through bylaws. The bylaw was decided through voting. However the bylaw is not reasonable for today. Since, inflation has raised the price. Therefore the loan size was not able to do trading. Hence members have being dissatisfied.

Mostly red pepper and some grains like pea became available in the market since September, so Members were demanding the loan then. But, the regular time of the cooperative to release the loan is December. This schedule was also decided by the general assembly. So the cooperative couldn't make available the loan out of this schedule. This was also another cause of member's dissatisfaction.

The duration of the loan is one year, which was decided by the cooperative bylaw.

5.4. Women and their need in rural saving and credit cooperatives

Women members have needed credit whether they have started new or enhanced the previous small shop, animal fattening crops and red pepper trading.

From the interview, 15 respondents described that they have engaged in crops, small shop and red pepper trading as well as animal fattening. Therefore they have required credit to enhance those seasonal trading. See table 2 below.

Table 2 the reason for women members credit need

| cooperatives | Starting new business | Enhance the previous one | Other |
|--------------|-----------------------|--------------------------|-------|
| Koche limat | 1 | 7 | 2 |
| Edget | 2 | 8 | - |

Source own analysis from case study

3 Respondents were demanding credit for starting the new business. There was a high market competition among them since they have sold similar material on the same place. (See figure3 below).

The remain 2 of the respondent were describing that due to lack of money, their land was possessed by other individuals as a form of contract, so they have required the loan for disbursement



Photo by A. Mohamed
Figure 3 women on hot pepper selling in the market

From both cooperatives, women members have lent money for 3 consecutive years. The loan size was four fold of their compulsory saving deposit. That was according to the cooperatives bylaws. As the entire respondents described that, today they have required eight fold of their saving. Since, due to inflation the purchasing power of the Birr (1 Euro= 15 Birr) became very low. Hence they were not able to perused trading as previously did. For instance, if they need to buy one medium ox for fattening, they need at least 3000-4000 Birr. Therefore if the amount of credit was low, they would not be benefited rather wasting their time and labour or they may be default.

In the district there was market seasonality so members were demanding credit in different time of the year.

From the interview 12 respondent from both cooperatives, described that, they were demanding when the dry season have started. That was 2 months before the cooperatives schedule, since, usually at that time red pepper is available in the market. The rest of 8 respondents agreed with the cooperative schedule (see table 3).

Table 3 the need of member's credit delivery time

| Cooperative | Before the schedule | On cooperative schedule | After cooperative schedule |
|-------------|---------------------|-------------------------|----------------------------|
| Koche limat | 6 | 4 | - |
| Edget | 6 | 4 | - |

Source own analysis of the case study

All respondents from both cooperatives stated that, both RUSACCOs have not fulfilled their needs. As previously discussed the loan size was very small as compared to their needs and the time table was not convenient for most members.

Regarding the type of loan and frequency of the loan, 15 respondents were demanding big amount and long term that is at least more than one year. The reason was that if the loan size was small and the duration was short, they were not able to involve in some types of business activities, which need more than one season for returning. For instance milk cows. Moreover, if the duration was short, it would be threat by itself.

In other way 5 respondents stated that they have preferred small amounts and short term but repeatedly. The reason, they did not like debt, and lest they should lose even the few possessions that they have, in case of default (table 4).

Table 4 loan amount, frequency and credit duration

| cooperative | Amount | | frequency | | Repayment time | |
|-------------|------------|----------|----------------|--------------------|----------------|------------|
| | Small size | Big size | Once in a year | More than one time | Long term | Short term |
| Koche limat | 3 | 7 | 7 | 3 | 7 | 3 |
| Edget | 2 | 8 | 8 | 2 | 8 | 2 |

Source own analysis of case study

5.5. The cause of drop outs

In the rural saving and credit cooperative of Meskan district, there are a varying number of drop outs. Women drop outs were representing the higher percentage of it as compared to male (see figure 4). The figure is indicating the male and female drop outs in the seven sample cooperatives among the 25 of RUSACCOs. From the total, 80.3% of the drop outs were female and only 19.7% were male (see Annex B). However their reasons were varied

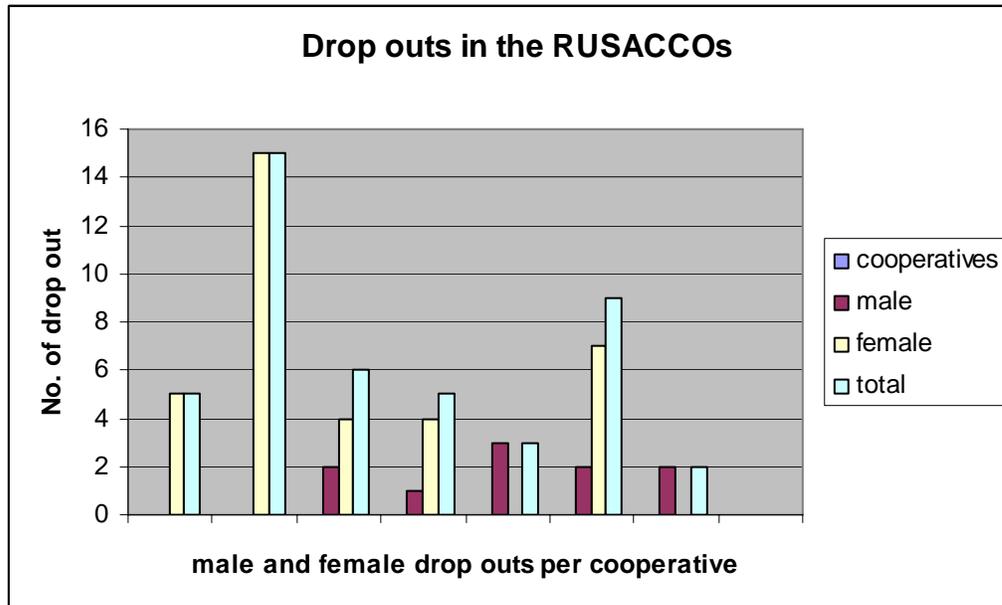


Figure 4 male and female drop outs in 7 sample rural saving and credit cooperatives

Due to different reasons members drop out and defaults have risen from time to time. The details are as follows.

A) Edget RUSACCO

There were 15 women drop outs. The reason of the drop outs was varied. There were three respondents in this cooperative. According the information from the interview two respondents dropped out due to their loan was taken away by their husbands. When the time of loan taking, the loan agreement has signed by both wife and husband therefore he has equal right on the loan with wife even if he was not a member. Therefore they couldn't engage their business. As a result they have default on while dropped out.

As described by the one respondent she has dropped out due to lack of good service from the cooperative. Usually the cooperative office is closed on the regular saving date. Or there was no concerned person like the cashier. Sometimes there was no legal receipt for loan collection etc. by looking such problems she has preferred to drop out. Since her trust has graded.

B) Koche limat RUSACCO

There were 5 drop outs. Two of them were the respondents. As described by one respondent the cause of her drop out was the loan money has taken away by her husband therefore she couldn't peruse the business activities. As a result she have been default and dropped out. The other on was dropped out due to unexpected pregnancy and health problem.

6. DATA ANALYSIS AND DISCUSSION

6.1. The role of regional cooperative bureau in credit delivery system

According to the proclamation of cooperative organization and promotion of Ethiopia and government setup, the regional cooperative bureau is responsible for registering and supporting materially, technically and financially of cooperative societies organized at primary and secondary (union) level, conducting research, rendering training and other technical support to smooth operation of cooperative societies. The organization targets the cooperatives to play an important role to the rural development of the region.

Cooperatives have organized and registered by the collaboration of all concerned cooperative bodies. Before registration cooperatives have to pass through some processes which have been carried out by district cooperative promoters and elected cooperative members. Those activities have required operational cost and technical knowledge and skill. Therefore the desk staffs were demanding some essentials from regional cooperative bureau in line of its supporting responsibilities; in order to carry out whatever activities which are required in the organization and registration processes. Thus, the regional cooperative promotion bureau should be responding as such those demands.

According to the information from the study, regional cooperative promotion bureau have provided material, financial and technical support to district cooperative desk. Those supports are insignificant according to the wide range of working activities. Since, there are a large number of cooperatives in the district.

The federal cooperative agency and the rural financial intermediately programme (RUFIP) have promised to regional cooperative bureau to support financially and materially which are important in line of RUSACCOs organization. In turn the regional cooperative promotion bureau has promised to provide sufficient support for district cooperative promotion desk as well as for RUSACCOs when the RUSACCOs were licensed or registered. Sufficient loan able fund and office furniture were amongst others.

Similarly, as stated in the field study the regional cooperative bureau has provided insufficient material and technical support in year of 2007. Though the credit fund was the major promising support, RUSACCOs have not yet got. The bureau has lacked strong effort and commitment; hence it couldn't break the bureaucratic experience of the development bank. As a result all RUSACCOs have lost loan grant through the bureau. Thus, the cooperatives were not able to provide credit service to members according to their organization aims. Consequently, women members' dissatisfaction was happened. However they have got loan from NGO and union lately.

In addition, the unrealized promise has made many numbers of cooperatives do exist. But they are beyond the regulation and supervision capacity of the district cooperative promotion desk. As a result the RUSACCOs performance has decreasing time to time rather improving and the practicality and sustainability of their have being doubt full.

Generally the relation ship between the regional cooperative bureau and district desk is very loose; there was no quick contact between them rather report exchange hence the

problems were not detected quickly. All the supports of the regional cooperative bureau almost remained at the promise level. Those promises were challenging and unrealistic for both the desk and the RUSACCOs. As a result, the number of weak cooperatives and drop outs in the cooperatives were increased.

6.2. Role of district cooperative desk in credit delivery system

In order to make cooperatives in proper line of their development aim, they need proper support, regulation and supervision from the responsible body. In fact cooperatives are member owned organization but like other developing countries in Ethiopia too, the level of knowledge and skills of women members were not enable them to carry out the whole cooperative activities, unless they have supported by government bodies. Since most members were illiterate and unaware about their cooperatives. In regard of this, most primary cooperatives activities especially the financial one was done by the district cooperative promotion staffs. This is in accordance of cooperative proclamation No. 147/98 and government set up for support, regulation and supervision to primary cooperatives.

According the structure of Ethiopian cooperative organization, district cooperative promotion desk is more responsible than regional and federal agency to do support, regulation and supervision for primary cooperatives. The AEMFI, 2007 report indicated that the saving and credit cooperatives were not subject to the regulation of commercial bank of Ethiopia, however they are formal saving and credit institution. Therefore the entire rules and bylaws should be regulated by the cooperative organization. Since, protection of bylaws including auditing is the base line of cooperative sustainability. Hence, the district cooperative promotion desk has done organizing and prepared them to registration in addition to auditing and inspection service.

Cooperatives should be present business plan and yearly audit report to funding bodies. Due to lack capacity, RUSACCOs couldn't do it. Therefore the business plan and auditing have done by the district cooperative promotion desk auditors and accountants. As a result they enabled the cooperatives to get loan while member's property has protected.

According their bylaws, elected members should be replaced by the new ones as soon as the service year was finished. The service year is two years. And the general assembly should be carrying out meeting at least once per year in order to looking for the entire bylaws. All those activities should be supervised and regulated by the desk; otherwise the bylaws may be violated.

In the district, different types of cooperatives including SACCOs were widely organized. These have being beyond the capacity of effective promotion, regulation and supervision. As other studies revealed that most SACCOs have lacked effective regulation and supervision. And the field study showed that, the capacity of the desk, to effectively promote, regulate and supervise SACCOs is severely constrained by lack of trained manpower in saving and credit cooperatives promotion, supervision and regulation. Moreover there were frequent restructuring of the cooperatives promotion, supervisory and regulatory bodies at the office level which have highly affected the service delivery. Thus, the desk has performed less activities rather organizing.

This situation may increase the unviable cooperatives and it has affected badly the performance of the studied cooperatives. Most cooperative have not followed their bylaws. Thus elected committees have not yet replaced by the new one. Even though all the cooperatives should be audited, only some of them have got the service. Additionally the audit report has not yet been presented to the general assembly. Basically the report should be present to general assembly as soon as possible. So that the cooperative couldn't take any corrective measure whether there are some defaults. No general assembly meeting at all, especially in Edget saving and credit cooperative. Therefore members couldn't express their current interest regarding the improvement of the bylaws in terms of their saving amount per month thereby the loan size. As a result, today most members were confused about their cooperative while fewer of them have default.

6.3. How RUSACCOs are functioning?

RUSACCOs have three major activities in the delivery of credit to rural women members. They are membership, saving mobilization and credit delivery.

6.3.1. Membership

Membership is the most important and first activity of cooperatives as well as members. Women should be a member in order to get saving and credit benefit from cooperative. To become member they should be pay the decided registration fee and buy at least one share capital/unit from the cooperatives. This is because as study indicated that share capital is an entry ticket that ensured a membership.

The sum of registration fee and share capital that collected is from members is the initial capital of cooperatives. Initially cooperatives have not any source of capital rather share capital. If the share capital is low, the total capital of the cooperative will be low so that the cooperative will not be able to do anything.

The study indicated that the decided amount of share capital was very low though there is a little variation between the two cooperatives. Additionally members have paid in two intervals. It was indicated that all the members in both cooperatives were poor. As a result the cooperative have obliged to request and wait the regional cooperative promotion bureau loan grant, however they have not got yet. Therefore the cooperatives couldn't lend loan to members as promised to members.

6.3.2. Saving mobilization

Study shows that the saving aspect is a cooperative which encourages its members to save money and enables them the obtain loans they may require for various purposes from their accumulated savings. This definition provides an indication of the main task of the cooperatives. The first task is to enable members to save their money on a regular basis, or according to their needs. The member saves his/her money within the framework of the cooperative.

According the field study, both cooperatives have given saving services for their members. That savings are compulsory and voluntary saving. The compulsory saving was directly related to member's credit amount. Therefore all members have involved in compulsory type of saving. The detail is as follows.

A) Koche limat RUSACCO members have involved in both compulsory and voluntary saving and they have saved an average of 1724.65 Birr per individual since 2005 from both types of saving.

B) Edget saving and credit cooperative members also have involved only in compulsory saving, and they have saved an average of 1043.30 Birr per individual from 2004 to 2007.

6.3.3. Credit delivery

The second task of the cooperative is to grant loans to its members. Loans are granted from the members' accumulated savings. Members are granted loans in accordance with the amount of their savings. As previously stated that the amount of capital which was the cooperative collected from members share capital and registration fee have not been sufficient to lending loan for its members. Therefore both cooperatives were granted from NGO and union.

A) Edget saving and credit cooperative are granted 45, 000 Birr as a seed money from self help international at initial stage of the establishment. That money has utilized for share capital when entering to union. Then loan are granted about 22,000- 30,000 Birr from the union for three continues years until the end of 2006. Even though the cooperative has distributed the loan, it couldn't collect the loan repayments and repay to the union before the repayment time has been expired. Since, the field study reveals that 8 women members have deprived the loan by their husband while they have stopped their business activities. 2 members also default due to lack of repayment facilities like responsible person and lack of legal receipt when they were going to repayment. Therefore 10 members were default on. The total loan of the defaults would have been the debit of the cooperative. Thus the union has blocked the loan until the cooperative has repaid.

Consequently, the credit delivery service of the cooperative has blocked totally while members have lost credit service since mid of 2007, even when they are free from debit. Then members have obliged to drop out. Generally due to such problems as well as others, 15 members have dropped out.

B) Koche limat saving and credit cooperative are granted 5,000 Birr from the self-help international (NGO) as seed money when they are established. The money has paid for the registration fee to union when they were entering to the union. Then loan are granted 30,000-33,000 Birr from the union for continues years.

According to the field study, the cooperative has distributed the granted loan to members according to their saving deposits. Members also have repaid the loan with out any difficulty, while the cooperative has repaid the loan to the union. As a result, the cooperative has got the loan from the union still now.

Though the repayment has been good, members were not satisfied due to the loan size. Members have demanding more loan size than previously do. This is because of inflation. But have not got yet. Because:

According the field study stated that members loan size were determined by their saving deposits based on the cooperative bylaws. In addition the saving amounts that save monthly are decided by the general assembly.

The loan size is directly related to the compulsory saving, but not voluntary saving. This is the general cooperative bylaw. If members need to get better loan size, they have to increase their compulsory saving deposit. In order to increase the saving deposit, the amount of the compulsory saving must increase. To doing so the bylaw must be changed by the general assembly.

But there was no general assembly meeting, so the bylaw has not changed yet. This is because the cooperative has lacked supervision and regulation from district cooperative promotion desk as well as knowledge about cooperative bylaw. Therefore members saving deposit and loan size was still low even if they demanding big loan size. Moreover the study reveal that the process of credit delivery has realized well in this cooperative indeed, but due to loan size members were not satisfied. As a result few members dropped out and others would prepare themselves to drop out.

6.4. Cooperative management

Savings and credit cooperatives are usually managed by a volunteer elected committee. Small, young savings and credit cooperatives are also often staffed entirely by volunteers. From this point of view, both the two cooperatives are fully governed by the elected members. In both cooperative there is lack of good management which is made either intentionally or by lack of educational knowledge. All activities are served by different committees which were constituted by the general assembly.

A) Koche limat saving and credit cooperative has managed by the volunteer elected members. These elected members have delegated by the general assembly.

The general assembly is the supreme organ of the cooperative. It approves and amends bylaws and internal regulations and policies of the society and has employed other activities (see table1). It has meeting at least once in a year.

The bylaws and the policies are facilitated and determined the membership, saving and credit amount; the duration of credit etc.

According to the field study in Koche limat the general assembly has not functioned according to its responsibility. This is because most cooperative members especially women are illiterate. So that, the bylaws has necessarily required change, have not changed even they became an obstacle for current activities, like compulsory saving amount per month.

According cooperative bylaw one elected member has being on a position only 2 years. But if he/she elected again they can continue for two years too. In practice all elected committee (management, controlling and credit committee) has being more than the principal time. Therefore they have exhausted and they did not perform well. As a result member's dissatisfaction would be happen. In fact the regulation and supervision services have performed by the district cooperative promotion desk

B) Edget saving and saving cooperative:

The cooperative management framework encompasses the four pillars as key components of management via, accountability, transparency, predictability and participation. (See also chapter 3.1.4). In Edget cooperative more or less these components and the bylaws are violated. All elected committee have being on a position more than the principal 2 years.

Though members have a right to get information, leaders have not volunteered to give information even about their personal accountings. They have denied their accountability so that the cooperative office has not opened even on the regular saving date. The personal accounting records have not filled correctly so that they have created a problem for auditing. As a result the cooperative have not got yet auditing, however auditing is required at least once in a year. This none auditing is created the corruption opportunities for the leaders. It leads to default as well as drop out

There is no the general assembly meeting at all. Therefore members could not share their common idea and discuss on the common problems.

The sum of these problems has leads to member's dissatisfaction. Consequently members have forced to drop out.

Generally when we comparing to all the activities of the two cooperatives in terms of saving mobilization; members access to credit and cooperative management, Koche limat saving and credit cooperative has performed better than Edget. Mainly this is the impact of men dominancy in the borrower's household to defaults as a result poor credit delivery was existed. Moreover there was poor cooperative management in Edget. Thus, such problems have contributed to increase the number of women members drop out in Edget.

6.5. Women and their need in rural saving and credit cooperatives

Study revealed that the poverty reduction potential of micro-credit schemes is commonly perceived as a promotional process through which poor households 'graduate' out of poverty. Women are the poorest of the poor in the societies. This graduation can be achieved if the poor households/women can be breaking a vicious circle of 'low investment - low income - and low investment' by injecting capital in the form of credit to generate productive employment, higher incomes and more investment. If the loan size is small there will be low income and low investment. Thus small loan size is can not make a difference on the living condition of women family.

Poor households or women are demanding credit not only for investment need, but also to cope with vulnerability to economic stresses caused by a variety of factors. Some of these factors are due to structural dimensions of the economy (inflation, seasonality, etc.), and others are related to sudden crises such as death or illness in the family, natural calamities. In addition, poor households face fast claims on expenditure which are difficult to cope with for cash flow reasons. These forms of economic stress induce fluctuations in income, purchasing power, consumption and threats to productive resources, and require households to use a range of coping strategies in order to survive (see also chapter 3.1.8).

As the field study indicated to cope such similar problems and invest on small businesses and on farming activities women have taken the loan. However the loan size was too small which is four fold of their saving deposit. This is because of inflation any trading goods were demanding more than two fold of the previous prices. Hence the loan did not enable them to do business activities widely. As a result it would have not made a change in their life. Thus members are not satisfied.

Regarding the time of credit delivery, as the study shows that members have engaged in different types of business and farming activities. So the availability of goods is different. And hence most of them demanding the credit availability have been 2 months before the cooperative schedule; however the rest of them were agreed with the cooperative schedule. This indicates that most members were not satisfied by the current credit schedule.

There was demand variation among members in regard of credit frequency, duration and loan size. According the field study 75% of the women members were need long term and big size loan but the frequency is once. But the rest 25% of them have preferred small size, short term and more than one time. The reason, they prefer this (see also chapter 5.4). When looking for the cooperative there was no alternation rather small amount and once in a year. Thus members were not satisfied in regard of this too.

6.6. Drop out

As studies indicated that, members are dropped out due to various cases. For instance in BRAC's (Bangladesh) because of the cooperative staff and peer pressure members have dropped out if individual's late repayments or default. So due to this the drop outs have reached 16%.

Due to smallness of the loan size unable to cover the house hold expense especially when individuals face bad circumstances. Then they may be dropping out (see also chapter 3.1.8).

According the field study there were 22 male and 90 female drop outs in the district. The cause of the drop out was varied. The status of the drop outs in both cooperatives is discussed below.

A) Koche limat saving and credit cooperative

In Koche limat there were 5 drop outs. Two of them were the respondent. The reason of one drop out was unwanted pregnancy. But the other drop out was due to low amount of loan size. Previously she has engaged in animal fattening and red pepper trading. But today due to inflation she couldn't pursue both activities simultaneously. Thus she dropped out a year before.

B) Edget saving and credit cooperative

In this cooperative there were 15 drop outs. This is accounted 15% of the total cooperative societies. Three respondents were from this cooperative. The reason of their drop out was varied. According the study husbands has equal right on utilization of the loan with their wives, even if they were not member. This is because the loan agreement has signed by both wife and husband.

The condition has advantage and disadvantage. The advantage is if the repayment may delay or default; the husband has legally accountable for the repayment. The disadvantage is like the current situation, he has taken away her from decision making on the loan, and the result would have been default. Consequently the women have become disempowered. As a result the number of women drop outs was increased than men. And the other one respondent was dropped out due to lack of good cooperative management.

7. CONCLUSION AND RECOMMENDATION

7.1. Conclusion

The study had the objective of assessing the credit delivery process of RUSACCOs and supporting system of the organization in determining the access to and use of credit facilities by women members in rural saving and credit cooperative in Meskan district. The result is showed the regional and district cooperative organization; RUSACCOs and members respectively.

- According to responsibility of the regional cooperative promotion bureau should have provided sufficient support to district cooperative desk and RUSACCOs in all direction. Moreover it should have been realized the promises which it is promised to RUSACCOs. However due to some bureaucratic exercises have not yet achieved. The promise has created capacity inconsiderate high number of rural saving and credit cooperatives in the district. Thus the RUSACCOs have lacked proper regulation and supervision so they have being weak.
- The district cooperative promotion desk is responsible to provide sufficient support, regulation and supervision to RUSACCOs. But due to insufficient number of staff; the quick readjustment of the cooperative organization staffs and lack of working facilities, forced to poor cooperative supervision and regulation was happened. As a result the cooperative management and the credit activities have being weak. Thus member's dissatisfaction is happened.
- Poor access to credit is not only the problem of RUSACCOs but also the problem of poor support of the cooperative organizations and the defaults.
- Accountability and transparency of the elected committee is the one of important thing in credit delivery system. Members need access to good cooperative management for saving and repayment. Lack of good cooperative management was created members dissatisfaction. Thus it also leadeded to default and drop outs.
- Rigid credit delivery system in regard of loan size, credit duration as well as the schedule of loan delivery, obviously created dissatisfaction among the borrowers. Since members have need flexible system which is considering the surrounding
- Cooperatives bylaws have decided through voting. But voting has ignored the minorities and it creates dissatisfaction among them. Then dissatisfies groups have exposed to drop out.
- Small size of loan may not cover wider business activities and household expenditure when borrowers may utilize the loan for family problem. Then the borrowers lead to default as well as drop out.
- Women Defaults would not been only the causes of their drop outs, but also other members even who are free from loan. Means due to the defaults the cooperative were not able to pay the loan to the union in turn get the loan from the union. Then the credit service of the cooperative also blocked. As a result members have lost the credit service, and then they would have been drop outs.
- Irresponsibleness of husband's on loan creates default. Hence it has increased the number of drop outs.
- Default has made women borrowers marginalized more than before. Previously they were free from any dept, after the default; there is a loan by their name. This is making them marginalized socially and economically. Due to the default they

may not get loan even local money lender. Loan screening of local money lender is based on the repayment status of the borrowers.

7.2. Recommendation

The following recommendations were made to be implemented by the regional and district cooperative organization and RUSACCOs.

- 1) Quick readjustment and loose relationship between regional and district cooperative organization has made the cooperative supervision and regulation inefficient. Thus the regional cooperative bureau should be able to advocate the regional capacity building bureau that is responsible to readjustment to minimize staff readjustment. Since the regional cooperative promotion bureau has better recognition than district cooperative desk. Besides, the relationship should be strengthening through quick contact and supervision. The annual budget of the regional cooperative bureau/Agency should be allocated accordingly rather than equal distribution to among all districts in the region. Moreover the bureau should be able to break that long bureaucratic exercise of development bank of Ethiopia in order to get the fund which has promised by RUFIP before the utilization time is expired. Since RUFIP is 7 years project.
- 2) It was suggested that supervision and regulation is needed for rural saving and credit cooperatives to improve cooperative management and financial administration problems. In addition, training services are also needed to help members improve the service delivery. Thus increasing the number of cooperative staff with specialized job descriptions and adequate training in the field would make a large contribution to improving the performance of RUSACCOs in credit delivery. To doing so, the district cooperative promotion desk and the regional cooperative promotion bureau together should be advocate the district administration office and district agriculture and rural development office to allocate additional budget accordingly. In addition there are many NGOs at district level hence the desk should be collaborate with them to capacitate the RUSACCOs through training and financial support. Far more the desk should be stopped the establishment of new cooperatives at all unless additional budget and skilled manpower will allocate.
- 3) The cooperative management committee should be accountable and transparent in all its operation. Hence, the Cooperative desk should ensure that the RUSACCOs are transparent and accountable to its members through developing strategic guidance, monitoring and evaluating the performance. Moreover the desk should be ensuring whether the bylaws were realized according the cooperative principle. Thus the desk should be undertaking intensive supervision of cooperatives.
- 4) Major cooperative activities are guided by the cooperative bylaws. These bylaws are established by the general assembly through voting. Usually voting is undermining the interest of the minority. So that the minorities would be dissatisfied. Thus the bylaws should be taking into consideration the minorities when formulated to ensure the whole members' interest. Moreover

cooperatives should not be copy other cooperatives bylaws. Hence the bylaws should be considering the realities of the members.

- 5) Member's needs are varied interims of loan size, credit duration and time of availabilities. Hence RUSACCOs should facilitate flexible loan duration, credit delivery time and frequency according their members need.
- 6) Male dominancy in borrowers household enhances default and it contributes to women drop outs. Thus RUSACCOs should be encouraged the male/husbands to become a member of the cooperative rather requesting their agreement for loan guarantee. Moreover the cooperatives should be formulating members collateralized rather than borrower husbands.

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ANNEXE (A) CHECK LIST

For regional cooperative promoter

1. Do you deliver some services to district cooperative office?
2. What types of services are you delivered?
3. Can you explain these services sequentially?
4. In what part of the year you are delivered?
5. Have you delivered some services to RUSACCOs? If yes
6. What types of services?
7. In what form you delivered material services?
8. Why you are delivered these materials?
9. Do you give to them money? If yes
10. Why or for what purpose do you give this money to them?
11. How much to been this money you are released?
12. When you are released?
13. Do you give training to RUSACCOs and district cooperative staffs?

For district cooperative promoter

1. How do you establish RUSACCOs?
2. How do you promote already established cooperatives?
3. Do you give training, audit and inspection services to them? if yes
4. To whom you provide training? Members or leaders?

For RUSACCOs leaders (two elected committee)

1. How you registered members?
2. How many members do you have?
3. How many of them are female?
4. How many of are male?
5. Have you a saving service? If yes
6. Why members are do saving?
7. When the regular saving time is?
8. Have you given a credit services to members? If yes
9. Where you get the money which is available to credit?
10. To what extent members are requesting loan?
11. In what criteria do you decide the amount of money to available per individual?
12. Do you satisfied to them according to their request? If no why
13. When members are requesting credit?
14. Can you make available the credit on the requesting time? If no why
15. When the time of repayment is?
16. By whom this repayment time is decided?

For women members

1. Why do you need credit?
2. To what extent do you need credit?
3. In what season or when do you need credit?
4. Does RUSACCOs fulfill your need? If not why, if yes how
5. What type of repayment do you need (long or short term)?
6. Do the leaders are agree with your choice? If not why

For drop out leaders

1. Why do you drop out the membership
2. When do you drop out?

ANNEX (B) NO. OF RUSACCOs AND MALE AND FEMALE DROP OUTS

| No | Name of cooperative | Drop outs | | |
|----|------------------------|-----------|--------|-------|
| | | male | female | total |
| 1 | Koche limat | - | 5 | 5 |
| 2 | Bechbulchano | 2 | 7 | 9 |
| 3 | Edget | - | 15 | 15 |
| 4 | Lakech | - | 3 | 3 |
| 5 | Netsanet | - | 4 | 4 |
| 6 | Sostamba | - | 3 | 3 |
| 7 | Bamo | - | 4 | 4 |
| 8 | Yimerwacho | 2 | 4 | 6 |
| 9 | Joleand | - | 1 | 1 |
| 10 | Beletech | - | 5 | 5 |
| 11 | Debub shershera | - | 3 | 3 |
| 12 | Fetanedget | - | 2 | 2 |
| 13 | Selamadmas | - | 3 | 3 |
| 14 | Tenkir | 7 | - | 7 |
| 15 | Witanayimerwacho | 2 | - | 2 |
| 16 | Dobena gola | - | 6 | 6 |
| 17 | Hibret Meskan | - | 3 | 3 |
| 18 | Eshet | 1 | 1 | 2 |
| 19 | Edgetbesra | 3 | - | 3 |
| 20 | Fikir | 1 | 4 | 5 |
| 21 | Abromadeg | 2 | - | 2 |
| 22 | Dejen | - | 3 | 3 |
| 23 | Demsis | - | 5 | 5 |
| 24 | Meseret | 2 | - | 2 |
| 25 | kokeb | - | 9 | 9 |
| | total | 22 | 90 | 112 |

Table 7 Drop outs in rural saving and credit cooperatives (Source district cooperative desk)