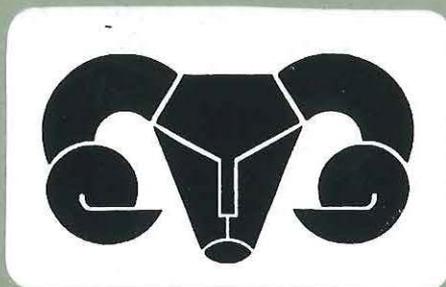


**EVALUATION OF THE POTENTIAL
FOR SUCCESSFUL, GRASS-ROOTS CREDIT UNION DEVELOPMENT IN
THE SOUTHERN ETHIOPIAN
RANGELANDS**



**SR/GL-CRSP Pastoral Risk Management Project (PRMP)
Technical Report 01/98
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FOR SUCCESSFUL, GRASS-ROOTS CREDIT UNION
DEVELOPMENT IN THE SOUTHERN ETHIOPIAN
RANGELANDS**

**PRESENTED TO THE SR/GL-CRSP PROJECT FOR IMPROVING
PASTORAL RISK MANAGEMENT ON EAST AFRICAN
RANGELANDS**

SOUTHERN ETHIOPIA

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ADDIS ABABA

APRIL 2, 1998

INTRODUCTION

Between March 16, and March 31, 1998, I carried out an assessment on the Borana Plateau in southern Ethiopia of the possibilities of promoting and organizing savings and credit cooperatives or credit unions in the region, with particular reference to the pastoralist. It is hoped that organizing credit unions in this area would provide the pastoralist and other citizens with financial institutions of close proximity to enable them to mobilize their local savings to build capital for their own development. Such capital will help especially the pastoralist to diversify their investments to include other means of wealth storage besides livestock. Diversification of investment and asset holding, and consequently diversification of sources of income, will increase the ability of pastoralists to survive stress periods caused by drought and other conditions that affect livestock adversely.

The methodology used in this assessment was interviews with pastoralists in their settlements, town dwellers, representatives of aid organizations working in the area, organizations involved in development of the region, commercial bankers present in the area, the Central Bank office responsible for savings and credit cooperative development, and Ministry of Agriculture officials. The relevant legislation relating to cooperatives and Micro-finance enterprises were reviewed. Various markets including cattle markets, and all-purpose weekly and daily markets were visited to observe the level of economic activities and to assess the need for financial services. The general itinerary and a complete list of people met is attached as Annexes I and II, respectively.

In both interviews and observations, particular attention was paid to ensure that the terms of reference in the scope of work were being properly addressed. The scope of work required that the following Terms of Reference be achieved:

(A) Rural Finance Diagnosis

- (1) Zonal, regional, and national policies that might facilitate or constrain credit union development;
- (2) Prospects for complementarity or redundancy between prospective community credit union and existing commercial banking and informal financial networks (including money lenders, ROSCAs, etc);
- (3) Diversity of existing and prospective sources of income and asset bases;

- (4) Latent demand for financial savings and credit instruments.
- (5) Local receptivity to best-practice credit union organization and management principles;
- (6) Availability of prospective local credit union management staff;
- (7) existing collateralization and claims-- seniority traditions in the region-- what forms of collateral are socially accepted, what liabilities are treated as senior or junior; and
- (8) Prospective members' confidence in formal sector financial institutions.

(B) Prepare a concept paper outlining a strategy for effective community credit union development in the area, provided the environment is conducive to such efforts.

This report first documents the Rural Finance diagnosis followed by the Annexes. The Concept Paper follows the Annexes.

RESULTS

RURAL FINANCE DIAGNOSIS

POLICY

NATIONAL

The Federal Republic of Ethiopia is in a transition and many old policies are being reviewed; new laws and proclamations are being passed in parliament. This process is a gradual one and state (regional) institutions are still waiting for their mission to be defined. The state governments have powers to make laws and pass proclamations to address issues that affect their development. The mode and climate is one which favours all actions that will accelerate the development of the nation as a whole and that of the pastoralist in particular.

Cooperative development is still being governed by Proclamation Number 138 of 1978, the Cooperative Societies Proclamation. Under this proclamation, savings and credit cooperatives (credit unions) fall under the tutelage of the

National Bank of Ethiopia- the country's Central Bank. Under Article 12 paragraph 1 (d).

The National Bank of Ethiopia is the authority to register savings and credit cooperatives.

Article 10 pertaining to Thrift and Credit Cooperatives states:

Thrift and credit cooperatives may be formed by individuals working in one undertaking or office for making regular savings and to obtain credit for individual needs or productive purposes

According to this section of the law, savings and credit cooperatives can only be registered if organized among employees of an establishment. This is a restrictive policy that would need to be changed to allow credit unions to be legally organized among rural people including pastoralists. However, in practice, the Savings and Credit Cooperative Development Office (SACCCDO) in the National Bank of Ethiopia has registered some community based (in addition to employer based) credit unions around the capital city of Addis Ababa. The acting manager of SACCCDO stated that they have looked favourably at credit unions organized by NGOs and other aid organizations, but also expressed their dissatisfaction with the functioning and management of these credit unions. The legal point is that a precedent has been created in the registration of non-employee based credit unions. In any case, to create a conducive legal environment for credit unions to function, there is need for a comprehensive national policy on local savings mobilization and such a policy should be translated into a Credit Union Act or Proclamation. See the addendum for more information regarding SACCCDO and legislative initiatives.

The federal government has recently passed a Proclamation on Micro-Finance Enterprises, Number 40 of 1996. This Proclamation defines a Micro-Financing Institution as:

a company licensed under this Proclamation to engage in micro-financing business in rural and urban areas.

Though credit unions do not fall within this definition, the tendency in most other countries is to consider credit unions as being among the micro-finance operators. Currently only a few companies have been registered under this Proclamation and all of them operate in the north of the country. This is, however, an issue that needs clarification by policy. In the absence of a Credit Union Act, a broader definition of micro-finance may be sufficient.

REGIONAL

In the absence of a Federal Proclamation, the regional government of Oromiya may be encouraged and helped to pass a state Proclamation governing savings and credit cooperatives (credit unions).

OTHER ISSUES

COORDINATION ON APPROACH TO DECENTRALIZED FINANCIAL SYSTEMS

It is important that the introduction of rural financial, micro-financial, or credit union systems in the southern region in particular be well coordinated such that any actor in this domain may use the same approach. To avoid confusing the population and creating distrust, a common agreement should be reached among aid agencies, NGOs, and any other organizations planning to start a saving and credit programme so that the approach is the same. It is understood that GTZ is considering to study and possibly get involved in this domain.

CHOICE OF A NATIONAL PARTNER ORGANIZATION

If the SR/GL-CRSP proceeds to recommend promotion of a savings mobilization scheme in the southern region of Ethiopia, it will be important to determine and choose a local national organization with which it will work. This choice of a partner is critical to the success or failure of the scheme. Currently the choice of such a partner seems limited between SACCCDO, SORDU (the Southern Rangelands Development Unit), and the Ministry of Agriculture. SORDU is present and has done a lot of work in the southern region, but it is in a transition awaiting news of its current status and mission. Other NGOs and GOs such as CARE, Save the Children and GTZ, are operators in the field with which to cooperate, but do not qualify as local partners. Anyone of them may, however, become the implementing agent who must then seek a local partner. The ensuring of continuity, supervision and control should be the responsibility of a local national partner. Even if SACCCDO is not the choice for a local national partner, there will always be some working relationship with it as it is the licensing authority for savings and credit cooperatives at present.

COMPLEMENTARITY OR REDUNDANCY BETWEEN CREDIT UNIONS AND BANKS?

Though banking in Ethiopia has been liberalized, the number of banks and their branches is still very limited in the country and mostly situated in the big commercial centres. A majority of these are in the capital Addis Ababa. Only the Commercial Bank of Ethiopia has a wide range of branches throughout the country with some in the bigger towns of the southern region. Within the Borana area these branches are found in Moyalle, Yabelo, Negelle, and Hagera Maryam. The distances between each of these towns are more than 100 kilometers and each town may be as much as 50 to 70 km away from most pastoral settlements. A majority of pastoralists do not use the services of the Commercial Bank. Many of those interviewed explained that this lack of use of bank services by the people of southern Ethiopia is due to a number of reasons, some of which are:

- (1) The bank branches are situated too far away from most inhabitants;
- (2) These banks are too intimidating, even to pastoralists who live near towns;
- (3) The bank demands minimum deposits or balances which these people do not have (see addendum);
- (4) Pastoralist prefer to hold their wealth in animals and not in the form of money or other assets; and
- (5) A lack of awareness of the existence of banking institutions and the services they provide.

The new micro-finance enterprises which have been established following the new Proclamation number 40/1996 are all in the north. None has yet set up an office in the southern region. Even in the towns where Commercial Bank of Ethiopia branches exist, many low and middle income persons do not conduct financial operations with them.

Therefore, the establishment of credit unions in these areas would be filling a gap in financial services. It is unlikely that any bank will, in the long run, open branches close enough to attract the business of the pastoralist considering the high costs associated with bank branches.

If credit unions are started, and individual savings mobilized, the collective amounts should be deposited in the Commercial Bank of Ethiopia branches which now are the most accessible banking institutions in the southern region. As the credit unions grow in membership and savings, and when lending begins, only that part of savings which has not been lend to members would be kept in bank deposits. There are many other services that credit unions would need from the bank. Consequently, if credit unions are started in the southern region, they would be complementing bank services in many cases.

DIVERSITY OF EXISTING AND PROSPECTIVE INCOME AND ASSET BASE OF PASTORALISTS

A very large number of pastoralist currently hold their entire wealth in one form of assets -- livestock. Land, which the Boran consider as their gift from God after animals, belongs to the tribe as a whole and individuals have communal rights to use it freely. Claiming title to a parcel of land as individual property is a very recent phenomena, and only few people have made such claims. It is said that it is now government policy that every pastoralist has the right to own land, but the conditions and procedures of the application of the policy has not been specified. In addition to their animals, most pastoralists do own household goods and their semi-permanent dwellings. A much smaller number own vehicles, while a still smaller number hold bank accounts with credit balances. Those with vehicles and bank account balances are mostly those who are combining animal husbandry with trade or other forms of businesses. To the pastoralist, a way to diversify his assets now is to hold different types of animals at the same time, such as cattle, goats, sheep, and camels.

Both the town dweller and traditional pastoralists are beginning to practice some form of agriculture. But for the pastoralist, the main source of income is from the sale of animals and animal products. However, recent trends indicate that diverse activities are being undertaken by pastoral family members in order to increase family income. Such activities include poultry keeping, firewood and charcoal sales, and agriculture. Some pastoralist's families now grow more grain than they need and the surplus is sold (see addendum).

This pattern of single-asset holding and limited sources of income will remain the same for a while. The environment in southern Ethiopia though changing, is still very much traditional. There may be enormous potential, but the possibilities to exploit these are very few and limited. One such potential is in the privatization of state-owned enterprises which should allow citizens to diversify into stocks and share-holding by purchasing parts of these

companies, but this is not likely to occur to much of an extent in southern Ethiopia. The majority of the people of this southern region are neither aware of such possibilities, nor have the technical capacity (high rate of illiteracy) to actively participate. An increasing number of pastoralists who are diversifying into other activities will gradually change this pattern of ignorance of financial services.

PRESENT AND LATENT NEED FOR SAVINGS AND CREDIT SERVICES

The Borana lowlands of Ethiopia has remained a rural setting until recently when small towns have been created. The pastoral economy is entirely dependent on animal husbandry and a little agriculture, and it is not too far from a subsistence economy. The pastoralist are rich in resources (animal resources principally), but tend to be cash poor. They hold their animals for prestige and not necessarily to make money. Their needs have, to a very large extent, remained basic, though this is now changing. They could live on the milk (and occasionally meat) produced by cattle. More and more, grain and other agricultural products are being added to their diet . Their dwellings (huts) are made out of local materials -- sticks, mud, and grass. Health care relies on traditional systems passed down over the years, comprised in most cases, of herbs, tree bark, and roots extracted from their surroundings. There was therefore, little or no traditional need for money and banking.

Today, this is changing fast. Markets and modern goods and services are moving closer to the southern pastoralist more than ever before, including schools for children and health clinics (both for humans and animals). The pastoralist is exposed to a variety of goods and services from which to choose. The man of yesterday with limited wants which could be satisfied at little or no cost, today must choose from a seemingly unlimited list of needs and must pay for them in cash. He therefore must increasingly hold cash or cash equivalents in order to survive in today's economy. The need of pastoralists for money in liquid form (or money equivalent) will only increase with his increasing needs. Consequently, money and banking which were not part of his traditional life, will today and in the future become indispensable.

Some pastoralists are already using trusted friends who are shop-keepers as their savings and credit institution. They sell animals and make deposits with the shop-keeper and later withdraw the money in cash or in the form of goods. Once the deposit is drawn down, the shop-keeper can also advance credit in cash or in kind, to be repaid when a sale of an animal takes place or by receiving an animal itself. The credit which shop-keepers extend especially

occurs during the dry periods, and is repaid with animals in the wet season when animals are healthy. A number of pastoralist expressed a desire for an institution where they can deposit funds and obtain credit during an emergency – emergencies especially in the form of health crises. A reported case of deceit occurred where a rich pastoralist lost a large sum of money he was keeping at home. Such events help create a need for a safe depository.

Though there is a lot of ignorance on institutional savings and credit in the southern rangelands, most people believe that with a sustained system of education and creating of general awareness, the pastoralist and the local population will increasingly make use of and appreciate savings and credit institutions. The financial services that will be demanded will grow with the development and growth of the national economy as a whole, and with that of the region in particular. The Commercial Bank branches in the towns visited were not very busy on a day to day basis, but they all reported that their clientele is steadily growing.

RECEPTIVITY TO CREDIT UNION ORGANIZATION AND MANAGEMENT

Most of the people interviewed in towns, Boran ollas (settlements), and in the administration, welcomed the idea of local savings mobilization in the communities. Some of the pastoralists and shop-keepers have participated in Rotating Savings and Credit Associations (ROSCAs). Others have not heard of savings and credit cooperatives or ROSCAs before. The Borana pastoralists suggested that the idea of savings was raised in their eight yearly regional conference (the 1996 Gumi Gayu) and the leadership is in favour of it. As they are mostly unaware of how such a financial system functions, both caution and enthusiasm was expressed to me.

In one Boran settlement, the leader (Aba Olla) cited a number of advantages of a local community financial institution where members can save and borrow in time of need. Another pastoralist explained that the ROSCA is disadvantageous to them because it puts undue pressure on them to sell animals in order to meet the regular and fixed contributions. A more flexible system based on voluntary and varying amounts of deposits is suitable as pastoralists will be free to pick the time to sell their animals and save.

Skepticism was also expressed base on past experiences. That is because of the history of free hand-outs in stressed periods. Some members of the pastoral society have become too donor-dependent and therefore will not be enthusiastic to save for an emergency. Some pastoralists have witnessed

revolving funds for veterinary drugs gradually disappear because of poor control and supervision and therefore, may be reluctant to save with others as they may be putting their money at risk. The disappearance of the veterinary fund happened in the hands of those who were in charge of handling the money and ensuring its safety. As regard to credit, concerns were raised on the risk of borrowers migrating to neighbouring countries to escape having to repay loans.

Despite the caution and skepticism, the general feeling is that if awareness is properly created, the people educated on the mechanism of the system, the traditional culture respected and the people fully participating in the decision making, a credit union system would function with little difficulty. There is also the feeling that both the Borana lowlands and Gugii highlanders are adapting to change faster than before in order to cope with the increasing pressures caused by the constantly changing environment. To help them adapt appropriately, the most important single action needed is education. A well-educated Borana who was interviewed stated that there is an urgent need for concrete and effective schemes such as the credit union to liberate the pastoralists from complete dependency during periods of disaster such as drought.

Though the area has not had credit unions before, there is the belief that if introduced properly, using a bottom-up approach and involving the traditional clan elders, they could build into it the traditional control mechanism to overcome many of the fears expressed and ensure discipline and good management. Recent efforts in trying to diversify activities and (including type of animals kept) is one piece of evidence of the receptivity of the people to new ideas. Many wives and children now keep chickens which produce eggs. Goats, sheep, and camels can now be seen grazing along side with the traditional cattle. The sale of eggs, small ruminants, fire wood and charcoal can assure today's pastoralist of a regular flow of cash from which savings can be made. This is a factor which is thought will help in the ready acceptability of the credit union philosophy.

AVAILABILITY OF CREDIT UNION MANAGEMENT CAPACITY

The Boran communities are dominated by illiterate pastoralists. The elders have over the years gained experience and knowledge in the management of their activities and the common wealth of the society. More frequently than not the Boran are selecting from among themselves leaders to perform special functions on behalf of the communities. Some of these elected leaders,

however, have betrayed the trust of their people as has been the case in many other societies. Communities, however, have continued to thrive and move forward. Therefore, it is reasonable to believe that after proper education on the principles and functioning of credit unions, the Boran communities will elect board members from among themselves who will subsequently be trained on the management and control of the system. Illiteracy is one single factor that will make the training of local board members difficult and demanding, but it is not impossible. The people seem willing and prepared to learn if the proper approach is used. There are some of the younger males who have dropped out of school at various levels and live and herd cattle in the Ollas. There are educated Boran people living outside the pastoral areas, either working or not, who could play an important role in managing credit unions. It is also possible that for technical functions such as book-keeping and accounting, appropriately qualified Boran living in towns can be recruited to perform such duties on a regular salaried basis.

It is important to emphasize that the capacity to manage a credit union can be acquired through training and practice, and that it is an on-going process. The training of management (both elected officials and employed staff) on a regular basis must be seen as an important and necessary activity that is central to the success or failure of the system.

CARE works with women's groups, helping them to set up small businesses and shops. There has been bad experiences with a few of these groups because of cash shortages and misuse of group funds. The SORDU and Save the Children Fund have worked with committees for administering revolving funds for veterinary drugs. They too have reported problems of cash shortages and misuse of funds by veterinary scouts and supervisory committees. These problems, it is said occurred because of lack of control and supervision. In all cases the internal control is said to be weak. But most important is the fact that the pastoralists have, in all cases, honoured their obligations. The problems were with individuals elected or selected to administer or assist at the local level.

CARE, Save the Children Fund, and government-created service cooperatives have already experimented with using local people to manage in committees. A credit union system should build on these experiences; avoiding as much as possible to make the same mistakes and trying not to "reinvent the wheel".

COLLATERALIZATION SYSTEM

Monetary credit is entirely new in the Boran lowlands of Ethiopia. Traditionally, clan members or friends will give animals on loan to a fellow clan member whose entire herd has been destroyed by disease or drought. Once such animals are given, the recipient may keep them for as long as the others wish, but the recipient may not sell them. The off-spring from such loaned animals become the property of the recipient and he has all rights over such off-spring. The original animals received could be returned to the donors without any additional contributions. Tradition simply demanded that in the future, if another clan member suffered a big loss, the former recipient should then contribute to help the person currently in need. This system is gradually dying out with the growth of the monetary economy.

The pastoralists are now known to borrow goods and money from trusted friends who are shop-keepers. Such loans are granted simply based on trust between the borrower and lender, no security is demanded or given. Traders have been borrowing from banks more recently to finance their activities. The only security the bank accepts is a house. Houses financed by a mortgage loan from one bank may also be accepted by another bank as security for a trade loan. Since such practices are fairly recent, there are no established traditions for prioritization of such collateral. A bank manager could not say how the courts are likely to decide in the event of a default to both lenders.

Pastoralists will be handicapped using houses or land as collateral as they have no title deeds for the land on which they settle. If a credit union system were organized in this community, the main and most effective collateral for loans will be co-signature of close family members or friends. It is also possible, based on the traditional system to grant loans to members of an olla (encampment) or group on the basis of the collective guarantee by the whole group. This will be using the Grameen Bank group collateral system (successful in Bangladesh). Such form of guarantee is very likely to be readily accepted by the Boran pastoralists. It is effective when the loans are small, which will be the case at the beginning.

PROSPECTIVE MEMBERS' CONFIDENCE IN FORMAL SECTOR FINANCIAL SYSTEMS

Until recently, the banking industry in Ethiopia was entirely controlled by government-owned banks. These banks were well financed by the government and their loans, which were mainly to state-owned enterprises -- were guaranteed by government. Bank failure is almost unknown in Ethiopia.

The real problem in banking is that branches are found only in major cities or towns. Secondly, because of their comfortable financing situation, there has not been a big campaign for deposits from the public. A majority of the population, especially in the rural areas, are unaware of banking services. It is only very recently that banking has been liberalized and few privately owned banks are setting up offices and branches in the main cities. These and the micro-financing institutions are still too few and the penetration level is low. There is no evidence of any event that could have caused a lack of confidence in the formal sector financial system. If the population in any part of the country is not using banking services, it is because of other reasons and not lack of trust in the system. In the southern region, formal sector financial system is still very scantily present and the people are skeptical and cautious.

One major issue that must be settled is that of the physical security of funds mobilized in the communities in event of a credit union project. This is critical because of the distances between the communities and centers where public depositories are found. It is also important to ensure security of funds to build confidence in the system. It will be a matter for the system to cultivate the level of trust that it wants the members to have in it.

INTEREST RATES

The pastoralist feel that interest rates on money put in banks is too low. They consider that holding their wealth in form of cattle is more profitable than putting it into the bank. A calf fattened for one year will generate more income than a 6% interest earned from the bank on an equivalent value of the calf a year ago. They do not pay too much attention to the likely risk of loss of the calf through the many potential dangers that pastoralists face. They argue that such is the risk they have to live with anyhow, and that banking is still too new to them to know its potential risk.

While bank interest rate on deposit is said to be low, any borrowing that the pastoralist has done has been at a very high hidden cost. Often they pay higher prices for goods purchased on credit from shop-keepers, and repay monetary credit with live animals. They therefore never actually know the cost of their borrowing. It is important to recognize the fact that if credit unions are started in the area, they must operate strictly on market conditions. This includes charging at minimum market rates on loans and handsomely rewarding deposits.

MARKETING OF CATTLE

The concept of banking for the pastoralist is based on the assumption that they can sell their animals when they want at a fair and reasonable price. If the animals cannot be converted into cash when the pastoralist want to, due to lack of markets, there will be no money to save or repay previous loans and the possibility of success of a credit union system will be called into question. At the time of my visit to this area there was a general complaint that there was no market for the cattle, and when they managed to sell, it was at a very low price. This forced them to bring more animals to the market in order to make enough money to pay for grain. This further depresses prices. The situation was even worse in another market where animals brought for sale were taken back in the afternoon because there were no buyers. The Ethiopian pastoralists in the south seem to have responded positively to the clan advice to thin down herds by selling animals while the times are good. They have, however, encountered the problem of supply exceeding demand in the present markets which has resulted in very low prices for cattle. There is therefore a need to address the question of marketing as soon as possible to create a favourable environment for savings and credit cooperatives to be introduced. It may warrant the search for new markets.

CONCLUSIONS

To successfully manage risk for the pastoralist through diversification of asset holding and sources of income, it is necessary to educate them to look at wealth in other forms than animals and help them to accept to carry out other activities in addition, or as an alternative to, cattle rearing. They have also to be encouraged to see the holding of money as both a store of value and a medium of exchange which enables them to be more flexible in their choice of activities. This type of education, to be successful, requires the building of confidence. A way of establishing confidence in any savings and credit system in a local community and among households is by empowering them to have control over a transparent mechanism of money management. The saving and credit cooperatives (or credit union) is an appropriate system that is decentralized enough to allow each community or group of communities to effectively control their local credit union or its entire network.

The potential for promoting and organizing viable and sustainable credit unions in southern Ethiopia exists. To exploit the potential and achieve the project objective, it will demand resources, material, time, and human resources. As an out-reach programme, it must be separated from research so

that enough attention is paid to it as a project to ensure success and minimize the risk of causing heavy losses to pastoral communities. The members' savings is what will be at risk in the event of credit union failure. Before attempting to start credit unions, there must be a determination to protect the members from undue risk during and after the programme.

See addendum for points regarding liquidity management, gender, potential partnerships on rural finance proposals, mass education, etc.

ANNEX I

Travel schedule

Date	ITINERARY
March 13	Travel Bamenda to Douala
March 14	Travel Douala to Nairobi
March 15	Travel Nairobi to Addis Ababa
March 16 to 17	Addis Ababa. Met govt and bank officials, obtained travel documents
March 18	Addis Ababa to Awassa en route to the south
March 19	Awassa to Negelle
March 20 to 21	Negelle. Visits to: Min. Agric., GTZ, Save the Children, daily market, cattle market, nearby olla
March 22	Negelle to Yabelo, with stops at Wachile and Arero
March 23	Yabelo. Visits to: CARE, SORDU, CBE, nearby olla,
March 24	Yabelo to Moyalle with stops at Dubluk, Soda Crater, Mega, cattle market
March 25 to 26	Moyalle. Visits to CBE, Min. Agric., UNHCR, GTZ- Moyalle (Kenya)
March 27	Moyalle to Yirga Cheffe, with stops at Dubluk, Yabelo, and Hagere Maryam
March 28	Yirga Cheffe to Addis Ababa
March 29 to 30	Addis Ababa -Report writing
March 31	Addis Ababa to Nairobi
April 1 to 2	Report writing

ANNEX II

List of persons met

NAME	ORGANIZATION	POSITION
Ato Belay Ejigu	Federal Ministry of Agriculture	Head, Agric. Extension
Ato Ibrahim Abdullahi Feidy	National Bank of Ethiopia (NBE)	Dir. Econ. Research & Planning
Wzo. Maaza Beyene	National Bank of Ethiopia (SACCDO)	Acting Manager
Ato Benyam Sorssa	NBE (SACCDO)	Audit Divis. Head
Ato Abate Mitiku	NBE (SACCDO)	Devel. Divis. Head
Dr. Taffesse Mesfin	Ministry of Agriculture	Head, Pastoral Devel. Unit
Ato Mulugeta G/Medhin	Commercial Bank of Ethiopia (CBE)	Asst. V.P. Credit
Ato Fessiha	Commercial Bank of Ethiopia (CBE)	Manager, Credit
Ato Bako Demisse	Zonal Administration (Negelle)	Secretary
Ato Bonso Tuki	Zonal Administration Cooperative Division (Negelle)	Head Adm. & Finance
Mr. Reinhold M. Swoboda	GTZ - Negelle	Livestock devel.
Dr. Sora Adi	GTZ - Negelle	Livestock devel.
Mr. Germ Hasan	SORDU - Negelle	
Ato Million Kabede	Save the Children Fund, Negelle	Administrator
Ato Muktar Aman	Save the Children Fund, Negelle	
Ato Habtamu Teka	SORDU - Yabelo	Manager
Ato Tesfaye Abebe	SORDU - Yabelo	Head, Monitoring and Evaluation
Ato Jatani Dembella	CARE - Borena (Yabelo)	Asst. Proj. Coord.
Ato Engdawork Haile	CBE-Yabelo	Br. Manager
Ato Mengistu Lemma	CBE- Moyalle	Br. Manager
Ato Mohammed Ismaile	UNHCR - Moyalle	
Ato Tesfahun Jebessa	Ministry of Agriculture - Moyalle	Head
Ato Beriso Zewdie	Ministry of Agriculture -Hagere Maryam	Head

CONCEPT PAPER ON THE STRATEGY FOR EFFECTIVE COMMUNITY CREDIT UNION DEVELOPMENT IN SOUTHERN ETHIOPIA

INTRODUCTION

This concept paper is prepared with the belief that a credit union development project would be separate from the research component of the SR/GL-CRSP project, though there will be close collaboration between the two. Secondly, it is assumed that there would be collaboration with GOs, NGOs, and donors to reach a common understanding on the promotion of savings and credit cooperatives (credit union) in the region. Thirdly, it is assumed that while cooperating with all other organizations in the area, there will be a closer relationship or partnership with a chosen local national host organization which, if possible, is already working in the region and has established a good reputation with the citizens and is trusted.

THE STRATEGY

Two Credit Union Approaches

A credit union development project should adopt two approaches to introduce credit unions in southern Ethiopia. The first should apply to the towns and large settlement areas with concentrated populations. In these places the people live close together in large numbers, and it is easy to find sufficient numbers among them willing to organize a credit union. Consequently, it is recommended that the traditional method of organizing and managing community based credit unions should be adopted for this first approach.

The second strategy and approach is to recognize the peculiarity of the pastoralist's environment and conditions. They tend to live in small groups over a large area. Their numbers in one particular area of close proximity may not be large enough to form a viable credit union. Secondly, the prospects of finding someone qualified to do basic book-keeping for the credit union in a small community of pastoralist are very small. Finding such qualified persons within a larger grouping will be much easier. The same may apply to finding members for the board of directors. Therefore it is proposed that for small pastoral settlements, a number of them be aggregated and organized in sections to form one central credit union.

This means that for bush settlements which are small, and the ollas, it is proposed to carve a very large area into zones or sections, each zone or section grouping including as many households as are reasonably close together. This may mean putting people as far apart as three to five kilometers into one section. In some cases the distances may be smaller while in other cases they may even be wider. This is to give everyone a chance to belong to a credit union if he (or she) wants. To

create a section, a minimum number of members must be set so that these sections themselves do not become too small and costly. It is suggested here that the minimum number of prospective credit union members that should qualify for a section should be set at 30. There should equally be a maximum, and 200 is recommended.

A maximum of twelve such sections should make up one central credit union. The main office of the credit union should be located in the most central position either in the main market of the area or where the population is most dense. Each section should have its own sub-management committee of not less than five persons to coordinate the activities of the section and work with the manager when he visits the section. At least one, and at most two, of such sectional committee members should also sit on the board of directors of the central credit union. The central credit union should have a board of directors of not more than twelve. The credit union should at least employ one full-time book-keeper/manager. The book-keeper/manager should visit the sections on fixed and agreed upon days and time to transact the business of the credit union. In the very beginning business should be done at the sections only in the presence of at least two local committee members. Of course, business at all times can only be done when the book keeper/manager is present. In addition to visiting the various sections on different days of the week, the credit union office should be opened on the major market day and possibly at the market place. In the beginning it will be preferred if such opening is done with one or two board members present. Members from all the sections are free to transact business on such market days directly. When business must be done in the presence of representatives, they must validate the transactions by signing their names or appending their special sign or mark on the original document.

Loans should be granted on the bases of small-group guarantee. Each section can organize itself into peer or family groups of about five to ten members per group. These groups should under take to work together, to protect their individual integrity, and ensure that there is self control and discipline. The group should be able to collectively guarantee loans to members. The loan policy should take account of this system and build-in more details.

Credit Union Pilot Project

The Project should strive to create at least 10 credit unions in the first two years on a pilot basis. It is recommended that **Hagere Maryam** in the highlands (a rich coffee area with a high population concentration); **Yabelo**, a central town with many economic activities; and **Arero** another town be targets for the traditional method of organizing credit unions. Considering the population in these towns and their immediate surroundings, it is possible to organize more than one credit union in any depending on the demand and type of common bond.

For the second type of rural community credit unions, it is suggested that **Finchewa** and its surrounding ollas and settlements; **Mega**, its near by ollas and settlements; **Dubluk** and its surrounding settlements and ollas; and **Dida Hara** settlements and ollas between Arero and Yabelo (about 60 kilometers from Yabelo towards Arero) should be the targets for sectional credit unions as described above.

In the first year, less than 50% of this number may be started, but it is also possible that in the second year, the request to start credit unions may exceed the total number of ten. The project should however, respond to such demands as much as its capacity permits, especially in terms of human resources (numbers and technical strength).

Also see addendum for an organization diagram for two credit union models.

Institutional development/support system

It is necessary that a credit union system be set up to be self-supporting once outside expertise and funds are gone. The strategy to ensure this is to organize the credit union into a network of primary societies and a secondary or apex organ which will provide common services to the primary societies at reasonable prices. Consequently, as soon as at least five credit unions have been organized and are fully functional, the technician should start to bring together the leadership of the various credit unions to discuss common problems and find solutions to them. They should also begin to assist in the development of strategy to promote the system to other towns and settlements. These meetings, which must be different from the common training programmes, should form the nucleus of a regional organization to be called either a league or union. Considering the size of the country and the distance between the capital and most of the southern region, it is important that a regional support organization exists in the south to ensure the safety and soundness of the credit union system there. The capacity of this institution should be developed as soon as a good number of credit unions are created.

THE METHOD

This strategy should be implemented through an intensive sensitization and education programme at the grassroots level to create a general awareness and keep the people informed and educated on credit union principles and policies, especially those applied in their communities. This core element of education and training at all levels of the development of community based credit union in the southern region would be achieved by using well educated and seasoned local staff members who speak and understand the southern languages and who can be trusted by these communities.

Staff

Communication with the people of the southern region will be impossible unless well educated local personnel are used. Most people in the south, and more so the pastoralist do not speak or understand English. They use their language called Oromigña and only a very few speak Ahmaric, a widely spoken language elsewhere in Ethiopia. It is therefore suggested to recruit through the host partner organization, two or three well-educated Boran with strong financial, accounting and marketing backgrounds to work as the local promoters under the direct supervision of a foreign credit union technical adviser.

Other direct inputs

To ensure security of the funds of members, which is very critical for the success of the credit union project, it is recommended that at the initial stage each newly started credit union be supplied with a sturdy safe with multiple locks and keys. The safe can be provided on a loan basis to the credit union, repayable over five to 10 years from profits. Such a loan should be interest free. The initial amount to purchase the first ten safes can be treated as a revolving fund so that future credit unions may benefit from it.

The people should be encouraged to build their own credit union offices using communal labour, but they should never use members savings to finance such projects.

THE END

ADDENDUM

This section contains follow-up questions (Q) from SR/GL-CRSP team members with answers (A; in italics) provided by Abraham Ndofor.

(Q1) Our team was informed during your visit that SACCCDO of NBE in Ethiopia has been involved in draft legislation regarding establishment of a national commission for cooperative development and promotion, and that if approved this legislation would lead to a national law sanctioning formation of community credit unions throughout Ethiopia. Do you recall this being said, and if so, are we making a correct interpretation? This apparently was mentioned during your visit to the National Bank, but you did not mention this in your report.

(A) SACCCDO did mention that they have submitted a draft proclamation for consideration. The draft suggested:

- 1) The creation of a cooperative commission to oversee the creation and management of all forms of cooperatives;*
- 2) The creation of a national association for savings and credit cooperatives; and*
- 3) The liberalization of promotion of community based savings and credit cooperatives.*

There was also considerable doubt from SACCCDO officials as to whether the draft will be considered at all and, if so, when.

(Q2) About mid-way through your report you stated that some rural people you interviewed mentioned that banks require "large deposits" to open accounts, and that this was a disincentive for using banks. In contrast, our information suggests that CBE requires a minimum deposit of 5 Birr (about 0.70 US cents) to open an account. Your information thus contradicts what we know from other sources. Can you clarify?

(A) Minimum deposits or balances.

(Q3) Also near the middle of the report you mention that some agro-pastoralists are able to sell a grain surplus. We would like to acknowledge this to be an exceedingly rare event, if you do not mind. Our long experience there indicates that grain surpluses are very unusual. This is obviously a very minor point.

(A) Yes (it is in fact in rare cases)

(Q4) We suspect that the financial management of credit unions among the Boran may have to be exceedingly flexible to maintain long-term profitability. The Boran, being a people wealthy in animal assets but having a low day-to-day demand for money, may require that credit unions be managed to reflect this reality. For example, it is likely that initially a credit union would be used mainly for storing large volumes of deposits. Demand for credit may be relatively modest in relation to the size of deposits. This would seem to work against profitability. In addition, if pastoralists most need credit to "solve a problem," it is likely that most people in the community would have to "solve a problem" at a similar time of drought, disease, etc., essentially creating a "run on the bank." Our question is: Can credit unions be managed to cope with such unusual circumstances? Are there any examples from WOCCU work elsewhere where similar problems have been encountered and overcome? If so, how have such problems been overcome?

(A) As stated in the report organizing the credit unions in a network system will make the management of liquidity within the system easy through a Central Liquidity Facility. This will be much easier if the credit unions are promoted and organized in urban communities as well as rural communities and if possible at workplaces. If the various credit unions are affiliated to an apex organization, such as a national association or (regional) which runs a Central Liquidity Facility, it will be possible to move surplus liquidity from urban areas to the rural areas in time of need and vice versa.

WOCCU experience indicates that urban credit unions and rural ones never have high liquidity needs at the same time. Secondly, as concerns credit or loans, experience in other African countries indicates that where there is confidence in the credit union system, more savings can be mobilized than can be invested in loans to members.

Therefore there is the need and a call for a sound financial sector in the country to permit the investment of surplus savings in sound financial instruments either through the Central Bank or Money Market. The Savings should soon be seen as capital generating enough returns to the savers to make further monetary savings possible.

(Q5) Also based on WOCCU experiences elsewhere, how can you ensure that women gain access to credit union services? It is likely that a board of advisors and other credit union officers among the Boran would all be males. How can a gender bias be dealt with effectively?

(A) Overcoming traditional and cultural inhibition on gender issues, especially women's participation in public organizations' management, is a gradual process that is achieved through education and information. WOCCU was able to educate Credit Union members in Niger (a Moslem culture) to elect boards of directors with both men and women. CARE has already started to work with

women groups in the region and it can only be hoped that over time and with education women can play an active role in the management of their credit unions. This is not likely to be an easy task and will depend among other things on:

- 1) the local culture on women's ownership of wealth and
- 2) the technician's ability to educate the community on the positive aspects of women's participation in credit union management.

It was observed in the various markets visited that women were present selling milk, chickens, and even firewood. This suggests that women do handle money and if credit unions will be the place where money can be kept for safety and for generating further income, it may be possible for women to be allowed to have access to credit unions.

(Q6) In your rural model for credit unions, you noted that funds must occasionally be in transit between the credit union branch office and a local bank, for example. Did you have any particular concerns about insecurity in southern Ethiopia that could preclude secure transfer of funds in the pastoral areas? Likewise, does WOCCU have any good examples of practices or helpful technology which promotes security of funds in transit where insecurity is a risk factor?

(A) No. However, as a precautionary measure, steps must be taken in any credit union system to avoid physical loss of money. Any such losses will be a scandal which will impact on confidence. There are always internal control measures that can be put in place to minimize the issue of losses linked to insecurity. The long distances between towns and settlement areas prompt the need to sound a note of caution.

(Q7) Can you comment more fully on the potential strengths and weaknesses of SORDU and SACCCDO as national partners in a credit union pilot program? Could the Cooperative Development and Promotion Office (CDPO) of the Ministry of Agriculture play a role in this mix, or not, in your view?

(A) Since SACCCDO is the body licensing Credit Unions, there is bound to be a working relationship with it. Its capacity at present is limited and its staff is already overwhelmed by the work load dealing with the employer-based credit unions in and around Addis Ababa. The southern region is physically separated from SACCCDO by over 800 kilometers. SACCCDO will find it difficult to effectively supervise and monitor new credit union development unless its resources are considerably increased.

SORDU is in transition. Its new structure and role still has to be defined. Since I do not know its new role, it will be unwise to attempt to outline strengths and weaknesses. Organizing credit unions as cooperatives will require collaboration with the Cooperative Development and Promotion Office. The role of CDPO will have to well defined in the status in order to avoid conflicts.

(Q8) What has been WOCCU's experience regarding what happens to informal money-lending systems when a credit union is formed? You had mentioned that informal money-lenders or ROSCAs occur in the rangeland towns you visited; we are just curious if such lenders or systems become redundant when credit unions are formed, or do such people and groups also become involved in credit union activities? Where is the scope for complementarity or redundancy here?

(A) WOCCU experience in other countries is that the ROSCA, and other informal lending, do continue to exist side by side with credit unions. ROSCA in some countries perform other social functions which credit unions do not. ROSCA activities do not conflict with credit union services. Individual money lenders charging usury rates do conflict with credit union philosophy. Some credit union by-laws prohibit money lenders from becoming members.

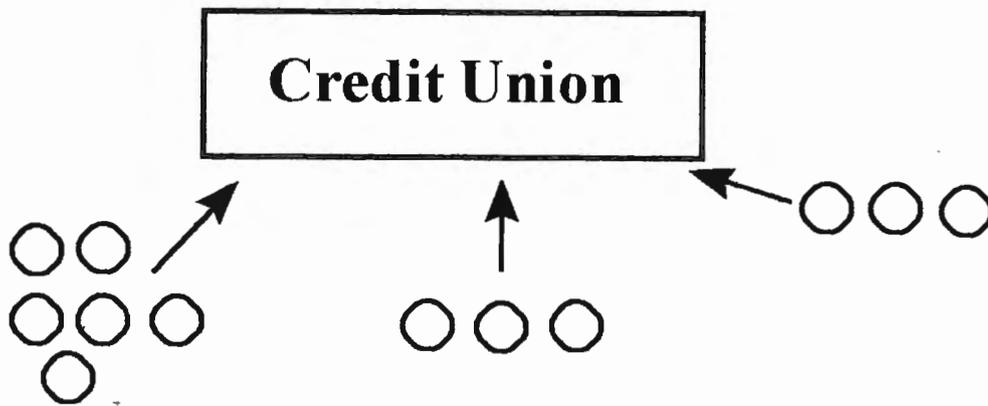
(Q9) Could you provide a simple organizational chart for each of the credit union models (i.e., traditional-urban and rural) that you outlined in the "Concept Paper?" You could draw this out and label the various positions by hand, and we can reproduce it using computer graphics.

(A) See below.

(Q10) You mentioned the great need for education among the people in southern Ethiopia regarding rural finance. We agree. Does WOCCU have experience in creating mass-educational materials (i.e., simple local-language brochures, videos, teaching materials, etc.) that we could use in the secondary schools and other public forums? If not, where could we turn to obtain such expertise?

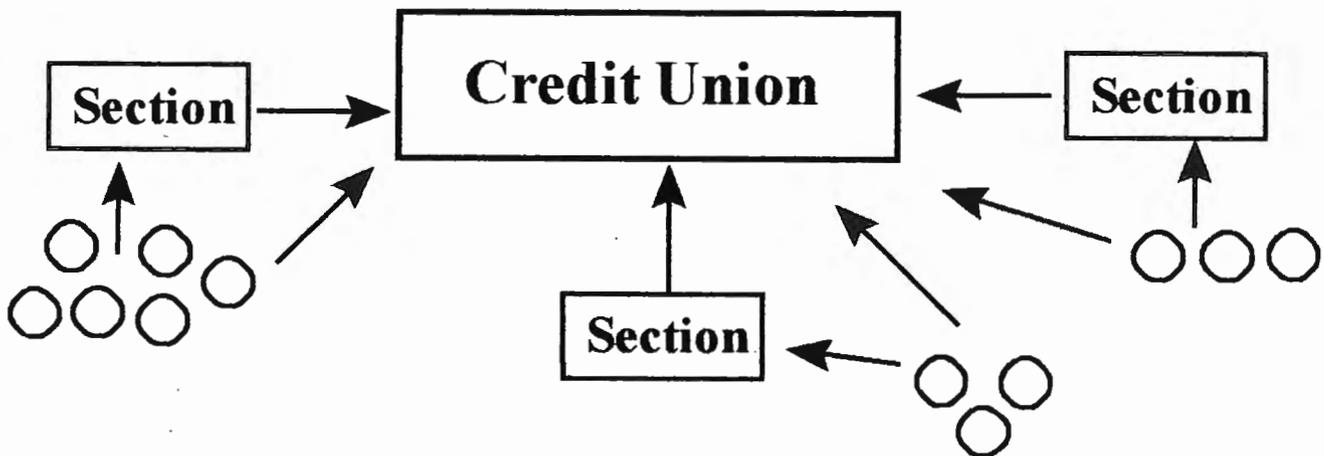
(A) WOCCU and WOCCU affiliates all over the world have a mass of educational material that can be translated and adapted to meet the needs of Southern Ethiopia. Other sources of educational material will be ILO, UNDP, FAO, and Freedom from Hunger.

Traditional Credit Union



Individuals living in the Boran 'ollas' and towns go directly to the credit union

Credit Union with Madda Sections as the Base



Individuals living in the Boran 'ollas' go to credit union via their section. May do most or all of their business operations at the section level but can also go directly to credit union.

