

**PROBLEMS AND PROSPECTS OF RURAL SAVING AND
CREDIT COOPERATIVES (RuSACCOs) IN THE CONTEXT OF
CHRONICALLY FOOD INSECURE AREAS: THE CASE OF
MESKAN DISTRICT, GURAGE ZONE, SOUTHERN NATIONS,
NATIONALITIES AND PEOPLE REGION (SNNPR)**

**A THESIS RESEARCH SUBMITTED TO INDIRA GANDHI
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DECLARATION

I declare that this thesis is my own work and that all sources of materials used for this research work have been duly acknowledged. This thesis has been submitted in partial fulfillments of the requirements for an M.Sc. degree at the Indira Gandhi National Open University and is deposited at University Library to be made available to borrowers under the procedures of the library. I sincerely declare that this thesis is not submitted to any other institution for the award of any academic degree, diploma, or certificate.

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ABSTRACT

Member based financial institutions such as Rural Saving and Credit Cooperatives (RuACCOs) are being recognized both by the government of Ethiopia and development partners' as one of the key players in the provision of rural financial services to the chronically food insecure population, thereby alleviating poverty, famine and hunger. RuSACCOs are confronted with a number of problems which constrain their capacity to deliver adequate and appropriate services to their clients and to become effective and sustainable in their business.

The problems that RuSACCOs operating in chronically food insecure areas, like Meskan district, can be categorized into: institutional constraints, operational problems and, socio-economic constraints. The institutional constraints refer to the limitation of external supports they are getting and the inefficiency of regulatory system in place. The capacity of cooperative offices, which are mandated by the government to organize and promote RuSACCOs, are often constrained by shortage of budgetary resources and inadequate capacity of human resources both in quality and quantity to effectively promote, regulate and supervise RuSACCOs. The support from NGOs and donors is not adequate enough to address institutional and organizational problems that RuSACCOs in the study area are struggling with.

With regard to operational problems, shortage of credit fund, small size of individual loan and short repayment period of credit disbursed through RuSACCO are some of the common constraints impacting the effectiveness of RuSACCOs in the study area. Poor accounting and recording system, because of lack of qualified personnel at RuSACCOs office, is another

operational problem commonly observed. The socio-economic features of chronically food insecure areas, such as, limited awareness and understanding level of rural people, extensive poverty situation, limited natural resource available in the area and limited livelihoods and business opportunities at the disposal of RuSACCO members are also affecting the performance and growth of RuSACCOs

Even in the abundance of all these multi-faceted constraints, RUSACCOs are considered the most appropriate financial service providers to the underserved category of the rural poor. According to the findings of this thesis research, the future prospect of RUSACCOs in the study area in particular and CFI areas in general is found to be promising. This has been confirmed by all categories of respondents and also through a review of secondary sources referenced in the thesis report.

The main purpose of this thesis research is to examine the status of RuSACCOs operating in one of the Chronically Food Insecure (CFI) woredas of Ethiopia, pertaining to their visions, missions and objectives stipulated in relevant policy and regulatory directives issued by government and stated in their by-laws. The finding of this study will provide first-hand information to government and non-government organizations about the status of RuSACCOs, existing gaps, and their major constraints which prevent them to operate effectively in the context of chronically food insecure areas. However, the study has limitations of coverage of area and population, due to the obvious constraints of time and resource. Hence, this research is by no means exhaustive and representative, as it is a piece of effort to identify realities regarding problems and prospects of RuSACCOs operating in all CFI woredas of a huge country like Ethiopia.

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LIST OF ABBREVIATIONS

AEMFI	: Association of Ethiopian Microfinance Institutions
BCBE	: Business and Construction Bank of Ethiopia
CBE	: Commercial Bank of Ethiopia
CFI	: Chronically Food Insecure
CSA	: Central Statistics Agency
DA	: Development Agent / Extension Agent
DBE	: Development Bank of Ethiopia
EFY	: Ethiopian Fiscal Year
FCA	: Federal Cooperative Agency
FDRE	: Federal Democratic Republic of Ethiopia
Ha	: Hectare
HABP	: Household Asset Building Programme
IFAD	: International Fund for Agricultural Development
KII	: Key Informant Interview
MFI	: Microfinance Institution
M&E	: Monitoring and Evaluation
MoA	: Ministry of Agriculture
NBE	: National Bank of Ethiopia
NGOs	: Non-Government Organizations
ORDA	: Organization for Rehabilitation and Development in Amhara
PA	: Peasant Association
PSNP	: Productive Safety Net Programme
REST	: Relief Society of Tigray
RuFIP	: Rural Financial Improvement Project
RuSACCOs	: Rural Saving and Credit Cooperatives
SMSs	: Subject Matter Specialists
SNNPR	: Southern Nations and Nationalities Peoples Region
VSLA	: Village Saving and Loan Association

Chapter One

Introduction

1.1. Background of the Study

Chronic food insecurity is the defining feature of significant portion of rural Ethiopia as more than 50% of rural districts/woredas of the country are vulnerable to drought and food insecurity (MoA, 2014). Sever land degradation due to soil erosion and deforestation, the shrinking of land holding size per household, erratic and unreliable rainfall, low agricultural production and productivity, high population pressure, poor infrastructure development, lack of appropriate farming techniques, limited business opportunities, and asymmetric market information are some of the characteristics of these food insecure areas (MoA, 2010).

Chronically Food Insecure (CFI) households are characterized by: small-size land ownership; predominantly agriculture based livelihoods; and without or limited access to financial services. They also own either very few or no livestock asset and small or no primary food stock for emergency purposes. Majority of these households lack capability to fulfil primary necessities such as food, clothing, and housing. Moreover, they are characterized by low economic status to get access to other basic needs such as health, education, better sanitation, clean water, and transportation services; weak capacity for wealth accumulation; and high vulnerability to individual and mass external shocks like draught and flooding. The Government of Ethiopia and its Development Partners (DPs) have considered food security as one of their development priority agendas and are investing a lot of resources to address the root causes of Chronic and Food Insecurity (CFI) problems in the country.

The majority of rural households in most developing countries like Ethiopia have only limited access to financial services, except from such non-institutional sources as traders, money lenders, voluntary saving clubs (Iqub), friends, and so on. In spite of this fact, it is, however, broadly accepted currently that financial services are an important, and a vital factor for economic and social development. The development of appropriate and alternative financial service products for CFI households has been identified as an important initial step to address the challenges of food insecurity and rural poverty. These financial services are to be provided by a service provider best positioned (in terms of coverage and product offering) to deliver the required service product (R. K. Todd and Wolday, 2011). In this regard, the Rural Savings and Credit Cooperatives (RuSACCOs) are believed to be appropriate grass root level financial institutions that are suited to serve CFI households.

1.1.1. Description of Rural Saving and Credit Cooperatives (RuSACCOs) in Ethiopia

Financial co-operatives are commonly known as Saving and Credit Cooperatives (SACCOs) which operate both in urban and rural areas. In the context of Ethiopia, those financial cooperative which are specifically working in rural areas of the country are commonly known as “Rural Saving and Credit Cooperatives (RuSACCOs). They are playing a vital role in bringing financial services to the unbanked in rural Ethiopia. RuSACCOs are key drivers in the promotion of financial inclusion and are usually formed through the initiative of the local population, and of course, with additional support coming from government and/or Non-Government Organizations (NGOs).

The RuSACCOs are community based, member owned, and self-reliant financial intermediaries in the rural areas (Federal Negarit Gazeta, 1998). In the current context of Ethiopia, most of them are being established at kebele level (the lowest administrative unit). Their basic role, as financial institution, is mobilization of savings from members and returning the savings to members in the form of loans. Their main difference from conventional banks and Micro Finance Institutions (MFIs) is that RuSACCOs are owned, controlled and financed by their members. Particularly, in Chronically Food Insecure (CFI) areas of the country, RuSACCOs are being considered as appropriate instruments to provide financial services to disadvantaged groups such as chronically food insecure households. Their appropriateness could be explained by their proximity to the rural community, their simple procedures and low transaction costs (World Bank, 2007).

RuSACCOs are governed by Federal Cooperative Society Proclamation No.147/98, amendment Proclamation No.402/2003, Council of Ministers Regulation No.106/2003, Cooperative Society Proclamation of the Region, and Directives issued at the federal and regional levels. In addition to the above proclamations, regulations and directives issued by different government bodies, each RuSACCO has its own bylaw developed with the assistance of woreda and kebele administration. The bylaw is, of course, developed in line with the legal and policy framework of cooperatives. In the past five years, significant numbers of RuSACCOs have been established in rural Ethiopia through government support, donors' financial assistance and NGOs' technical support.

1.1.2. The Status of RuSACCOs in Chronically Food Insecure (CFI) Woredas

In CFI areas, RuSACOs are being considered as the major players, next to Microfinance Institutions (MFIs), in financial service provision to rural households. In few Woredas of the country, more often in NGOs areas, grass root financial service providers such as, the Voluntary Saving and Lending Associations (VSLAs) are also providing related services in a very limited scale. According to the Federal Cooperative Agency (FCA) annual report (FCA, Ethiopian Fiscal Year- EFY- 2005/June 2014) a total of 4,132 RuSACCOs exist in CFI woredas of Amhara, Oromia, SNNPR and Tigray regions.

In terms of membership, RuSACCOs' coverage in the CFI woredas is just about 10% of the working age group of the rural households (HEDBEZ Consulting PLC, 2012). The total number of members of RuSACCOs in the CFI woredas is estimated at 530,849 members, of whom 192,926 (36%) are women (FCA, EFY 2005/June 2014). It was reported that most of these RuSACCOs are established in the past five years; which means, the development of RuSACCOs in CFI areas is at its early stage. The implication here is that majority of the RuSACCOs (in particular those newly established) are expected to have lacked overall capacity to deliver the envisaged financial services to their members.

1.2. Statement of the Problem

1.2.1. The Mission, Vision and Organizational Objectives of RuSACCOs

According to the Government of Ethiopia's (GoE's) Proclamations on Cooperatives (Federal NegaritGazeta, 1998), the RuSACCOs' vision and mission revolves around poverty eradication. The vision and mission statement of a RuSACCO, developed in a participatory manner by the members, is included in the bylaws and/or strategic plans of the cooperative. The main objectives of RuSACCOs include: mobilization of savings from members and lending the money out (providing loan) for its members and other RuSACCOs; create investment capacity to members and others and develop saving culture within the members and others.

The organizational values of RuSACCOs stated that a RuSACCO should be: (i) technically and financially sufficient, (ii) bearing own responsibilities, (iii) democratic in the course of operation, (iv) impartiality, and (v) integrity. Organizational values were expressed in terms of embedding social element for example in terms of special treatment for the poor and the extent to which these values are shared among the members of the RuSACCOs.

In principle, RuSACCOs are free to decide on their operating procedures, credit and savings products, and lending interest rates with due attention to financial and operational sustainability under the rules and procedures that is set by Federal Cooperative Agency and Regions' Cooperative Promotion Bureaus. Even if they are involved in financial

intermediation, RuSACCOs are not under the supervision and regulation of the National Bank of Ethiopia (NBE). They are rather under the supervision and support of Federal Cooperative Agency (FCA) and its line offices at regional and woreda levels. Based on the restated mandate in Proclamation No.106/2004, the Federal Co-operative Authority established in 2002, has been playing a supportive role for the promotion and development of cooperatives (FCA, 2004).

1.2.2. The Performance Trend of RuSACCOs in CFI Areas

As per the proclamation No. 147/1998, RuSACCOs are expected to play active role in bringing about broad-based development and poverty alleviation. However, this proclamation has failed to recognize RuSACCOs as formal financial institutions even though they were allowed to accept deposits and grant loans. As a matter of this fact, RuSACCOs are not subjected to the regulation and supervision by the National Bank of Ethiopia (NBE) that other formal financial intermediaries are subjected to.

Various studies revealed that the performance of RuSACCOs in CFI areas, pertaining to saving mobilization and provision of credit, is being constrained by a lot of factors, which are reported to be both internal and external factors (R.K Todd and Wolday, 2011). Most of the RuSACCOs in CFI areas are characterized with limited capacity of saving mobilization and credit provision demanded by the rural communities. In most cases, the interest rate set for RuSACCOs loans is not business oriented, and is not covering their operation costs, let alone generating additional profit. Due to shortage of capital, the loan size is also reported to be very small to make a viable business. The menu of financial service products being availed by

RuSACCOs contains few options as it is often limited to saving in cash and financial credit (Tesfay and Deribe, 2013). Because of the above mentioned and other constraints, significant numbers of RuSACCOs existing in the CFI areas have not been able to provide adequate and proper financial services to their members.

According to the study conducted on the capacity gap of financial service providers operating in CFI areas (HEDBAZ Business and Consultancy PLC, 2012), the outreach of RuSACCOs in the CFI Woredas is limited, as 25% of CFI Woredas and 48% of CFI kebeles yet to have RuSACCOs. Even for those kebeles in which RuSACCOs started operation, they are being constrained by organizational, physical, financial and human capacity limitations.

There seems strong belief both by the Government of Ethiopia and among development partners that RuSACCOs can play significant developmental roles and poverty reduction impacts through improving income generation, smoothening consumption and reducing vulnerability to shocks of their beneficiary members. Cognizant of this fact, much research has not been conducted on their potential and feasibility in a business environment characterized with limited natural endowments, poor physical and market infrastructure, and in a rural settings whereby predominantly populated by food insecure households. Various evaluation reports and case studies indicated that specific problems associated with the functioning of RUSACCOs and their future prospects, in the context of CFI areas, require further investigation (Kifle and Hailemichael, 2013; FDRE-RuFIP, 2011). Unfortunately, little empirical evidences have been generated so far in this regard. For RuSACCOs to perform, grow and achieve sustainability, while at the same time prove to be the instruments of development and poverty alleviation endeavor in a CFI business environment, there is a

need to address operational, environmental and institutional problems that they are being entangled with.

1.3. Objectives of the Study

The Purpose and Objectives of the Study

The main purpose of this thesis research is to examine the status of RuSACCOs registered and operating in one of the CFI woredas of Ethiopia pertaining to their visions, missions and objectives stipulated in relevant policy and regulatory directives issued by the government and stated in their by-laws.

Specific Objectives of the thesis research are:

- 1) To examine the socio-economic problems affecting the performance of RuSACCOs operating in Meskan woreda
- 2) To investigate natural, institutional and policy related factors impeding the effectiveness and determining the prospects of RuSACCOs operating in the research woreda
- 3) To identify opportunities and recommend strategies for policy makers and other stakeholders on how to enhance the role and optimize the potential contribution of RuSACCOs to poverty reduction

1.4. Research Questions

The study will answer the following research questions:

- How are RuSACCOs functioning in Meskan woreda vis-a-vis their vision, mission and objectives envisaged to achieve?

- What are the internal and external constraints of RUSACCOs to effectively and sustainably provide adequate and appropriate financial services to members?
- What are the perceptions and prospects of sample respondents towards RuSACCOs?
- What kind of external support is required for RuSACCOs to be effective and sustainably serve their members in the CFI context?

1.5. Significance of the study

The finding of this study will provide first-hand information to government and non-government organizations about the status of RuSACCOs, existing gaps, and their major constraints which prevent them to operate effectively in the context of chronically food insecure areas. These findings will be helpful especially for ministry of agriculture and rural development in planning and decision making concerning RuSACCOs in the future. It also serves as a baseline for further study.

1.6. Scope& Limitations of the study

The results of this study will provide useful information to policy makers in the government office, development partners (donors and NGOs) and field level implementers who are engaged in the promotion and development of RuSACCOs. The findings and recommendations of the study could be used by stakeholders to guide their interventions pertinent to RuSACCOs support in CFI areas, so that these financial institutions can play significant role in addressing food insecurity and contributing to rural development at large.

The study has limitations of coverage of area and population, due to the obvious constraints of time and resource. Hence, this research is by no means exhaustive and representative, as it is a

piece of effort to identify realities regarding problems and prospects of RuSACCOs operating in all CFI woredas of a huge country like Ethiopia. It is also important to note that the country is diversified in agro-ecological, ethnicity, socio-economic, and cultural features, and the study being location specific in nature, its results could not be generalized.

1.7. Organization of the Thesis

The Thesis research consists of six chapters. The first chapter discussed on the background, statement of the problem, objectives of the study, significance of the study, and scope and limitations of the study. Chapter two presented a brief summary of literature review compiled from readings of various secondary resources related to the research topic. The research methods used, preceded by a brief description of the study area, was elaborated under chapter three of the document. The fourth chapter presented the results of the study and their interpretation. After presenting key recommendations of the study under chapter five, a summary of concluding statements was documented as the last (sixth) chapter of the main document.

Chapter Two

Review of Literature

2.1. A Reflection on International Experience in Rural Finance

2.1.1. Developmental Trend of Micro-financing in Developing Countries

“Ever since the emergence of the money economy, a great variety of financing methods have been devised to enable money to flow from surplus to deficit units in order to enhance their economic benefits” (International Journal of Cooperative Studies, 2014). The financial transaction services and transactions have been evolved over the years and its evolution varies country to country as communities developed different types of informal and formal financing methods.

Communities in general use three types of financing methods: (i) Self- financing, which refers to the use of current income and accumulated savings to meet some periodic consumption expenditure or to acquire working capital for small businesses;(ii)Internal financing which is basically the use of borrowing from relatives and friends to finance consumption over spells of economic difficulties or to capture good investment opportunities; and (iii) External financing, which is getting credit service from informal, semi-formal or formal financial institutions. The informal lending among friends and relatives was a popular financing

method which was practiced by rural communities, especially in the context of developing economies (International Journal of Cooperative Studies, 2014).

Rural financial services is about providing financial services- secure savings, credit, financial transactions, money transfer services for remittance and insurance-in rural areas (Alem, 2013). Microfinance institutions and financial cooperatives are the most relevant financial institutions which are designed and expected to encourage and mobilize savings and also channel such savings into income generating activities in the rural areas. According to Islam and Shimelles (2009), in Bangladesh the practice of micro financing emerged as a noble substitute for informal credit and is considered to be a powerful instrument for poverty alleviation among people who are economically active but financially constrained.

According to Assistant Professor Rengasamy (2013), expanding financial access to everyone is an interesting development idea, particularly in the context of reaching the world's poorest families in a more effective way. Since the conception of micro financing (loans given to a group of poor individuals without collateral so that they would engage in income generation activities), over the past four decades, there has been a surge of interest in microfinance (Pengasamy, 2013).

The world's largest aid agencies have worked in many of the least developed and developing countries to assist the poor with a view to building more inclusive financial systems that works for the poor. As a result, the potential of micro-finance in generating self-employment, and to lift women and poor families out of poverty found center-stage in development discourse these days (Rengasamy, 2013). Microfinance can be defined as provision of a broad

range of client-responsive financial services to poor people through a wide variety of institutions (Islam and Shimelles, 2009).

Assistant Professor Pengasamy (2013) also argued that the efforts of the funders and their network of micro finance institutions have today helped achieve almost a near-universal consensus around the fundamentals of an inclusive financial system. All have contributed to the professionalization of microfinance, once considered a marginal, even charitable, activity by financiers. Credit to small groups who were too impoverished to be considered credit-worthy has generated different micro-lending models.

Microcredit activities in rural and urban Ethiopia were initiated by local and international NGOs. In Ethiopia integration of the credit schemes initiated by local NGOs like the Relief Society of Tigray (REST) and Organization for Rehabilitation and Development in Amhara (ORDA) into the formal financial system contributed to the formulation of a regulatory and supervision framework for efficient delivery of services to the urban and rural poor and the issuance of a new proclamation for Licensing and Supervision of Micro-Financing Institutions in 1996 (AMFI, 2007).

Rural finance is an effective tool of poverty reduction and rural development. Traditionally, the role of finance to rural development was considered as passive in most developing countries including Ethiopia. However, over the past four or more decades rural finance has been recognized as a strong tool to reduce poverty and contribute towards rural development (Yuvarai and Biruk, 2013). Access to rural financial services has a potential to make a difference in agricultural productivity, food security, and poverty reduction. However, an

efficient, sustainable and widely accessible rural financial system remains as a major development challenge in most of the developing countries (Islam and Shimelles, 2009).

The ability of rural households to make long term investments to ensure time-patterned income flow is shaped by an economy's financial services. Despite the rapid development of financial services, a majority of smallholders around the world especially third world countries remain without access to financial services that they need to improve their livelihoods. Despite the significant demand for financial services in rural areas, institutions offering financial services-such as banks, credit unions, cooperatives, Microfinance Institutions (MFIs) or insurance companies-are typically reluctant to serve in rural areas due to precarious nature of agricultural production (Islam and Shimelles, 2009).

A multitude of studies revealed that majority of the rural poor in developing countries are denied of access to financial services from formal banks (Rosemary, 2001).As a result, households, farmers as well as small rural entrepreneurs rely on costly source of accessing financial services especially through informal sources. Most loans from informal sources (e.g. money lenders) are too expensive to be profitable, and debt can lead permanent dependency of borrowers on money lenders and thereby entangle in the vicious cycle of poverty (Islam and Shimelles, 2009). Moreover, since low-income people usually use up all of their current income and leave no money for savings, self-financing is not an option for them.

2.1.2. The Evolution of Financial Cooperatives

According to Zahidul Islam and Shimelles Tenaw (2009), lack of access to formal financial services and exorbitant interest rate being charged by money lenders were the main factors

which made people to think about organizing themselves in a form of financial cooperatives societies so that to address their critical problem of financial services. The other factor that contributed for the rise of financial cooperatives is small size of loan that households were getting from friends and relatives. Historically, various types of financial cooperative societies, which are groups of people organized for collective saving and lending, were formed in a mutually supportive way to meet people's financing needs.

The evolution of financial cooperatives went through different reforms which vary country to country depending on the socio-economic development status of a country and other factors, including cultural, political and institutional factors. For instance in China, Rural Credit Cooperative (RCC) introduced in 1923. Since then, the financial cooperative system in china has evolved significantly as it underwent through a lot of reforms to reach at its current status of independent cooperative financial institutions in the rural areas (International Journal of Cooperative Studies, 2014). In most developing economies, it is a common experience to see that financial cooperatives initiated by the top-down approach which often leads them to be highly dependent on external subsidy, with lack of initiative and independence.

2.2. A Brief Overview of the Financial Sector in Ethiopia

2.2.1. The Regulatory Framework

The Ethiopian financial sector consists of formal, semi-formal, and informal financial service providers. Formal financial institutions include Commercial Bank of Ethiopia (CBE), Development Bank of Ethiopia (DBE), Business and Construction Bank of Ethiopia (BCBE), Ethiopian Insurance Corporation and more than a dozen of privately owned commercial

banks and their sister insurance companies, plus about 32 Microfinance Institutions. The semi-formal financial sector includes different forms of financial cooperatives, including the Rural Saving and Credit Cooperatives (RuSACCOs). The group of informal financial service providers consists of social groups that provide savings and lending functions at community level for different social purposes (e.g., IddirIqqub, Debo, etc.) (Aredo, 1993).

According to the existing banking policy, banking businesses are areas of investment exclusively reserved for Ethiopian nationals. Foreign nationals or organizations fully or partially owned by foreign nationals are not allowed to acquire a share of Ethiopian banks, to open banks or offices, or subsidiaries of foreign banks in Ethiopia. The proclamation requires a bank to be formed as a company and its memorandum and articles of association must obtain approval from the National Bank of Ethiopia (NBE, 2008).

Public Owned Banks (CBE, DBE and BCBE), are formal financial institution in the country governed by the regulation and rules issued through the National Bank of Ethiopia (NBE). They are governed by proclamation No.592/2008, which defines the activities that a banking business should carry out in the country. The proclamation has also outlined related provisions regarding the ownership, operation, management of the bank and reporting of its financial affairs. In addition to this legal document, the NBE has issued a number of guidelines which address such issues as the adequacy of capital, both paid up and subscribed, in relation to assets, the computation of legal reserves, and the minimum liquidity and reserves requirements banks are required to hold. Commercial banks are therefore legally required to comply with the proclamation and directives issued by NBE (NBE, 2008).

Micro-Finance Institutions (MFIs) are operating as an integral part of the financial sector in delivering microfinance services to the poor. The issuance of proclamation No. 40/1996 lays the first legal ground for the formal licensing, operation, and supervision of MFIs in Ethiopia. This proclamation authorizes the National Bank of Ethiopia (NBE) to issue licenses to MFIs established to mobilize savings, provide loans and also offer insurance services. The subsequent revised Licensing and Supervision of Microfinance Business Proclamation No 629/2009 has further facilitated the development of MFIs by creating a conducive policy environment. This proclamation and a number of directives issued time to time by the NBE contain a comprehensive package of rules for licensing, registering and supervising MFIs (IFAD, 2001 and NBE, 2009).

The regulatory environment of micro-finance institutions recognizes them as the real driving force behind the achievement of the ultimate goal of development of sustainable financial service providers which targets the poor. The Government expects them to apply sound financial principles in the delivery of their services, particularly with respect to pricing, loan delinquency control, financial reporting and information management, appropriate techniques and products, gender equity and governance. In regulating and supervising microfinance operations, the National Bank of Ethiopia is mandated to apply the same fundamental principles that it applies to commercial banks (NBE, 2009)

The Rural Saving and Credit Cooperatives (RuSACCOs) are categorized under semi-formal financial sector. RuSACCOs are governed by Federal Cooperative Society Proclamation No.147/98, amendment Proclamation No.402/2003, Council of Ministers Regulation No.106/2003, cooperative society Proclamation of the region, and directives issued at the federal and regional levels. In addition to the above proclamations, regulations, and directives

issued by different government bodies, each RuSACCO has its own bylaw developed in line with the legal and policy framework of cooperatives. Among others, the bylaws have provisions regarding governance structure, the rights and obligations of members, the saving and credit operation, conflict resolution, admission and withdrawal of members, and dissolution (FCA, 2007).

Even though RuSACCOs are involved in financial intermediation, they are not under the supervision and regulation of the National Bank of Ethiopia. They are rather under the supervision and support of Federal Cooperative Agency (FCA) and its line offices at regional and woreda levels (AMFI, 2007).

2.2.2. Developmental Trend of Rural Finance in Ethiopia

The financial system of Ethiopia is characterized by the co-existence and side by side operation of formal and informal financial sector (Islam and Shimelles, 2009). Though the informal financial market, for the most part, is outside the framework of national accounts and statistics, majority of the rural population are still considered to be major beneficiaries of the informal financial market.

According to Gobezie (2005), despite the importance there are limited financial institutions delivering financial services in rural Ethiopia. As a result, the bulk of finance is still coming from the informal financial service providers (equib, iddir, money lenders and remittance). Though the informal sector is the major rural financial service provider, the financing is only meant to address short term demand for finance such as consumption during cash shortage and for other emergencies which neglects productive investment (Yuvaraj and Biruk, 2013).

Due to the limited outreach of the commercial banking system, the Government of Ethiopia has established legal and policy framework conducive to the growth of Micro Finance Institutions (MFIs) and Rural Savings and Credit Cooperative Societies (RUSACCOs) in rural Ethiopia. Since Proclamation 40/1996, over 32 MFIs have been licensed by the National Bank of Ethiopia (NBE) and recorded remarkable growth over the past twenty five years. Despite rapid growth of the MFI sector, the overall outreach is less than 10% of rural households (HEDBEZ PLC, 2012). Ethiopians have a strong tradition of saving, which is evident from the widespread existence of informal rotating savings and credit organizations such as iqubs and iddirs. There is also a promising history in the country of successful savings and credit cooperatives in urban areas. The government policy and legal framework augur well for the development of RUSACCOs (Ketema and Deribe, 2013).

2.3. The Cooperative Sector in Ethiopia

A cooperative is defined as an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise (Islam and Shimellis, 2009). Cooperative is a user-owned and user controlled business that distributes benefits on the basis of use. More specifically, it is distinguished from other types of businesses because of three core concepts or principles. The first, principle, “user owner principle”, implies that persons who own and finance the cooperative are those that use it. The second principle, “user-control principle”, is that control of the cooperative business is by those who use the cooperative. The third core principle, “user benefits principle” implies that benefits of the cooperative are distributed to its users on the basis of their share (Yuvaraj, and Biruk, 2013)).

In Ethiopia Cooperatives are governed by the Federal Cooperative Society Proclamation No.147/98, amendment Proclamation No.402/2003. The proclamation clearly sets out general provisions for registration of cooperatives, legal form of registered cooperatives, rights and duties of members, governance and management of cooperatives, special privileges of primary cooperatives, assets and funds of primary cooperatives, audit and inspection, dissolution of cooperatives and other miscellaneous provisions (Kidanu, 2008 and FDRE, 2011).

Cooperatives are organized on sectoral or thematic basis (e.g. farmers producers/marketing cooperatives; Rural Saving and Credit Cooperatives (RuSACCOs); housing cooperatives; Forestry cooperatives; etc.) with a purpose to provide a specific service or multiple services (e.g. marketing service; financial service; technical service, etc.). Cooperatives can be organized in three levels of cooperative: primary, union and federations. Primary cooperatives are formed by ten or more persons living and working in a given area. Unions are formed by two or more primary cooperatives. A federation is formed by two or more unions, and is formed at federal level (FCA, 2004).

In the current context of Ethiopia, the cooperative societies (including RuSACCOs) are key grassroots-level organizations that are critical instruments in implementing the objectives of the various development programs and strategies of the government such as the rural development strategy, poverty reduction programs, and food security programs (Amha and Peck, 2010).

2.4. Rural Saving and Credit Cooperatives (RuSACCOs)

Conventionally, saving and credit cooperatives as a whole, including RUSACCOs, are called Saving and Credit Cooperatives (SACCOs). The RUSACCOs are, therefore, part of SACCOs which are operating in the rural areas but SACCOs are serving both rural and urban areas (Tesfay and Kifle, 2013). The entire structure and service delivery models are similar in SACCOs and RUSACCOs. 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 (Federal Negarit Gazeta, 1998).

RuSACCOs are one form of cooperatives established as a self-reliant community based financial intermediaries. They are member-managed and fully autonomous. RuSACCOs perform the much needed function of financial intermediation in the rural areas, which is the mobilization of savings from members and returning the savings to members in the form of loans. Unlike banks and micro finance institutions, RuSACCOs are owned, controlled and capitalized by their members. RuSACCOs are considered instruments to provide financial services to disadvantaged groups in rural areas as their proximity to the rural community encourages the community to save and easily access financial services. It is believed that simple procedures, low transaction costs and high repayment rates also encourage poor rural households to be members of RuSACCOs (Ketema and Deribe, 2013).

In principle RuSACCOs are free to decide on their operating procedures, credit and savings products, and lending interest rates with due attention to financial and operational

sustainability under the rules and procedures that is set by Federal Cooperative Agency and Region's Cooperative Promotion Bureau (Kidanu, 2008).

According to the study conducted by Wolday Amha and David Peck (AEMFI, 2010), about 5,900 RuSACCOs are operating across the country, focusing on the provision of financial services to rural households, with an estimated share of only 0.1 percent of the total credit in the economy. The improvements achieved since then are not that much significant. Informal providers of financial services, which are even more numerous in size, are in many rural areas the only available source of financial services. Besides so-called loan sharks that require very high interest rates, the informal sector also includes friends and families, which represents almost 10 percent of all lending in Ethiopia. Overall, it is estimated that over 20 percent of total credit is provided by the informal sector.

2.5. Brief Overview of Policy and Institutional Frameworks in which RuSACCOs are Operating in Ethiopia

According to Amha and Peck (AMFI, 2010), it is clearly stated in the relevant development policy of the Government of Ethiopia that financial services are a critical enabler for sustainable economic growth and therefore poverty reduction and food security in Ethiopia. With agriculture remaining the backbone of Ethiopia's economy, the provision of financial services is expected to have a substantial impact in activating the largely under-utilized productive potential in the rural areas. Despite all the problems prevalent in the country, provision of financial services in the rural areas is a key-issue of the rural and agricultural development strategy of the present regime (Amha and David, 2010)

The subsequent “five year development strategies of GoE”, over the past two decades, have recognized cooperatives as the key players of rural economic growth and poverty reduction. The government’s proclamations 85/1994 and 147/98 have put in place favorable conditions for cooperatives to be established based on the internationally accepted principles of genuine cooperatives (MoA, 2010).

Based on the restated mandate in Proclamation No.106/2004, the Federal Co-operative Authority (FCA), established in 2002, has been playing a supportive role for the promotion and development of cooperatives (FCA, 2004). In the growth and development of cooperatives in Ethiopia, the Federal Cooperative Agency contributes its shares through the execution of its duties and responsibilities that include: organising, promoting and supervising them at primary, secondary, federation and league levels (Ketema and Deribe, 2013)

In addition to the Federal Cooperative Agency, the Regional Cooperative Bureaus and Woreda cooperative promotion offices are mandated to expand the activities of RuSACCOs. The direct involvement in the formation, registration, expansion, and supervision of RuSACCOs comes from woreda cooperative promotion offices. This office, with the support of Kebele administration and Kebele elders, provides sensitization and awareness creation to identify and organize farmers to form RuSACCOs (FCA, 2004; Negarit Gazeta, 1998).

The General Assembly elects members for the Management Committee who are responsible to manage the entire operation of a RuSACCO. It also elects Control Committee, Saving Committee, Loan Committee and Education Committee consisting of 3 members in each

committee. The General Assembly has the ultimate control over the affairs of a RuSACCO (FCA, 2007; FCA, 2012).

2.6. The Developmental Trend of RuSACCOs

In rural Ethiopia, RUSACOs are locally owned financial institutions which provide a means of retaining and building capital in the community, and using it to support business expansion. They are potentially an important provider of rural financial services (savings and credits) along with conventional banks and MFIs. They are being organized on share capital basis and operate according to the other norms stipulated by proclamation No. 147/98.

Dramatic progress in establishing and strengthening RUSACCOs has been achieved in the past ten years. This is because of a huge support through a program called “Rural Financial Intermediation Program (RUFIP)”, co-financed by IFAD and African Development Bank (ADB) and a multi-donor programme called Household Asset Building Programme (HABP) (IFAD, 2011; MoA, 2014).

As per the proclamation No. 147/1998, RuSACCOs were expected to play active role in bringing about broad-based development and poverty alleviation as they were permitted to take deposit from and grant loan to members. However, this proclamation failed to recognize RuSACCOs as formal financial institutions even though they were allowed to accept deposits and grant loans. Hence, RuSACCOs are not subjected to the regulation and supervision by NBE that other formal financial intermediaries are subjected to (Tsfay and Kifle, 2013)

The findings of different studies revealed the need to have a separate legal framework to regulate RuSACCOs. The World Bank in its 2007 report indicated the need to regulate and supervise RuSACCOs to ensure their sustainability and growth (World Bank, 2007). The Association of Ethiopian Microfinance Institution's paper also emphasized the need to issue a separate law for financial cooperatives and develop a separate regulatory framework to supervise and monitor their activities (AMFI, 2007). The paper argues that the law will be beneficial in terms of enabling financial cooperatives to carry out their fiduciary responsibilities effectively; protecting members' deposits and seed money provided by government and donors against excessive risks that may arise from fraud, failure (insolvency) or opportunistic behavior on the part of some elements of the financial cooperatives; ensuring sustainable delivery of financial services, particularly for poor and remote households even after the termination of the food security programs; and contributing to the establishment of rural financial cooperatives which are stable and efficient..

There exist plenty of evidences that RuSACCOs in Ethiopia are growing both in number and size (Tesfamariam and Hailemichael, 2013). Their growth and development has been partly as a result of supportive policy and regulatory frameworks that the government of Ethiopia has put in place. However, to ensure further dynamic growth and to enable the sector contributes at larger scale and pace for the regional and country wide economy where poor households benefit most, taking additional policy statutory decisions are necessary (Tesfamariam, Hailemichael, and Aregawi, 2013).

A financial service gap assessment conducted by HEDBAZ Consulting PLC (HEDBEZ, 2012) indicated that there are more than 3,600 RuSACCOs operating in CFI woredas of Amhara, Oromia, Tigray, and SNNPR regions of Ethiopia. The largest number of

RuSACCOs is found in SNNP (1096) followed by Oromia (998), Amhara (708) and Tigray (681) regional states.

According to HEDBEZ report, “about 75% of CFI Woredas these four regions have RuSACCOs with a total membership of about 416,310. Most of the RuSACCOs were recently established where 70% of the RuSACCOs were established during the last three years. As a result, their capacity to deliver effective financial service to their members is low. Based on the sample data collected for the capacity gap assessment, the average asset holdings of 486 RuSACCOs is Birr 40,000 per RuSACCO and ranges from Birr 10,000 to Birr 100,000 per RuSACCO. Moreover, the average saving per RuSACCO ranges from Birr 7,247 to Birr 57,950 which is an average of Birr 120 to 410 per member (HADBEZ, 2012).

The above study revealed that about 67% and 80% of the RuSACCOs in CFI districts are operating in a situation where there is no office and in an office with no office furniture and equipment respectively. Similarly their human resource level is found to be very weak as most of the management committee members do not have the required skill to lead and enforce the bylaws of their respective RuSACCOs.

The same study revealed that most of the RuSACCOs are at low capacity level to deliver the envisaged financial services to their members. This can be due to management and technical knowledge and skill gaps, limited lending capacity due to low saving, lack of saving mobilization skill, lack of legal framework that recognizes RuSACCOs and their unions as legal financial providing institutions for non-members; lack of office and offices furniture, lack of technical and managerial support from Woreda cooperative offices, etc.

2.7. A Situation Analysis of Financial Services in a Chronically Food Insecure (CFI) Context

2.7.1. The Socio-economic Characteristics of CFI Households

In the context of CFI areas of rural Ethiopia, households tend to spend more of their income on food and the recent increase in food prices has meant that poor rural households are finding it more difficult to secure adequate food supplies, particularly as food prices increase faster than the prices of non-food items (Alem, 2013). In addition to high food prices, the price of agricultural commodities such as fertilizer has more than doubled over the past ten years. Such high prices are likely to reduce the application of fertilizers with potentially adverse effects on future food production and on agricultural and economic growth.(Islam and Shimelles, 2009).

Chronically food insecure households are those who do not have access at all times to enough food for an active and healthy life. There are some areas in the country more vulnerable to drought and food insecurity than others. Land degradation due to soil erosion and deforestation, land shortage, erratic and unreliable rainfall, low agricultural production and productivity, high population growth rates, poor infrastructure development and a lack of appropriate farming techniques are the major causes and characteristics of these food insecure areas in the country (MoA, 2014).

2.7.2. Situation Analysis of Demand for Financial Services by CFI Households

The demand for Credits. A number of research evidences documented both locally and internationally that the provision of credit services to chronically food insecure households plays a broader role in ensuring food security (Alem, 2013). A study sponsored by FCA (ICOS consult, 2012) indicated that chronically food insecure households show a higher demand for credit, especially before and during the main cropping season, during the period of April to October (cropping for most Ethiopian farmers) when their food stores and money reserves are depleted. Chronically food insecure households demand credit during the cropping season to cover the consumption needs of the household (such as food, shelter, clothing, social events, housing, education, health, and similar items).

Given the extreme shortage of cropping land (less than a hectare of land holding per household), chronically food insecure households know that they have to diversify their income sources by engaging in on-farm and off-farm income generating activities as they cannot achieve food security by subsistence farming alone (R.K. Todd and wolday, 2011). As a result, they have a high demand for financial services to engage in household asset-building activities such as animal fattening, bee-keeping, petty trade, and other income-generating activities. Since, cash flow varies from one income generating activity to another, these chronically food insecure households demand loans designed specifically for each income generating activity with term, loan size, repayment schedule, and other attributes that take into account the life-cycle of the activities and the cash flow patterns (Tesfay, 2008). .

The Demand for Saving Services.In Ethiopia, rural households often do not have easy access to common financial services like savings and insurance, making them more vulnerable to shocks such as extreme weather, illness, death and similar tragedies (ICOS PLC, 2012). Organizing farmers into cooperatives for their access to financial services, market information and other socio-economic opportunities has been taken by the as one of its strategy to reduce the prevalence of poverty (Ketema and Deribe, 2013)

Regarding their saving behavior, some studies confirmed that the poor are really eager to save even the small amount of income they have. They save for a variety of reasons including to prepare for future emergencies or risks (natural disasters, injuries, death); to smooth out variations in income and consumption as saving during surplus periods is used during difficult periods; to educate the children; to invest in opportunities potentially profitable (fattening ox and sheep, starting a small enterprise, storing grain to resell during high price season, etc.); to get interest; to fulfill social and religious obligations (marriage, religious ceremonies, and funeral) (ICOs, 2012; Kifle, 2012).

Since the incomes of most CFI households depend directly on agriculture, their income varies from year to year, and within years, from season to season. Accordingly, their saving potential is seasonal. An analysis of their income pattern reveals that they run cash a surplus after the harvest season (October) and the surplus goes until the start of the next crop cycle (April). It is during these periods that their demand for savings is very high. Thus, offering saving products by taking in to account CFI households' cash surplus periods will help them to save more money during this season (ICOS, 2012).

The CFI households need savings services that primarily respond to the demand for precautionary savings and consumption smoothing. Since the saving is precautionary, they place more emphasis on liquidity, security, and transaction costs rather than on the interest rate of the savings deposit. Besides, they demand for the savings options with different maturities, risks, and interest rates for more efficient asset portfolios and capital accumulation for investment financing. They also prefer recurring deposits of small amounts along with another product for additional savings to capture the seasonal incomes (World Bank, 2007).

2.7.3. A Situation Analysis on the Supply of Financial Services to CFI Households

In Ethiopia the supply of financial service to CFI is found to be limited. Though it has been confirmed by different case studies and evaluating reports that financial services are very crucial to the rural poor to fight poverty, efforts to make these financial services accessible to poor rural households' has been facing different constraints. For the majority of financial service providers, the rural sector is perceived to be risky. Since conventional collateral is often unavailable, lenders face greater risks from loan defaults. Operating costs are also high due to deficient infrastructures (roads, telecommunications) or insufficient population and ownership records, and a lack of qualified personnel who is willing to work in remote areas (AMFI, 2010).

2.7.4. The Potential Role of RuSACCOs in CFI Context

It was pointed out by Islam and Shimelles (2009) that the cooperative enterprise is the only form of organization meeting so fully all dimensions of avoiding poverty among the rural people in developing countries. In this regard, the creation of access to financial services is one of their key roles. In Ethiopia, RuSACCOs are one of the financial service providers in CFI areas of the country. As compared to MFIs, RuSACCOs are working deeper and reach farther to the very poor people and have the potential to provide various products and services to the rural poor.

Rural credits are considered as very important means of increasing investment capacity of farmers for increased employment and food production thereby alleviating poverty, famine and hunger (Taye, 2008). In this regard, member based financial institutions such as RuSACCOs are being recognized both by the government of Ethiopia and development partners' as one of the key players in the provision of rural financial service provisions.

2.8. Common Constraints of RuSACCOs Operating in CFI

Areas

Rural finance has been recognized as one important element and catalyst to assist the CFI households in minimizing the negative impacts of natural and man-made risks common in rural areas. However, given the impeding socio-cultural factors, weak economic status, poor physical infrastructure and depleted natural resources, the provision of rural financial services

to rural community involves various challenges that RuSACCOs are struggling with too. Below is a brief highlight of common constraints (IFAD, 2011; Ketema and Deribe, 2013; MoA, 2010; R.K. Todd and Wolday, 2011; Tesfamariam, 2011).

- a) **High transaction costs of financial service provision:** The root cause for this problem is the underdevelopment of rural infrastructure, inadequate communication facilities and information technologies and the inaccessibility of villages and communities inflate the operation cost of a financial service provider. Most of the households in CFI areas want small loans. Lending in small amounts is, in general, more costly than lending in bigger amounts, as the cost of assessing, monitoring, and following up on loans does not decrease with the size of the loan.

- b) **The risky nature of businesses in rural areas.** Credit risks in rural areas are higher since the incomes of the rural households depend on seasonality of agriculture which is being susceptible to natural disasters (such as flood, drought, plant diseases, erratic rainfall pattern). The covariant risk (in prices and yields) is high in the agricultural sector. Rural households mostly depend on one or two sources of income and thereby increasing the risks of financial intermediation. Many households are either entirely lack collateral or do not have the legal title to land.

- c) **Limited source of income for CFI households:** Large number of rural people relies on agriculture as their only source of income. They do not diversify their income by engaging in other on-farm and off-farm income generating activities. As a result, their household income is very susceptible if there is crop failure in one season due to erratic rainfall or

bad weather condition, which would increase the risk of loan default for financial intermediaries.

- d) **Limited source of and access to information:** The key cost driver in lending is the necessity to obtain substantial information about the potential borrower and to be able to do a close monitoring. Getting information is somewhat difficult. Besides, farmers are widely dispersed, and long distances have to be travelled by loan officers and/or farmers. Both from the lender's and borrower's perspective, the long distances between communities and the inadequate rural transportation facilities in CFI rural areas increase the costs of loan appraisal, loan monitoring and enforcement of loan repayments.
- e) **Socio-cultural Factors:** In most parts of rural areas significant number of households are either illiterate or with low educational status. The awareness level of rural poor on financial services in general and credit management in particular is very poor, which contributed for their limited access to financial services. Chronically food insecure households depend heavily on the direct and indirect assistance they get from the government and non-governmental organization programs to sustain their life. As a result, they sometimes develop dependency attitude, which may negatively affect their saving and credit behaviour.
- f) **Absence of formal record on individual's credit history:** The rural areas are characterized with absence of credit histories of the rural households, which is often a challenge for financial intermediaries to do a background check of loan applicants on their previous credit history (if any). Limitation of written documentation has also compounded the problem

Chapter Three

Research Methodology

3.1. Description of the Study Area (Universe of the Study)

With an estimated population of more than 90 million, only next to Nigeria in Africa, Ethiopia is a predominantly agrarian nation in Sub-Saharan Africa. Though agriculture is the backbone of Ethiopian economy, it is often characterized by backward and inefficient production and marketing system, coupled with idiosyncratic and covariate shocks, which makes farming a mere survival for the average household in rural Ethiopia. Despite the relative peace and modest economic growth in the last couple of decades, the livelihood of the population in general and the rural households in particular did not change much even today despite the government has taken a multitude of policy measures to address the problem.

Ethiopia is located at the horn of Africa between 3 30' and 14 55' North and 33 to 48 East, bordered by Somalia to the South-east, Djibouti to the East, Kenya to the South, Sudan to the West and Eritrea to the Northeast. 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 in Ethiopia (Tufa, 2008).

In Ethiopia, about 85% of the population lives in rural area. The country is divided into nine politically administrative regions of Amhara, Oromia, SNNPR, Tigray, Somali, Afar, and Harari regional states and two Administrative Councils; namely Diredawa and Addis Ababa. According to the reports of Central Statistics, approximately 81% of the country's population lives in three regional states, namely Oromia, Amhara and SNNPR, constituting 35%, 26% and 20% of the total population respectively (CSA, 2010). The SNNPR Region is among the most densely populated region in the country (National Population Density, 2006)

Meskan woreda (or Meskan district) is one of the seventy nine woredas of SNNPR, categorized as Chronically Food Insecure (CFI) woredas (MoA, 2010). Located in Gurage zone, the administrative center of the woreda is called Butajira town, located at 132 km away from Addis Ababa. The woreda has total land area coverage of 54,100 hectares and total population of 232,053, among which 116,129 are male, and the rest 115,924 are female. The woreda has forty rural kebeles (the lowest level of administrative unit in Ethiopia) and two medium urban towns (Tufa, 2008)

Meskan woreda is known by its famous Mareko Fana red pepper production in the country. Maize and Enset (false banana) are the main food crops. Moreover, farmers are growing vegetables using seasonal rainfall and traditional irrigation system during dry season. Rural households are highly dependent on pepper and chat (a stimulant leaf) production for their household income. In terms of ethnic mix, Meskan, Dobbee, Sodo and Siltee tribes are the major ethnic groups living in the woreda. The Meskan tribe is the dominant one followed by Dobbee.

There are three religions existing in the woreda; namely, Muslim, Orthodox Christian and Protestant Christian. The Muslim religion is the dominant one as compared to the others. The society is male dominated and patriarchal system. Though the people living in the woreda are hard-working and business oriented, majority of the woreda population is still struggling with food insecurity and multi-faceted poverty situation. Meskan woreda is one of the target for a GoE-multi-donor flagship programme called “Productive Safety Net Programme (PSNP) and Household Asset Building Programme (HABP). The PSNP is the largest social protection programme, evolved since 2005, financed by ten donors and the GoE, implemented in more than 300 CFI districts, benefiting more than 8 million food insecure people. The main goal of PSNP is to ensure food consumption and prevent asset depletion for food insecure households while stimulating markets, improving access to services and natural resources, and rehabilitating and enhancing the natural environment. On the other hand, the main goal of complementary livelihoods programme called HABP is to increase and diversify income sources of PSNP clients through technical support (extension service provisions) and linking them with access to rural financial services (MoA, 2010)

3.2. Sample and Sampling Techniques

For the purpose of this thesis research, multi-stage sampling procedure was employed to select the sample. First Meskan woreda was selected purposively from SNNPR, Gurage Zone, as it is one of the CFI woredas in the region. At the second stage, discussing with woreda cooperative desk and Netsanet Fana RuSACCOs union manager, all 39 RuSACCOs of the woreda were stratified into three categories i.e. weak, medium and high performing RuSACCOs. Next, four RuSACCOs were selected randomly for the study purpose, one each

from the weak and high performing categories and two from the medium performing category. This categorization of sample RuSACCOs was made just to get a broader perspective in regard to problems that majority of the RuSACCOs in CFI areas are encountering and to identify opportunity areas that can enhance their future role and sustenance.

Upon identifying four sample RuSACCOs, the lists of member farmers were collected. Finally, a proportional sample of 20 households was selected from each RuSACCO for interviews. Management committee members of sample RuSACCOs were included in the FGD sessions.

3.3. Data Sources, Type and Methods of Data Collection

The data needed for the research was collected from primary and secondary sources. The tools used to collect data include: review of existing documents, survey questionnaires; Focus Group Discussions (FGDs), key informants interviews, discussion with key stakeholders, meetings with beneficiary communities and program implementers. .

Data collection tools:

- ***Background and Performance data collection format:*** Relevant background and performance information obtained from the RuSACCOs and their union, and Woreda Cooperative Desk was collected using structured format prepared for the purpose. In addition to the 4 sample RuSACCOs visited for data collection, data on the current profile and status of all RuSACCOs registered and operating in the woreda was collected. This includes year of establishment, size of membership disaggregated by

sex, and size of capital. The status on the loan disbursement and saving mobilized by sample RUSACCOs was also collected and analyzed.

- ***Survey Questionnaire (Interviews Schedule for beneficiaries of RuSACCOs):*** The main purpose of this interview was to examine their experience as a member of the RuSACCO, to investigate on the appropriateness and adequacy of financial services being provided to members, and to assess constraints of RuSACCOs to meet the financial service needs of the community in the area.
- ***Focus Group Discussions (FGDs) Guide:*** FGDs were conducted with selected beneficiary communities of sample RuSACCOs including members of management committee. One FGD was made at each sample RuSACCO. The purpose of FGD was to get qualitative firsthand information from beneficiary communities that can be triangulated with information gathered through interview of sample respondents. Members of each FGD were made to brainstorm and discuss on each question posed by the facilitator. In cases where the question has multiple choices to answer or needs common positioning as a group, the position of FGD members as a group was decided by majority vote.
- ***Key Informant Interview (KIIs) Guide:*** KIIs were conducted with key government stakeholders at Woreda level. The discussions were guided using checklist/interview guide developed for this purpose.

- **Document Analysis:** The secondary sources of data include: reviews of relevant policy documents, directives, guidelines, by-laws, design and evaluation reports, best practices documented locally and internationally. It also included review of implementation documents of Joint GoE-donors initiatives in related subject matter.

3.4. Method of Data Analysis

The data generated using different tools was triangulated and analyzed using appropriate tools. Descriptive statistics such as frequencies, means and ratios were used to present the findings in tabular or graphic forms. Data collected from the sample 4 RuSACCOs visited by the researcher was used to extrapolate the problems of RuSACCOs in the woreda.

There are some survey questions which were raised either to the two or the three categories of respondents (Individual, FGD and KII). This was done purposely with intention to get better insight and analysis of a particular question/issue by collecting the perspectives of each category of respondents on the same subject matter. The assumption here is that the triangulation of information obtained from different sources on the same research question strengthens the researcher's confidence in the findings. The responses of FGD members, which were documented as the common position of FGD discussants, were treated as quantitative data and used them for analytical purpose.

3.5. Definition of Dependent and Independent Variables

3.5.1. Dependent Variables

In this study, the dependent variables are problems and prospects of RuSACCOs. Operationally, they are defined as follows.

- a) **Problem:** A problem is an obstacle which makes it difficult to achieve a desired goal, objective or purpose. It refers to a situation or condition in a state of difficulty that needs to be resolved.

- b) **Prospect:-** refers to an apparent probability of advancement, success, profit etc.; the outlook for the future; anticipation; expectation; a looking forward; range of vision; chances; the act of surveying or examining a potential.

3.5.2. Independent Variables

The following variables were considered to have close association or relation with problems and prospects of RuSACCOs.

- **Community perception and awareness, and level of participation and involvement in the process of RuSACCO formation:** the perception of community members in general about RuSACCO and level of members' awareness on the

organizational missions, visions, goals and values of RuSACCO; level of involvement in the development of their by-laws and business plan which could influence the performance and destiny of a RuSACCO.

- **Leadership and management capacity, and commitment level of RuSACCO officials.** This refers to the managerial and technical capability and commitment level of board members and management committee members. This can be measured in ordinal level of measurement as strong, moderate, weak, and very weak.
- **Availability of alternative and appropriate financial service products and adequacy of credit capital at the disposal of RuSACCOs.** This refers to the size of saving resource mobilized, the amount of financial resource available, the variety and appropriateness of saving and credit services being provided to the chronically food insecure people in the area. These can be measured by a combination of amount (size of saving and credit fund), and ordinal scale in the case of appropriateness and variety of financial service products.
- **Level of technical support that a RuSACCO is getting from concerned government offices.** This refers to the technical support being provided to RuSACCOs from Woreda cooperative offices and other concerned actors, such as in the area of business planning, financial literacy, record keeping and strategy development.
- **Adequacy and quality of human resources in concerned public organizations.** This refers to the number and skill levels of cooperative promotion staffs at woreda and kebele levels; that is, officials, team leaders, promoters and accountants which are directly involved in the promotion of RuSACCOs.

- **Government budget allocation for RuSACCOs promotion.** It refers to the adequacy of budget allocated by government at woreda level to support the promotion and establishment of RuSACCOs and strengthening them, including the recruitment of adequate and qualified personnel, adequate provision for in-service training of staff and financial literacy training of member farmers, operational expenses and transportation facilities.
- **Office facilities:** Availability of office building with adequate space and convenient working condition is considered to be critical for the proper functioning of a RuSACCO. It is measured using a combination of ordinal scale as poor, good, very good and excellent and nominal scale as yes or no.
- **Equipment/material supply:** These are different materials such as chairs and tables, shelves, cash safe boxes and other facilities that are necessary for the proper functioning of a RuSACCO. This is measured in nominal scale as yes or no.
- **Capital status of RuSACCOs:** This refers to the size of capital that a RuSACCO has built using both internal (saving mobilization and other contribution of members and external sources (grants, donation, etc.)). It is measured in ordinal measurement as the number of members per RuSACCO, the size of saving/capital amount per member and the amount of financial resource available for credit purpose.
- **Business and Market Opportunities:** Members' interest and motivation to join RuSACCOs and then become active members as saving and credit clients depends very much on the availability of profitable business opportunities that they can engage on. It can be measured in nominal scale as yes or no or in ordinal scale as limited, fair or good opportunities.

- **External support.** Besides the government budget and community participation, the financial and material assistance given by different external organizations (Donors, NGOs) will influence the status of a RuSACCO. It can be measured in nominal scale as yes or no or ordinal scale as no support, limited support or good support.
- **Location of a RuSACCO office.** Location and accessibility of a RuSACCO for public service often extended from woreda town and its office distance from existing and potential members has an impact on its performance. The distance and accessibility of a RuSACCO office can be measured in kms or the time it takes in hours.
- **Dropout rate:** This refers to the number and rate of drop-out from RuSACCO. It can be measured in terms of ordinal measurement as, low, medium, high and very high.

Chapter Four

Results and Discussion

4.1. The Socio-economic Characteristics of Survey Respondents

The quantitative data collected from survey respondents, such as: sex, family size, age, marital and education status, wealth status have been analyzed and triangulated with other findings of the study. The total number of respondents to the survey were 80 sample CFI people (RuSACCO members). Women accounted for 23% of the total sample. These individual respondents were made to complete the questionnaire developed by the researcher (Appendix I). A total of 11 sample respondent from woreda level government offices (key informants) were also made to complete the semi-structured questionnaire developed by the researcher (Appendix II) Four FGDs, one from each sample RuSACCO kebele, were also made to discuss and brainstorm their reflection and record their common position, as a group, pertaining to each question raised in the discussion (Appendix III)

4.1.1. Demographic Profile of Survey Respondents

As it is depicted in table 4.1 below, the age structure of eighty sample respondents shows that majority of them (66%) fall under the age category of 35-50 yrs. The other 23%, 20% and 6% of the respondents fall under the age categories of 51-60yrs, 20-30yrs and above 60 yrs old

respectively. With regards to marital status, 96% of the respondents are married, 3% are single and 1% are divorced.

Table 4.1. Demographic Profile of Respondents

RuSACCO	Sex		Age (Yr)				Marital Status		
	M	F	20-35	36-50	51-60	>60	Married	Divorce	Single
Edeget	11	9	8	9	3		18	1	1
Madege	17	3	2	11	4	3	20		
Beech Gulch no	15	5	3	15		2	20		
Faker	19	1	3	6	11		19		1
Total	62	18	16	41	18	5	77	1	2
%	77	23	20	51	23	6	96	1	3

Source: Own survey result, November, 2015

4.1.2. Respondents distribution by family size and educational level

The family composition of respondents shows that majority of the respondents (66%) have 6 or more family members. The remaining 19%, 13% and 2% of sample respondents have 4-5 members, 2-3 members and single family member respectively.

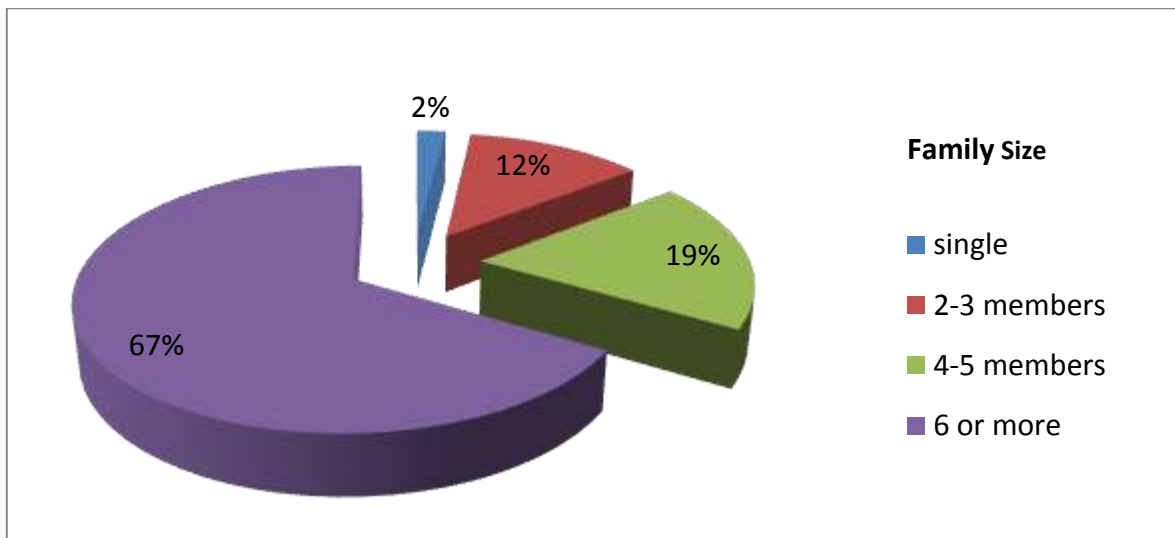


Figure 4.1. Distribution of Respondents by family size

Source: Own survey result, November, 2015

Survey data collected on the educational status of the respondents shows: 11% illiterate, 55% elementary education, 13% 7-9th grade, 16% 10-12th grade status and 5% diploma holders.

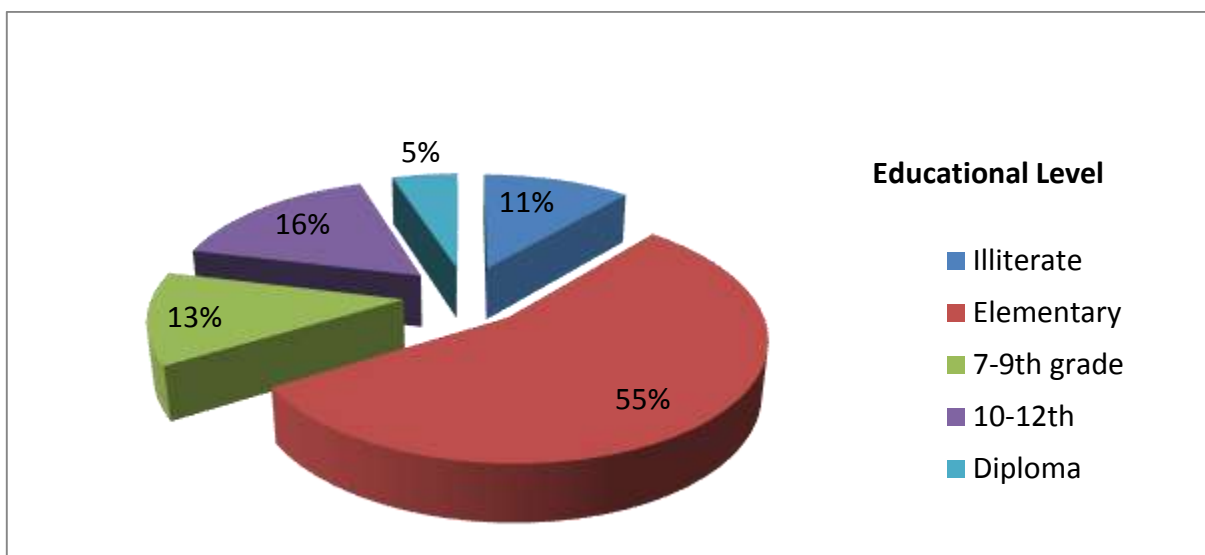


Figure 4.2. . Distribution of Respondents by educational level

Source: Own survey result, November, 2015

4.1.3. Wealth status of the Respondents

The economic status of the respondents has been assessed based on the quantitative and qualitative data collected pertaining to: the respondents housing condition; major source of income; size of land ownership; access to irrigated land; and livestock ownership. The researcher has also tried to get respondent's reflection on the trend of his/her economic status over the past three years. Table 4.3. below shows the detail analysis of the wealth status of survey respondents.

Agricultural activities such as cereal crop production, horticulture and livestock rearing have been counted as the main source of income for 93% of the respondents; where out of these, 8% of them are doing petty trading as additional source of income. Only 7% of the respondents reported to have been engaged in petty trade as their sole source of income. With regard to land ownership, only 14 (18%) of the respondents have access to irrigated land; out of which, for 10 (77%) of them size of ownership of irrigated land is 0.25ha. Only three respondents reported to have in the range of 0.25- 0.50 ha of irrigated land. Eighty six percent of the respondents owned non-irrigated land, out of which, the range of ownership falls in the categories of: < 0.50 ha; 0.51-1ha; and > 1ha for 4%, 30% and 45% of the respondents respectively. About 19% of the respondents are landless.

Table 4.2. Respondents major source of income and land ownership status

RuSACCO	Number of Respondents				Number of Respondents						Landless
	Agriculture	Petty Trade	Employment	Others	Non irrigated			Irrigated Land			
					<50 ha	0.50-1ha	>1 ha	0.25 ha	0.30-0.5 ha	>1 ha	
Edeget	14	6			1	2		2	1		15
Madege	20					6	14	8	2		
Bech	20				1	7	12				
Feker	20	6			1	9	10				
Total	74	12			3	24	36	10	3		15
%	93	15			4	30	45	10	4		19

Source: Own survey result, November, 2015

When it comes to the quality of respondents' house, as it depicted in table 4.4., about 35% reported that their house is constructed out of mud wall and grass roofing. Corrugated iron

sheet roofing is used by 61% of sample households. Only 4% of the respondents reported to have no own house. Livestock ownership has been another variable used to measure the wealth status of respondents. According to the respondents report, 3% of sample respondents owned an ox; 3% owned a cow only, 15% have an ox and a cow, 65% of them own an ox, cow and shoats. It was also revealed that 13 percent of the respondents do not own any livestock. In response to the question to reflect on trend of a household's income over the last three years, 75% of them reported that their income has shown improvement, while 24% of them reported to have experienced decrease in their livelihoods status over the past three years.

Table 4.3. Wealth status of respondents

RuSACCO	Housing Condition			Livestock Holding					Trend of respondent's wealth status in the past three years		
	Grass Roof	Corrugated Iron	No house	one Ox	one cow	ox +cow	Ox+ cow+ Sheep +Goat	No Livestock	Increased	Decreased	No change
Edeget		18	2		1	2	6	11	20		
Madege	7	12	1	1		1	17	1	20		
Bech-Gulchano	6	14			2	6	12		1	18	1
Feker	15	5		2		4	23		19	1	
Total	28	49	3	3	3	13	58	12	60	19	1
%	35	61	4	3	3	15	65	13	75	24	1

Source: Own survey result, November, 2015

4.2. The Status of RuSACCOs in the Study Area

4.2.1. Organizational Status

The Rural 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 RuSACCOs at age fourteen (Federal Negarit Gazeta, 1998). In the current context of Ethiopia, the Federal Cooperative Agency and its line offices at regional and woreda levels are responsible to provide material, technical and technical support to RuSACCOs. In particular, the woreda cooperative desk is a frontline government body mandated to support in organizing and for the process of registering RuSACCOs.

The general assembly of a RuSACCO is a management body with the final authority, including with a responsibility of electing the management committee and control committee for a fixed terms in office. According to the bylaws, the committee members should serve a maximum of 3 years but can be re-elected for a second term. But in most cases of the current practice, RuSACCOs' committee members are made to serve for more than two terms because of multiple factors which will be discussed in the following sections of the document.

It was learnt from the discussion made with key informants that the performance and growth of RuSACCOs have shown significant progress both in terms of outreach and performance. The willingness of management committees to lead the cooperatives without much compensation is one of the strengths of RuSACCOs operating in the study area. The improvement of awareness of community members on the benefits of financial services could be counted as the other factor contributing to the success achieved so far. It was also found

out that members' participation in business planning and cooperative leaders' openness to new business ideas is improving time to time.

In Meskan woreda there are a total of 39 primary RuSACCOs operating in the rural areas of the district with a total membership of 5089 clients; out of which, 2156 (42%) are female and 2933 (58%) are male members (Appendix VIII). The above primary RuSACCOs are organized under a RuSACCO Union known as "Netsanet Fana union", established in 2004. The RuSACCOs union is the major source of loan capital to primary RuSACCOs, especially for those which are mature and eligible to benefit such services from their union. It was told by the union manager that, at the initial stage of their establishment, some of the RuSACCOs have granted small amount of seed money from NGOs operating in the area. This granted money is being utilized for share capital when joining the union.

The average membership per a RuSACCO is computed to be 130 members. The year of establishment of member RuSACCOs ranges from EFY 1996 (2004 G.C.) to EFY 2006 (2014 G.C.). Twenty one of the RuSACCOs were established before EFY 2000 (2008 G.C.). The rest eighteen RuSACCOs established in the past seven years, out of which nine of them established in the past three years (Appendix VIII).

The profile of sample RuSACCOs is depicted under Appendix VII. Two of them were established in EFY 1996 (2004 G.C.), one in EFY 1999 (2007 G.C) and one in EFY 2004 (2012 G.C.). Membership size of the sample RuSACCO is a direct reflection its age as the youngest sample RuSACCO (Madege) has the lowest members (68 clients) while the elder one (Edeget) has 358 members. The size of membership for the other two shows 102 for

Beche and 130 for Feker. Two of the sample RuSACCOs (Madeg and Beche) yet to start credit service..

According to the information obtained from woreda cooperative desk, very few of the RuSACCOs operating in the woreda have their own office. For most of them their office is annexed to multipurpose cooperatives or buildings constructed and used for other social services in the kebele center. Small office space and poor set up is a common problem that RuSACCOs operating in the study area are facing.

4.2.2. Operational Status

The role of RuSACCOs has been shown clearly on FCA Proclamation #147/98 document. Operationally, RuSACCOs were from the outset an integral part of the national cooperative system. They are being monitored and audited by the cooperative offices at woreda level. Based on the assessment and the information obtained from woreda stakeholders, RuSACCOs' engagement in the saving and credit service of the rural community is expanding time to time, though the progress is not at a desired pace.

Almost all RuSACCOs operating in the woreda have followed similar operational and organizational mechanisms. RuSACCOs' day-to-day management and operational activities rests with the following committees: Control Committee; Loan Committee; Saving Committee; Training and Education Committee; and Arbitration or Dispute Resolution Committee. Members paid registration fee and acquired one share unit/capita as per the terms and conditions stipulated in their by-law. The amount of share capital and first time deposit by members varies RuSACCO to RuSACCO. The same variation is observed with regard to

registration fee. The basis for fixing these initial payments was capacity of members that individual members can buy and the amount of first time that he/she can afford to deposit.

The common types of saving services being provided by RuSACCOs in the study area are mentioned to be compulsory and voluntary savings. The amount of voluntary saving is unlimited depending on the discretion and capacity of the member. The compulsory saving is directly related to the credit amount which a member could take. Members' participation in the affairs of their RuSACCO is found to be encouraging. It was confirmed by the key informants that 51-70% of the members attended general assembly meetings, and this can be considered as encouraging achievement in terms of engaging members in the affair of their RuSACCO.

The credit experience of respondents with their RuSACCOs was also analyzed. As it is shown below in table 4.4., seventy nine percent of the respondents have benefited from RuSACCO credit, out of which, 60% of them borrowed more than two times, 25% of them two times and the rest 15% have had only one time credit service experience with their RuSACCOs. According to the survey results shown in the same table, about 75% of the RuSACCOs loans are used for agricultural activities (crop (38) and livestock (37)). As guarantee to loan repayments, RuSACCOs used different forms of collaterals. According to the survey findings, personal/individual guarantee have been applied for 46% of the clients. While a combination of "group guarantee" and "individual guarantee" was used for 38% of the borrowers, compulsory deposit has been held as collateral for about 10% of the borrowers. With regard to the repayment status of RuSACCO loans, it was informed by respondents that loan default is not a major problem among RuSACCOs in the study area, as none of them have faced so far problem of repaying their loan.

Table 4.4. Respondents' borrowing experience with RuSACCO

Question: Have you ever borrowed from RuSACCO over the past three years?						
Respondents' credit Experience	Number of respondents					
	Edeget	Madeg	Bech Gulchano	Feker	Total	%
Yes	20	7	18	18	63	79
No		13	2	2	17	21
Total					80	100
Question: If your answer is yes, would you please tell us how many times and purpose of the loan you have taken in the past three or more years?						
Year of borrowing	Edeget	Madeg	Bech Gulchano	Feker	Total	%
more than two times	9	7	15	7	38	60
two times	3		2	11	16	25
one time	6		2	1	9	15
Total					63	100
The Purpose of the loan						
Agriculture (input, shoats rearing, seeds, etc)	7	6	10	3	26	38
Petty trade	7		10		17	25
Livestock fattening	4	1	4	16	25	37
Total					68	100
Question: If you have previous experience of borrowing from the RuSACCO, which of the following types collaterals applied for your loan?						
Type of collateral held	Edeget	Madeg	Bech Gulchano	Feker	Total	%
(a) Group Guarantee	1				1	1
(b) Personal/Individual Guarantee	13			18	31	46
(c) Compulsory Saving deposit	1		1	5	7	10
(d) a combination of (a) and (b)	4	7	15		26	38
(e) a combination of (a) and c			3		3	4
Total					68	100

Source: Own survey result, November, 2015

As it will be elaborated more under “*Sub-section 4.3.3.Operational problems*”, the performance of RuSACCOs is being affected by operational problems including, shortage of credit fund, low membership size, poor office infrastructure and shortage of office furniture and equipment. Their capital base is very low for most of the RuSACCOs in the study area.

According to the information obtained from woreda office, only few of the RuSACCOs in the woreda have access to telephone, while none of them have access to internet connection. Even if most of the RuSACCOs did not have their own telephone line, in most of the rural areas there is a wireless telephone service. Almost all rural kebeles of the woreda are linked by gravel roads. Therefore, all of the RuSACCOs established in each kebele are accessible even during rainy season using motor bikes.

4.3. Problems of RuSACCOs in the Study Area

For the purpose of this thesis research, the term “Problems” refers to the different aspects of internal and external constraints affecting the performance of a RuSACCO to execute its mission objectives stated in the proclamation #147/98, policy regulations and by-laws. The problems perceived by each category of sample respondents such as, RuSACCO members, government stakeholders (key informants) and FGDs were collected, organized, analyzed and presented under this chapter of the document.

In presenting findings, the thesis research has used simple percentage, ratio analysis and descriptive analysis to describe the institutional, organizational and operational constraints of RuSACCOs’ performance in the study area. It has to be noted that the problems identified and analyzed under each sub-section below have got interrelated, interdependent and, in some

instances, interwoven nature. Most of them have a cause and effect and vice-versa type of relationship. As a final input to the findings, the researcher has compiled the views of each category of respondents with regard to the future prospects of RuSACCOs in the study area.

4.3.1. Institutional Problems

The root causes for weak institutional capacity of a RuSACCO is found to be a combination of multiple factors. These include: inadequate support mechanisms (e.g. limited training opportunities available to RUSACCO management bodies and members); complete dependence of RuSACCOs on elected voluntary members or absence of professional staff for their day-to-day management and weak regulatory or supervisory system

(a) The Inadequacy of Government's Support to RuSACCOs

It is stated in the cooperative proclamation, regulation and policy directives that the Cooperative Agency at federal level in general and the cooperative desk at woreda level in particular are mandated to facilitate and support the establishment and strengthening of RuSACCOs. It was however indicated in various monitoring and evaluation reports and case studies that the capacity of cooperative offices at all levels to effectively promote, regulate and supervise RuSACCOs, is severely constrained for the following main reasons: shortage of trained manpower in saving and credit cooperatives promotion and supervision; high staff turn-over; institutional instability or frequent restructuring of the cooperatives offices; limited mobility of staff due to shortage of vehicles and motor cycles and operating costs; and disorganized working systems (Tufa, 2008, citing AEMFI, 2006))

According to the information obtained from the woreda office of cooperative desk, the human resource composition, as per the government structure, is composed of: one office head; two accountants; nine auditors; twelve credit and saving experts and eight kebele level cooperative promoters. During the time of this study, four (44%) of the auditors position and 2 (25%) of the promoters position at kebele level remain vacant for sometimes. Let alone with having a human resource below the standard prescription, even the full capacity as per the government structure doesn't seem adequate enough to satisfactorily support 39 RUSACCOs operating in the woreda. Therefore, availing of adequate human resource, both in terms of quality and number, should be one of the critical area that the government needs to reconsider seriously so that RUSACCOs at different status of capacity, which are often categorized into weak, moderate, strong RuSACCOs, can get a variety of technical support.

Opinion of Key informants. It was claimed by majority of KII respondents that the government is trying to support RuSACCOs to the extent of its capacity. Few of them, however, have dared to provide genuine response to the researcher's question pertaining to capacity gaps observed in the government office. According to the latter respondents view, the government offices are being constrained by shortage of transport facilities (motor bikes) for government staffs to frequently travel to the field for provision of monitoring and technical support to RuSACCOs. Shortages of financial resource (operational budget) and limited capacity of human resource have been mentioned as the other constraints of cooperative offices.

Those respondents who feel that cooperative offices have adequate capacity to support RuSACCOs was challenged by forwarding indirect question that requested KII respondents to list out and prioritize factors affecting the performance of RuSACCOs in the study area.

Basically, most of these problems are expected to be addressed through government support, which calls for cooperative offices to have adequate capacity to carry-out this responsibility. As it is shown in table 4.5.below, according to their ranking, material and logistical support with a score value of (4.30) is the 1st category of external support that RuSACCOs are looking for. Technical support to management bodies and leveraging the human resource capacity gap are ranked the 2nd and 3rd priority areas of support with score values of (3.90) and (3.00) respectively. The facilitation of RuSACCOs linkage with MFIs and banks and improving in the current policy and regulatory environment are ranked relatively low priority with score values of (2.27 and (1.36) respectively.

Table 4.5. Ranking of external support needed to strengthen RuSACCOs by KII respondents (N=11 and the score value allocated in a descending order of 5 to 1 for the ranking of 1st to 5th place).

No	Type of External Support	Mean Score	Ranking
1	Material and logistical support (physical capacity support)	4.30	1st
2	Technical support (skill and management trainings)	3.90	2nd
3	Leveraging Human Resource capacity gap (bookkeeper, accountant, etc.)	3.00	3rd
4	Facilitating their linkage with MFIs and VSLAs	2.27	4th
5	Regulatory and policy support (facilitating the enabling environment)	1.36	5th

Source: Own survey result, November, 2015

Feedback of FGDs: According to the views of FGD participants, half of them believe that material and technical supports (including audit service) that RuSACCOs are getting from government offices are less adequate and inconsistent.

(b) Problems Related to Regulatory Framework

Cooperative development in the country is directed by Proclamation #147/98 which provides the legal framework for all kinds of cooperative societies, including financial cooperatives such as RuSACCOs. In the current context of Ethiopia, RuSACCOs are part of two sectors- the cooperative sector and the financial sector. As cooperatives, they have to follow the cooperative principles and work for the benefits of their members and communities which puts them under the supervision and support of Federal Cooperative Agency. As financial institutions, they need to be properly supervised and operate within a favourable legal framework. However, the proclamation does not provide the necessary guidance to regulate financial cooperatives as part of the financial sector. Like any other finance sector, the regulation and supervision of RuSACCOs is believed to be very critical to their sustainability and growth (World Bank, 2007). Hence, a separate legal framework, apart from the general cooperative law that takes into account their special features, is required.

Opinion of Key Informants: According to the opinion of some respondents, the existing policy and regulatory environment can still be counted by RuSACCOs as one of the opportunities they should take advantage of for their future prosperity. However, the adequacy of current regulatory framework is questioned by some respondents from government offices. According to their opinion, putting appropriate regulatory and policy support mechanism in place should be one of the priorities to be considered in future as part

of facilitating enabling environment for effective operation and success of RuSACCOs. It has been mentioned that, although RuSACCOs supervision and monitoring is one of the responsibilities of the woreda cooperative desk, due to lack of manpower and budget the desk couldn't carry-out this responsibility effectively and has not been able to monitor whether the RuSACCOs' bylaws are functioning properly. That is why we often see that some of the principles stated in RuSACCO bylaws have been violated (e.g. not having regular general assembly meetings, allowing elected members to serve more than stated terms, etc).

4.3.2. Organizational Problems

(a) Weak management and limited human resource capacity

The skills, knowledge and commitment level of the executive committee of RuSACCOs, who have the responsibility to effectively manage and transform the institution, is considered to be critical for their organizational success. The management body of a RuSACCO is expected to devise mechanisms to best serve the growing financial needs of members. It was informed by key informants that the capacity of majority of these committees has been improving time to time. This is mainly because of provision of relevant trainings through woreda cooperative offices and NGOs operating in the area. However, there are still significant number of committee members lacked capacity and knowledge and need for external technical support.

Opinion of Sample Respondents: As it is shown on table 4.6.below, around 66% of respondents believe that the current management and leadership of their RuSACCO is strong enough to run their association. But the remaining 33% of the respondents had the courage to acknowledge the weakness of current management by saying that its capacity is neither too good nor too bad but moderate/encouraging.

Feedback of FGDs: According to the feedback obtained from FGD participants, three fourth of them believe that the capacity of current committee members is strong enough to lead their institution, while the remaining one fourth expressed their reservation by categorizing it as “basic capacity”. Those who doubted the capacity of committee members suggested for a need to improve their capacity through technical support by government and external partners.

Different studies and case studies browsed by the researcher (Ref. Chapter 2) confirmed, however, that RuSACCOs’ management has limited knowledge and skill in understanding and disseminating the organizational vision, mission, goals and organizational culture among RuSACCOs members. The leadership has low capacity to prepare strategic plan and annual plans. Similar case studies in Ethiopia also noted high levels of illiteracy in RUSACCOs even among the leaders of these organizations (Tufa, 2008; IFAD, 2011).

The low educational level of the management puts a challenge on the leaders to devise a better working system and develop innovative financial products suited to the needs of rural poor. Their low level of education limits the understanding of operational details of the institution they run. They also lack understanding of the nature of financial services and the technicalities involved in the process.

Opinion of Key Informants: The researcher has also tried to capture the views of KII respondents on the current capacity of RuSACCOs management and leadership. Their feedback is depicted under table 4.6. below. This category of respondents rated the current management and leadership capacity of RuSACCOs as “moderate”; which means, it is encouraging but still needs some external support in the area of technical, managerial and

leadership skills competencies. According to the information collected on types of factors currently affecting the performance of RuSACCOs in the study area (table 4.6), sample respondents from the government offices ranked “limited capacity of management bodies” as the 3rd important factor.

Table 4.6. Respondents opinion on the capacity of current management members of their RuSACCO and their suggestion on how to address their capacity gap.

No	Respondents opinion on the capacity status of management committee	Individual respondents		FGDs feedback		KII respondents	
		Frequency	%	Frequency	%	Frequency	%
a	Strong/good	53	66	3	75	1	4
b	Moderate/encouraging	26	33	1	25	9	82
c	weak/basic	1	1				
d	Very weak/marginal					1	4
		80	100	4	100	11	100
No	Proposed solution to address existing capacity gap among management members	Individual respondents		FGDs feedback		KII respondents (multiple responses)	
		Frequency	%	Frequency	%	Frequency	%
a	Revising the current governance system or Change the management committee	17	21			1	1
b	Change and replace those members with low capacity	18	22	1	25	4	36
c	Capacitate existing members with technical support as the possibility of getting persons with better capacity is limited among community members	45	57	3	75	11	100
d	Majority of the members still need to be changed and replaced					3	27
	Total	80	100	4	100		

Source: Own survey result, November, 2015

In terms of addressing the current capacity gap of RuSACCOs management and leadership, while 22% of individual respondents; one fourth of FGD participants and 36% of KII respondents recommend for “ a change and replacement of those members with low capacity”, about 57%, three fourth and 100% of individual respondents; FGD discussants and KII respondents respectively recommended for “ improving the capacity of existing management body”, indicating the challenge to get better persons with better capacity to replace the current management as it is.

4.3.3. Operational Problems

(a) Limited membership base and slow growth of membership

Inadequate number of members and slow growth in membership are considered to be operational constraints of RuSACCOs in the study area. The RuSACCOs operating in the woreda have 130 members on the average, where the size of membership ranges from the lowest with 44 members (Yalfal RuSACCO) to the highest with 688 members ((Adis Ableme RuSACCO). For Nineteen out of the total thirty nine RuSACCOs operating in the district, their membership size is less than 100 members (Appendix V).

There are many factors holding CFI people back from joining and benefiting from RuSACCOs. These include: poverty (limited access to income); vulnerability to livelihoods shocks; limited business opportunities; limited capacity to buy enough share and pay registration fees; and limited awareness and understanding about financial services being provided through RuSACCOs.

RuSACCOs may encounter problem of mobilizing adequate saving resources due to lack of clearly defined saving mobilization strategies. Some of the rules and procedures that

RuSACCOs practicing in their day to day operation may discourage some from joining a RuSACCO. One of the reasons could be lack of awareness and understanding on the operation of a RuSACCO. For instance, it was informed by respondents that the saving policy (fortnight saving schedule) is not compatible with the seasonal earning pattern of farmers. As a result of low saving mobilization and lack of access to other financial resources, such as from banks and MFIs, the lending capacity of RuSACCOs is often seen weaken significantly.

Opinion of Sample Respondents: Individual respondents were requested to provide their basic reason for continuing saving with their RuSACCOs. As it is depicted on figure 4.3.below, 69% of them mentioned that it is with the intention to get credit service later on. The other 29% respondents expressed their intention to use their saving deposit at the time of need.

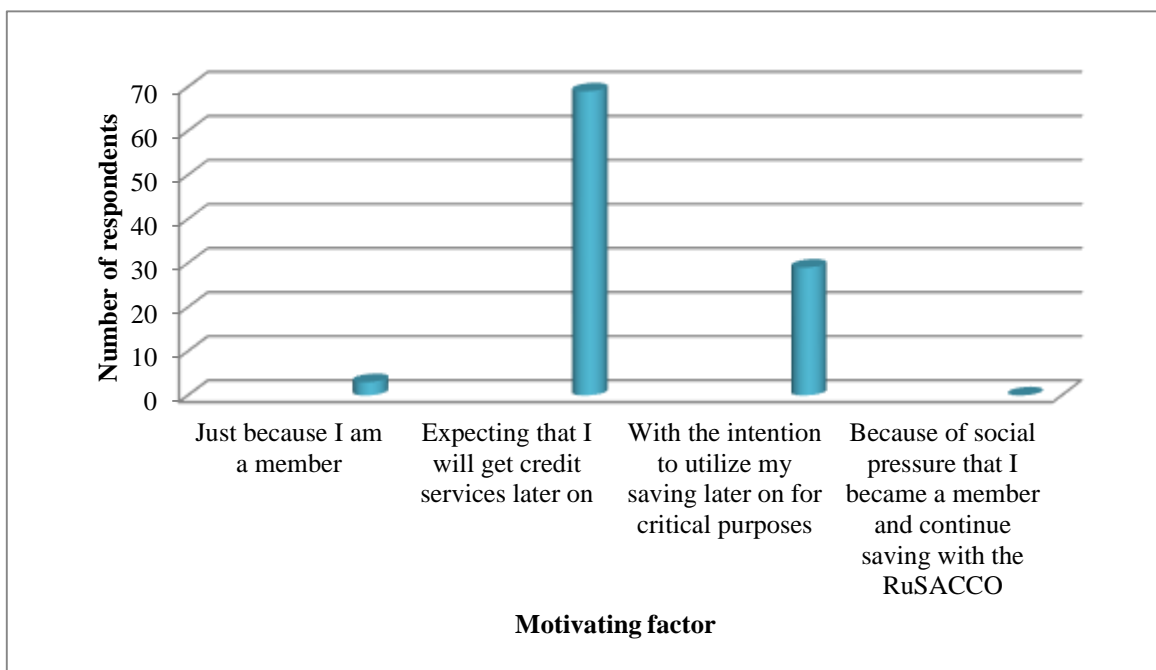


Figure 4.3: Respondents reason for continuing as saving client of a RuSACCO

Source: Own survey result, November, 2015

People's attraction to RuSACCOs can be influenced by the perception and belief prevailed among the general public in the area. In this regard, the researcher has tried to get respondents feedback on some of the negative rumors (weaknesses) often heard among the rural communities about the quality of financial services being provided by RuSACCOs. As it is depicted on table 4.7., the "inadequacy/small size of the loan" has been one of the negative feedbacks quoted by 66 percent of the respondents, followed by 'short repayment period of the loan (46%)' and 'inappropriate timing of loan provision (18%)' and 'limited number of loan products (10%)' as the 2nd, 3rd, and 4th, perceived weaknesses of RuSACCOs' service provisions respectively.

Feedback of FGDs: As it is shown in table 4.7.below, almost all participants of the four FDGs uniformly indicated that "smallness of RuSACCO loan" is the one commonly raised as the weakest link of financial services being provided by RuSACCOs. While a complain on the "repayment period of RUSACCO loans as too short" picked by three fourth of the discussants as the second negative feedback, the unavailability or not able to get the loan at the time of need has been indicated by half of FGD participants as the other negative rumor often heard from community members.

The imposition of credit and saving conditionality (compulsory saving and group collateral) is believed to have contributed partly to slow growth of RuSACCO membership. While half of the discussants support for its application, the other half reflected their reservation, suggesting for its revision/flexibility. If the access to RuSACCO loan be a bit easier, the assumption is that additional people who are in need of credit would be joining a RuSACCO. It is recommended that the liquidity of a business and track record of a borrower should be taken into account in the disbursement process of RuSACCOs loans, so that additional people

would be joining as RuSACCO membership. It was confirmed by FGDs participants that drop-out of RuSACCO members cannot be taken as major cause for slow growth of membership, as it is reported to be “low”.

Table 4.7. Respondents feedback on public opinion about the services being provided by RuSACCOs

No	Public’s perception about RuSACCOs	Individual respondents		FGDs feedback	
		Frequency	%	Frequency	%
a	RuSACCO loans are not easily accessible	8	10	-	-
b	RUSACCO loans are not adequate enough to start profitable business	53	66	4	100
c	RUSACCO loans are not available on time/at the time of need	14	18	2	50
d	RUSACCO loans lack varieties of loan products	4	5	1	25
e	RUSACCO loans involve difficult terms and conditions	2	3		
f	Repayment period of RUSACCO loans is too short	37	46	3	75
g	Repayment cycle of RUSACCO loans does not fit ones income flow	3	4	1	25
h	Repeated loans or additional loan is not allowed without settling previous/outstanding loans	1	1	1	25

Source: Own survey result, November, 2015

Opinion of Key Informants: The growth of RuSACCOs membership as well as their performance is being affected by a multitude of factors in different extent. The KII respondents were requested to list out and prioritize factors affecting the performance of RuSACCOs in the study area. As it is shown in table 4.8.below, limited human resource capacity with a score value of (3.54) has been ranked as the 1st constraint. Limited financial

resource (shortage of loanable fund) and shortage of physical materials and logistical facilities, with equal score value of (3.36) are ranked equally as the 2nd constraints. Limited organizational and management capacity (3.00) and constrained service delivery capacity (1.63) are ranked to be the 3rd and 4th constraints affecting the performance of RUSACCOs in the study area. KII respondents also indicated that absence or shortage of alternative saving products demanded by members is one of the reasons for the current weak performance of RuSACCOs in the study area.

Table 4.8. Ranking of factors affecting the performance of RuSACCOs in the study area by KII respondents N=11 and the score value allocated in a descending order of 5 to 1 for the ranking of 1st to 5th place

No	Constraints	Mean Score	Ranking
1	Limited organizational and management capacity: lack of clear vision, mission, goals and values, strategy and business plan, Limited capacity of management bodies, Lack of clear monitoring and evaluation framework	3.00	3rd
2	Limited Human Resource Capacity (quality and quantity): absence/shortage of professional managers, auditors, bookkeepers; limited leadership skills and knowledge of management bodies, etc.	3.54	1st
3	Limited Financial Resources: Lack of loanable fund, Lack of capacity to mobilize large savings; and limited access to external financial resources (such as from MFIs and Banks)	3.36	2nd
4	Shortage of Physical materials and logistical facilities: absence of or limited office space; shortage of office furniture and equipment; absence of or limited IT facilities; absence or shortage of transportation facilities,	3.36	2nd
5	Limited Service Delivery Capacity: limited capacity: to do adequate awareness raising campaigns; to create demand for credit/saving among members; to support for business analysis and planning in the community; to provide training and technical support to borrowers, etc.	1.63	4th

Source: Own survey result, November, 2015

(b) Lack of skilled manpower

The quality and quantity of professional and skilled manpower is one of the determining factors for the operational efficiency and effectiveness of an institution. Delivering financial services requires relevant knowhow and academic background. In this regard, none of the sample RuSACCOs has adequate staff with skilled manpower. In terms of academic background and relevance, most of the staffs are uncertified and less-skilled. They don't have knowhow and skill on management, marketing, accounting, record keeping, reporting and similar aspects of operation. In addition, the staffs do not have work motivation because of low or no payment. The main reason for this is that RuSACCOs have no financial capacity to hire professionals.

It was learnt from KII respondents that the government has been trying to address this problem using woreda cooperative office accountants such as by mentoring and improving the skills of RuSACCOs staff. The attempt to institute a formal record keeping system is a good start. But effectiveness of the system partly depends on the extent of effort made to build up the capacity of bookkeepers and on the continuous supply of the standard format for accounting documents and records. Since the permanent staffs of most RuSACCOs do not have appropriate skills to generate reports, it is the staffs from woreda cooperative promotion office that close the book of accounts of RuSACCOs and generate financial statements.

(c) Limited capacity to deliver financial services

This category of operational problem is concerned with:(i) the extent to which RuSACCOs can mobilize savings and provide credits to their members; (ii) the availability of adequate loan capital; (iii) the appropriateness of financial products which take into account the socio-

economic conditions of members; (iv) the extent of flexibility in setting and applying conditionality on RuSACCOs loan disbursements; and (v) the adequacy of loan size and appropriateness of repayment and saving schedules for RuSACCO clients.

The size of membership has direct implication on the financial capacity of a RuSACCO, which means, the more its membership base, the better its financial capacity/capital base. The performances of RuSACCOs and their sustainability depend on how much they attain their objectives of providing financial services, especially credit to their members. In the context of RuSACCOs in the study area, this objective is not adequately fulfilled due to shortage of loanable capital. Most of the RuSACCOs' access to financial sources, other than their share capital income and savings, is very much limited, except that some of them reported to have been managing revolving funds granted by donors and accessed seed money from NGOs operating in the study area.

In the study area, the average membership per RuSACCO is computed to be 130 members (Appendix V); out of which almost half of them have less than 100 members each. It has been confirmed by multiple case studies and monitoring reports that savings mobilized by RuSACCOs are too small to allow them meet the larger size credit requirements of their members. Such a capital and saving limitation is constraining the capacity of RuSACCOs to address the credit demand of CFI households. Moreover, in the present context of high price inflation, the loan size was mentioned to be too small to start economically feasible business.

Opinion of Sample Respondents: Though majority of the respondents expressed their satisfaction with the services getting from their RuSACCO, some of them still reflect their

reservation on the quality of services they are getting from their association. The main reason for their dissatisfaction is mentioned to be small size of loan. So far, voluntary and compulsory savings are the main saving services being provided by RuSACCOs in the area. In terms of suggesting for additional saving services to be introduced by RuSACCOs, further increment on the amount of regular voluntary saving and diversification in type of saving products have been proposed by majority of the respondents.

Survey respondents also indicated that the services of RuSACCOs are not limited to financial services, as in most cases their discussion also covers social and developmental matters. Respondents were asked to indicate the motivating factors that make them to continue saving with a RuSACCO. As it is already depicted on Figure 4.3.above, about 69% of the respondents put their main reason as his/her desire of getting a loan later on. That means, if the RuSACCO is not in a position to fulfill the desire of majority community members, it is hard to attract additional clients and even to retain existing members.

Individual respondents were also requested to give their experience on how the size of loan approved by the RuSACCO had been determined. Their response is compiled and presented in table 4.9.below. About 99% of the respondents informed that the size of a loan is determined based on the availability of loanable fund in the account of a RuSACCO, not by the type and nature of business that a borrower has envisioned to start. With regard to the adequacy of the loan, while 49% of the respondents mentioned that “it is not at all enough”, about 25% of them indicated that “in most cases it is not adequate enough” to start economically feasible business. However, this doesn’t mean that credits provided through a RuSACCO have no impact on the livelihoods of borrower members. In this regard, while

41% of the borrowers reported significant increment, 55% of them claimed fair increase in their income as a result of benefiting from RuSACCO loan.

Table 4.9. The criteria used by RuSACCO management committee in determining the size of one time loans and respondents view on its adequacy and impact on their income.

No	Experience on the criteria used to determine the size of one time loan	Individual respondents	
		Frequency	%
a	No criteria used and received the amount I requested		
b	Received a pre-determined size of loan approved	1	1
c	benefited from equal share allocated to each member		
d	size of loan determined based on the availability of loanable fund	79	99
	Total	80	100
	Response on the adequacy of one time RuSACCO loan		
a	yes, it is adequate	21	26
b	most of the time not adequate	20	25
c	not at all	39	49
	Total	80	100
	Respondents' feedback on the level of their income change since start borrowing from RuSACCOs		
a	Significantly increased	33	41
b	Fairly increased	44	55
c	No change	3	4
d	New borrower and yet to start generating income		
e	Decreased/bankrupted		
	Total	80	100

Source: Own survey result, November, 2015

With regard to the respondents' perception on the size of interest rate being charged on RuSACCO loans, majority of the respondents believe that it is "moderate". As it is depicted in Table 4.11 below, about 95% of individual respondents have accorded with the importance of

existing loan conditionalities being applied by the RuSACCOs, as it is the only means to ensure loan repayment. While half of FGDs participants and 55% KII respondents agreed with the continuation of the current loan conditionalities, the other half of FGD discussant and 36% of KII respondents suggested for some revision in line with the profitability potential of the business, and based on the capacity and loyalty of a borrower.

Table 4.10. Respondents Opinion on the importance of credit conditionalities being applied by RuSACCOs (Compulsory saving and Collaterals)

No	Opinion	Individual respondents		FGDs feedback		KII respondents	
		Frequency	%	Frequency	%	Frequency	%
a	Both are Important as there is no better way to guarantee repayment of a loan	76	95	2	50	6	55
b	Both are still important for RuSACOs but needs revision in terms of its size and type depending on liquidity of the business, capacity and loyalty of the borrower	1	1	2	50	4	36
c	The compulsory saving shall be avoided, while group collateral can still be applied as collateral	2	3				
d	Both of them are not importance and they are limiting the rural poor's' opportunity to benefit from RuSACCO's credit	1	1			1	9
	Total	80	100	4	100	11	100

Source: Own survey result, November, 2015

The current services being provided by RuSACCOs have a lot of limitations. As it was repeatedly mentioned by respondents, small size of the loan is one of the sources of their

dissatisfaction on RuSACCO's services. Too short repayment period of a loan and absence of appropriate/alternative financial products have been the other two weaknesses mentioned by the respondents

Feedback of FGDs: Almost half of FGD participants believed that a moderate habit of saving culture of community members could be counted as one of the challenges affecting the operational performance of RuSACCOs. According to the feedback learnt from FGD discussions, rural households are being influenced by different factors for their decision to approach a financial service provider for saving services. The security or trustworthiness of the service provider is chosen as the first factor by half of the discussants. Easy access to credit service has been chosen as the 2nd factor by three fourth of the respondents. In the case of RuSACCOs operating in the study area, the problem is more of related to the second factor, which is shortage of saving resource. Like individual respondents, FGD participants explained that the size of individual loan to be extended by a RuSACCO is determined by the availability of loanable fund and it is found to be one of the operational problems.

(d) Limited physical capacity and shortage of logistical facilities

The term physical infrastructure and logistical facility refers to office space, office furniture and equipment, and transportation facilities. The severity of this problem is easing over the past five years and varies among RuSACCOs operating in the area. The capacities of RuSACCOs in terms of facilities such as office spaces, office furniture and equipment, safe lockers and books of account are improving over the past few years because of government's support to the cooperative sector in general and external investments through donors and NGOs. In most of the RuSACCOs operating in the study area, though these facilities exist,

they are not adequate enough to run most of the RuSACCOs as an effective and sustainable financial institution.

According to the opinion of KII respondents (Table 4.8. above), shortage of physical materials and logistical facilities is ranked as the 2nd factor, with mean score value of (3.60), affecting the performance of RuSACCO in the study area. The distance traveled by members to RuSACCO offices doesn't seem a major problem in the study area, as Seventy six percent of sample respondents live within less than 2km radius of their RuSACCO office. While the other 21% of them live within 2-5km radius, only 3% of them had to travel more than 5 km to go to their RuSACCO office. Almost 99% of the respondents reported to travel on-foot.

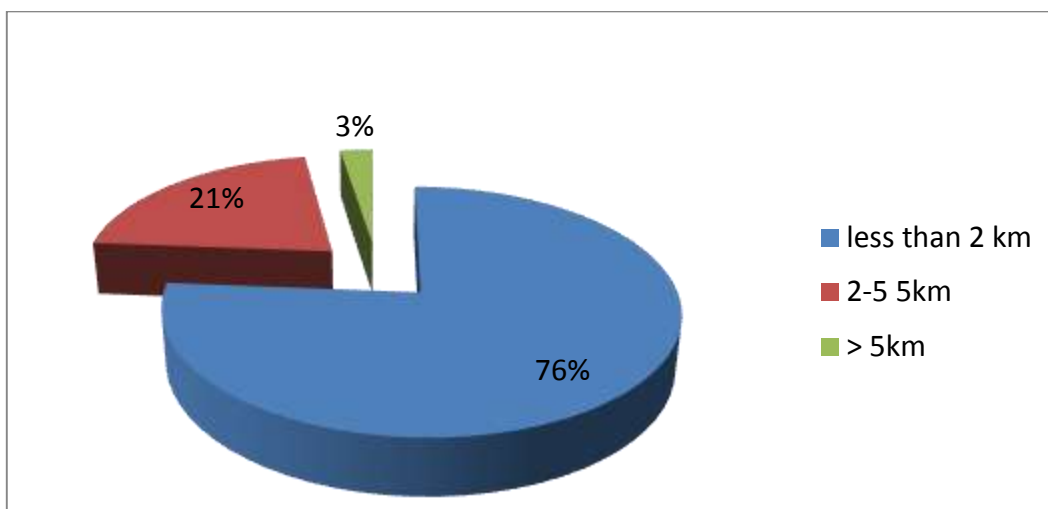


Figure 4.4. Distribution of responds by their location from their RuSACCO office.

Source: Own survey result, November, 2015

It was found out that access to telecommunication is generally marginal especially for those far from the main road. Access to transport facilities during dry season (by vehicle) and availability of market in the Woreda is moderate. Financial documents are generally poorly documented partly due to lack of office space and furniture. In most cases RuSACCOs are not

working in a secure situation. Internally, majority of RuSACCOs do not have basic equipment such as file box and electronics devices. The critical books of accounts and cash receipt and payment documents are kept in ordinary shelves.

In terms of transportation services, since RuSACCOs are operating in rural kebeles where villages are widely dispersed, transportation services such as motorbike seem critical and ease the day to day operation of promoters and RuSACCOs staff to collect deposit, disburse loan, follow up members and promote their operations. In general, the structure of their office, the office facilities they have, and the way cash and records are kept all affect the operational performance of the RuSACCOs.

4.3.3. Socio-Economic Problems

(a) Social constraints

In this section of the research paper, the awareness and understanding levels of rural people on financial services will be analyzed from different angles such as, educational level, family size, and prevailed traditional practices pertaining to financial services. The implication is that a person's educational status will greatly matter on the level of his/her awareness and understanding of rural financial services and his/her decision to join a RuSACCO.

Constraints associated with the socio-economic characteristics of sample respondents.

The assumption here is that most of the social constraints identified are a reflection of the socio-economic status of the society and its surroundings. The socio-economic characteristics of respondents have been analyzed under Table 4.1- 4.3. and figure 4.1- 4.2. above. In terms of the educational status of sample respondents 44 (55%) of them have got elementary education (1-6th grade), 13 (16%) 10-12th grade; 10 (13%) 7-9th grade; 9 (11%) and 4 (5%) of them are

diploma holders. About 66% of the respondents have got a maximum of elementary education. Hence, such a huge size with lower educational status of members could be considered as one of the social factors constraining the performance of RuSACCOs in the study area.

The size of family of a household could have direct impact on the economic performance of a household, especially in CFI areas where land size/family is very small, income sources and business opportunities are limited. In a situation where 66% of the respondents have got 6 or more family members, about 34% of the respondents have owned less than 1ha of land and 19% of the respondents are found to be landless. Therefore, it can be deduced that big family size associated with small size of land ownership per family and landlessness could be considered as another social factor affecting the performance of RuSACCOs in the study area.

With regard to the credit experience of sample respondents, other than RuSACCOs, as it is shown in figure 4.5. below, only 19% of them reported to have had previous experience from Microfinance (by 60% of them) and multipurpose cooperatives (by 40% of them).

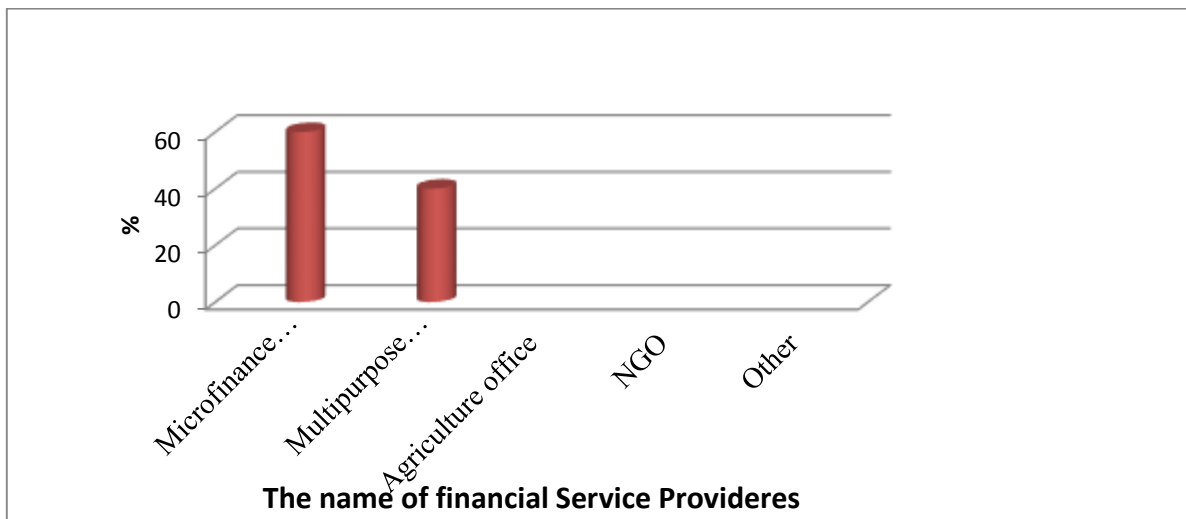


Figure 4.5. Respondents credit service experience other than RuSACCOs

Source: Own survey result, November, 2015

The respondents' feedback on frequency and regularity of RuSACCOs' call for members' periodical meetings is mixed. In the case of most of most the RuSACCOs in the study area, they call for general assembly meetings at least two times a year, and the attendance of members reported to have been encouraging as more than half of them represented in the meetings.

The level of respondents' awareness and understanding about the mission and objectives of a RuSACCO has been analyzed and depicted in figure 4.5. below. About 51% of them categorized their knowledge as "Good", and the rest 48% confessed their understanding level as "moderate".

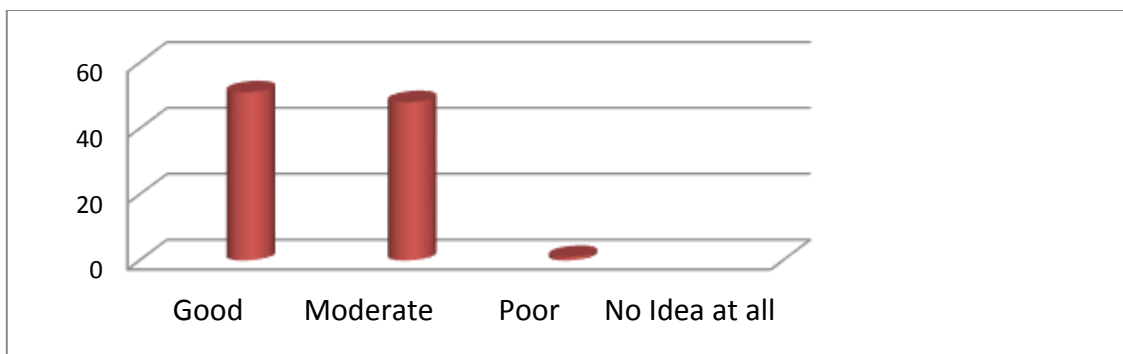


Figure 4.6. Respondents' awareness level on the mission and objectives of RuSACCOs

Source: Own survey result, November, 2015

Feedback of FGDs: According to the views of FGDs discussants, rural households are being influenced by different motivating factors for their decision to join a RuSACCO. Most of them believe that peer pressure and the enjoyment one would like to get by being a member of a RuSACCO has been their main motivating factors. The second motivating factor for their attraction to a RuSACCO is mentioned to be easy access to credit and the level of flexibility

to withdraw his/her saving account. It can be learnt from the above findings that if a RuSACCO is efficient enough in providing additional social services, the chance of attracting additional members would be higher.

In response to a question to examine relevant bottlenecks hindering rural poor from joining a RuSACCO, FGD participants confirmed that “lack of awareness and ignorance of some community members” is the main bottleneck holding them back from joining RuSACCOs. Another social factor, which is “lack of belief and confidence on a RuSACCO”, has been mentioned as the secondary bottleneck hindering rural poor from becoming member of a RuSACCO. With regard to factors contributing to loan default among borrowers, crop failure and diversion of the loan to other purposes have been ranked as the first and second proximate causes respectively. Poor management of the loan and attitudinal problem of individuals has been ranked as the third and fourth contributing factors respectively for any default of loan repayment experienced among borrowers.

The perception of rural community members on RuSACCO in general (whether it is positively or negatively) is one of the main factors determining the performance of RuSACCOs. With the intention to know public opinion about credit services being provided by RuSACCO in the study area, FGDs participants were requested to list out some of them. As it is already indicated above, the inadequacy of RuSACCO loan has been listed as the main drawback. Too short repayments period of the loan and not able to access it at the time of need are the other two weak points reported by FGD discussants respectively.

Opinion of Key Informants:-As it is analyzed in table 4.11 below, about 82% of sample respondents from the government offices believed that community members lack own

initiation to actively involve in the formation process of their RuSACCOs, unless there exist strong push from the government side, which is often by cooperative promoters.

Table 4.11. KII respondents opinion on the extent of involvement of rural households in the formation of their RuSACCOs

Level of Involvement	Number of Respondents	
	Frequency	%
Majority of them are proactive and enthusiastically involve throughout the process	1	4
Sometimes most of them lack own initiation unless there is a strong push from the government side through Coops promoters or DAs	9	82
In most cases most of them observed to have lacked interest to join RuSACCO membership	1	4
Total	11	11

Source: Own survey result, November, 2015

Table 4.12.below also analyzed the opinion of KII respondents regarding major constraints of saving mobilization. While 73% of the respondents considered “poor economic status of members” as the main bottleneck for saving mobilization, about Forty five percent of them still believed that the main reason for RuSACCOs inability to mobilize adequate saving resource is the rural people’s lack of awareness and understanding on the benefit of savings. Limited number of respondents (18%) from the above category also believe that majority of the rural people in the study area still prefer to do their saving in the form of asset, instead of in cash at a RuSACCO.

Table 4.12. KII respondents Opinion on possible reasons for RuSACCOs not able to mobilize adequate saving resource from members

Constraints of saving mobilization	Number of respondents	
	No	%
(a) Poor economic status of members, which resulted lack of excess money to save at a RuSACCO	8	73
(b) lack of awareness and understanding on the benefit of saving	5	45
(c) Absence or shortage of alternative saving product required by members		
(d) Majority of the community members still prefer to save in the form of asset rather than in cash at a RuSACCO	2	18
Total	11	100

Source: Own survey result, November, 2015

When sample respondents from the government offices requested to explain the main reasons for loan default happening by borrowers of rural households, they indicated that attitudinal problem (thinking that his/her loan will be written off sometimes in future) and ignorance or reluctance of the borrower are common problems observed. Majority of them also pointed out bankruptcy of a borrower as the most common cause for loan default, which could happen either due to diversion of the loan for unintended purpose or death of livestock bought by the loan or due to any disaster happened to a borrower. In terms of gauging the level of faith and confidence that members have on their RuSACCO, it was reported KII respondents that majority of the members have some extent of belief and confidence. However, few number of respondents expressed their reservation on this, explaining that majority of the members are either lacking trust and confidence or having indifferent view of their RuSACCO.

(b) Economic Constraints

For the purpose of this thesis research, economic constraints refer to those economic problems impacting directly and/or indirectly the performance of RuSACCOs in the study area. These include the economic status of a household, the agricultural potential and natural endowment of the area, and the situation of market and business opportunities in the area. The performance of grass root level members owned financial institutions, such as RuSACCO, is very much affected by (i) the economic status of its members, (ii) the natural endowments (environmental factors) predominantly existing in the area (rainfall, soil fertility, etc.), and (ii) business and market opportunities available in the area.

As it is shown in table 4.13.the researcher has tried to investigate factors contributing to loan default in the area. Crop failure has been ranked as the first credit risk with a mean score of (4.50). Poor management of a loan by the borrower, diversion of the loan for unintended purpose and attitudinal problem of a borrower have been ranked as the 2nd., 3rd and 4th risks with mean score value of (3.50), (3.25) and (2.75) respectively.

Table 4.13. FGDs' Ranking of factors contributing to high loan default by rural people; N= 4 and the score value allocated in a descending order of 5 to 1 for the ranking of 1st to 5th place.

No	Factors	Mean Score	Ranking
1	Poor management of the loan (or business)	3.50	2nd
2	Diversion of the loan from its original purpose	3.25	3rd
3	Attitudinal problem/thinking that the creditor will write-off the loan	2.75	4th
4	Livestock death	1.00	5th
5	Crop failure	4.50	1st

Source: Own survey result, November, 2015

(i) Poor economic status CFI households: CFI households have challenges that limit their capacity to make regular savings and their access to credit services. Some of the challenges are poverty, lack of financial literacy, lack of reliable and regularly accessible financial service providers, poor saving culture, low deposit rate, inflation, etc.

Opinion of Sample Respondents:-Some of the manifestations of economic problems of CFI households include lack of productive assets (livestock and land), limited source of income and limited access to irrigation. Low economic status of CFI households is presumed to have effect on the performance and growth of RuSACCOs. The information collected on the livestock holding and landownership status of the respondents has been used to analyze the economic status of RuSACCO members in the study area. As it is already shown under (Table 4.3. above), majority of the respondents (65%) have oxen, cow and shoats, which can be taken as fair level of wealth status in the context of CFI households. There is, however, significant number of respondents with no livestock (13%), with One Ox and a cow (15%), with one cow (3%) and one ox (3).The implication is that in a situation where significant number of people having limited ownership of productive assets (land and livestock) is expected to negatively impact the current performance and future growth of RuSACCOs in the study area.

The small size of land ownership per family (one and less than one ha for 34% of the respondents) and landlessness for some (19%) is found to be another economic constraint affecting the performance of RUSACCOs in the study area (Table 4.2. above). A rural household's access to irrigable land is critical in terms of improving agricultural production

and productivities and then enhancing the economic status of the household. Limitation of irrigable land is found to be one of the economic constraints in the study area as only 14% of the respondents have access to irrigation. The situation on the availability of alternative income generating activities in CFI areas, in addition to agricultural activities, would be another area which influences the interest and demand of rural households towards financial services being provided by RuSACCOs. In this regard, majority of the respondents (93%) depend on agriculture as their main source of income.

Feedback of FGDs:-The participants of FGDs have discussed and shared their consensus on checklists/question related to economic factors affecting the performance of RuSACCOs in the study area. It was reported by one fourth of FGDs participants that economic problems (level of poverty) is one of the bottlenecks hindering rural poor from joining a RuSACCO. Economic risks such as crop failure and livestock death are also factors contributing to loan default by rural people. Moreover, drought/erratic rainfall is one of natural risks affecting the economic status of RuSACCO members

Opinion of Key Informants:- Poor economic status of members, which resulted lack of excess money to save at a RuSACCO, has been indicted by 73% of the respondents from government office as one of the main reasons for RuSACCOs not able to mobilize adequate saving resource from their members (Table 4.12. above). Market failure, price fluctuations and indebtedness are also common economic risks that CFI in the study areas are facing. Though it is happening infrequently, the rural people in the study area also are experiencing natural risks such as, drought, rainfall shortage, hey, etc.

(ii) Limited natural endowments (environmental factors):- Natural resources/endowments include land, water, vegetation, soil, and climate upon which agricultural activities (crop production, livestock rearing, fishery, forestry, apiculture, horticulture, etc.) are based. Hence, any hazard against these resources can affect food security situation of a given community and then affect the livelihoods of community members living in the area. That means, the negative impact of environmental factors on existing and potential members of RuSCCOs will have indirect impact on the performance and growth of such institutions. The CFI households are vulnerable to a broad range of risks that affect their livelihoods, including illness, accidents, death and loss of assets such as cattle and crops. Market risks also affect the business making scope of the RuSACCO members. This include price fluctuations, inflation, lack of and asymmetry of market information.

The feedback obtained from FGDs indicated that in addition to health, the other most common risks that regularly affect the livelihood of poor rural households are frequent drought and climate change, low levels of agricultural production and productivity, crop and livestock diseases. The agriculture in the study area is found to be predominantly subsistence farming. For the most part it is rain-fed and, therefore, food supplies are susceptible to rainfall fluctuations. The respondents' rating of natural risks in the study area is depicted in table 4.14. below. Drought is the most common risk with a score value of (4.00), followed by crop disease (3.75), flood (2.75) and livestock death (2.50) as the 2nd, 3rd and 4th risks impacting the livelihoods of rural communities in the study area.

Table 4.14. FGDs' Ranking of natural and environmental risks in the area; N= 4 and the score value allocated in a descending order of 5 to 1 for the ranking of 1st to 5th place

No	Environmental Factors	Mean Score	Ranking
1	Drought and /or erratic rainfall	4.00	1st
2	Flood and hey	2.75	3rd
3	Crop pest/disease	3.75	2nd
4	Livestock death	2.50	4th

Source: Own survey result, November, 2015

(iii) Limited business and market opportunities: Lack of diversified income of members; weak off-farm activities and limited market transaction determine the livelihoods status of rural households who are and will be members of a RuSACCO. According to the finding of the thesis research, agriculture is the main source of income for 93% of the respondents. While 7% of these respondents engaged in petty trade as secondary source of income, only 7% of the total respondents specialized in petty trade business (Table 4.2. above). Therefore, absence of optional business opportunities for CFI households is found to be one of the economic constraints affecting the performance of RuSACCOs.

4.4. The Future Prospects of RuSACCOs in the Study Area

According to World Bank (2007), many financial cooperatives in different countries became successful in their rural outreach. Some studies conducted in Brazil, Kenya, Sri Lanka, Mali, Senegal, Burkina Faso and others show that financial cooperatives can be a major provider of rural financial services. Financial cooperatives in Brazil serve almost a quarter of the population in the areas where they operate (22 percent), and in Kenya, one-half of the households across the nation have an account with a financial cooperative (HEDBEZ, 2012);

World Bank, 2010). The findings of this thesis study have also confirmed the above mentioned experiences observed in other developing countries.

Despite the ups and downs experienced, RuSACCOs in Ethiopia are now expanding (in terms of number as well as membership) in both rural and urban areas. In the abundance of so many problems, the prospect of RuSACCOs in the study area is found to be promising. There are a lot of opportunities and positive experiences identified by this research that can justify the positive prospect of RuSACCOs in CFI context. The following section of the document has tried to compile and analyze feedbacks of respondents pertaining to the future prospect of RuSACCOs in the study area.

Opinion of Sample Respondents:-The frequency of attendance of members' in the regular meetings of a RuSACCO could be taken to measure the level of members' interest to their institute and then the future prospect of the RuSACCO. According to the feedback gathered from individual respondents, majority of them confirmed that they are attending RuSACCO meetings regularly, unless the date clashed with other must to do type of engagements. Members awareness level and understanding about the mission and objectives of their RuSACCO can be taken as one of the factors affecting the future performance of members owned financial institutes. In this regard, as it is already depicted on figure 4.6 above, while 51% of the respondents rated their awareness level as "Good", 48% of them rated "Moderate". This is a positive input in terms of enhancing the future prospect of RuSACCO in the area.

A repeated credit experience of respondent households can be taken as a positive indicator for the future prospect of RuSACCOs in the study area. Out of 63 (79%) respondents who have

benefited from RuSACCO loans, 54 respondents (85%) borrowed two or more than two times in the past three years (Table 4.4.). This also implies that presently significant number of rural poor are benefiting from RuSACCOs credit. The researcher has also tried to examine the economic impact of RuSACCO credits. Forty one percent of the clients responded that their income has been increased “significantly”, while for 55% of them it has brought “fair increment”, only 3 clients (4%) remain in the same livelihoods status after benefiting from RuSACCO credits (Table 4.9 above).

Sample respondent were requested to share their view on the current progress and future prospect of their RuSACCOs. As it is depicted under table 4.15.below, members perception on the progress of their RuSACCO varies across sample RuSACCOs. Twenty eight percent of the respondents believe that their RuSACCOs have shown significant improvement as membership has been increased over time and moderately addressing the credit demand of members. Moreover, while 44% of the respondents believe that their RuSACCOs have shown positive progress in terms of membership growth, 24% of them put their reservation saying that the progress of their RuSACCO is moderate and still remains far behind the required level to address the huge financial service gap existing in the rural area. Only 4 respondents (4%) express their frustration with slow progress of their RuSACCO.

Table 4.15. Respondents perception on the current progress of RuSACCOs and their contribution in addressing the credit demand of Rural poor.

No	Respondents' perception on current progress of RuSACCOs	Individual respondents		FGDs feedback	
		Frequency	%	Frequency	%
a	Shown significant improvement in membership and moderately addressing credit demand	22	28	1	25
b	shown positive progress in terms of membership but still struggling with shortage of credit capital	35	44	2	50
c	Sown moderate progress though still remains far behind the required	19	24	1	25
d	Shown very slow progress both in terms of membership increment and capital accumulation for credit	4	5	1	25
	Total	80	100	4	100
No	Opinion on the significance RuSACCOs c in addressing the credit demand of rural poor	Frequency	%		
a	Highly significant	2	18		
b	Somewhat significant	8	73		
c	Not significant	1	9		
	Total	80	100		

Source: Own survey result, November, 2015

The opinion of each category of respondents on the future prospect of RuSACCOs in the study area has been compiled and analyzed in table 4.16. below. According to the feedback from sample respondents, the future prospect of RuSACCOs in the study area looks promising. About 88% of sample respondents labeled the future prospect of RuSACCOs as “Bright”, indicating that RuSACCOs will become an effective and efficient financial service providers in the coming few years. While the remaining 12% of them labeled it as “Moderate

Progress”, none of the respondents have doubt on the promising future prospect of RuSACCOs in the study area

Opinion of FGDs:-With regard to the future prospect of RuSACCOs, participants of FGD have also shared the positive views of individual respondents. They also believe that RuSACCOs are the most preferred financial service providers in rural area, as it was confirmed by three fourth of FGD participants (Table 4.16. below). The saving culture of rural people in the study area is neither bad nor good, and it cannot be taken as the major factor for slow growth of membership. The prevailed perception among discussants is that community members living in the study area have “moderate habit of saving”.

With regard to the perception on progress of RuSACCOs in the study area, about 25% of FGDs discussants believe that RuSACCOs have shown significant improvement as membership has been increased over time and moderately addressing the credit demand of members. Participants of the two FGD participants indicated that, though they have shown positive progress in terms of membership mobilization, majority of them are still struggling with shortage of credit fund. While participants of one FGD labeled RuSACCOs’ progress as ‘moderate’, the remaining other FGD discussants expressed their reservation indicating that the progress of RuSACCOs is very slow both in terms of membership increment and capital accumulation (Table 4.15. above).

According to the feedback from FGD participants, the future prospect of RuSACCOs in the study area looks Promising. As it is shown in table 4.16. below, participants of the three FGDs labeled the future prospect of RUSACCOs as “Bright”, indicating that RuSACCOs will become an effective and efficient financial service providers in the coming few years. While

the remaining FGD participants labeled it as “Moderate”, none of the participants in the FGDs has doubted on the promising potential of RuSACCOs.

Opinion of Key Informants:-The participation of members in the formation/establishment of their RuSACCO is not discouraging as it was indicated by most of the respondents from government offices. Majority of the respondents informed that in a situation where there is strong technical support from the government side (through Cooperative promoters), the engagement of members in the formation process of their RuSACCO is found to be encouraging. With regard to RuSACCOs’ current capacity to manage new financial products demanded by CFI households, the response of some respondents was found to be cautious indicating that most of them will not be ready in near future to adequately diversify their financial products. But, there are some respondents who are positive indicating that most of the RuSACCOs in the study area are ready to diversify their products. Only few of them put forward their reservation on the current capacity of RuSACCOs to diversify their products in near future, even with external support, as they may need more than five years to be mature/strong enough to be engaged in diverse financial products demanded by CFI households.

In terms of identifying future opportunities, the respondents from the government offices listed the following. It is obvious that the performance and future prospect of RuSACCOs would very much be influenced by the overall developmental status of the rural sector in which they are operating and availabilities of socio-economic opportunities for rural households. These days the physical infrastructure (road network) is expanding across rural areas of Meskan woreda. The recent expansion of roads network (connecting all kebeles to main road and social service centers) has been creating market and business opportunities for

rural households, which resulted in improving the economic status of existing and potential members of RuSACCOs. In addition to the investments through government system, the rural areas of Meskan woreda is benefiting from NGOs' development investment in various rural sectors. These all can be taken as opportunities with great potential to enhance the growth of RuSACCOs.

The progress shown in recent times of RuSACCOs in the woreda is found to be moderate, according to the perception of 64% of sample respondents from the government offices (Table 4.15. above). The perception of 27% of respondents has been even more positive in terms of increasing membership. The only reservation they have is slow progress observed in terms of increasing their capital/credit resource.

One of the justifications for the existence of RuSACCOs in CFI areas is their potential role in addressing the financial service demand of rural poor. In this regard, significant number of respondents (73%) from the government sector believed that the role of RuSACCOs in terms of addressing the credit demand of rural poor is labeled as "somewhat significant". While 18% of them considered it as "highly significant", the remaining 9% of the respondents discarded their importance (Table 4.15 above). The belief and trust of members on their RuSACCO is key factor in terms of influencing the future prospect of a RuSACCO. In this regard, KII respondents believed that majority of members have got commendable trust and confidence on their RuSACCO.

According to the feedback obtained from KII respondents, they believe that the participation of members in RuSACCO's general assembly meeting is encouraging. The government staff also believed that, given the perspectives of overall context in which they are operating, it can

be deduced that to some degree they are autonomous and operating in a democratic way It is shown in table 4.16 below that the future prospects of RuSACCOs in the study area mentioned to be “Bright” and “Moderate” by 55% and 36% of KII respondents respectively.

Table 4.16. Respondents opinion on the future prospects of RuSACCO in the study area

No	Description	Individual respondents		FGDs feedback		KII respondents	
		Frequency	%	Frequency	%	Frequency	%
1	Bright	70	88	3	75	6	55
2	Moderate	10	12	1	25	4	36
3	Darken						
4	Unknown					1	9
	Total	80	100	4	100	11	100

Source: Own survey result, November, 2015

Chapter Five

Recommendations

5. Recommendations

Based on this thesis research conducted in one of the chronically food insecure rural districts of the country, Meskan district, the following recommendations are suggested for action by concerned bodies in addressing the prevailing institutional, organizational and operational problems of RuSACCOs so that they will operate effectively and sustainably. Additionally, based on feedbacks collected from all categories of respondents and further analytical review undertaken using the primary and secondary data collected, the researcher has reflected his view on future prospect of RuSACCOs registered and operating in CFI rural areas.

1. Addressing the institutional problems of RuSACCOs through government support

- The government need to intensify and expand its overall support to RuSACCOs through allocation of adequate budget and human resource at all levels (in particular at woreda and kebele levels). Though the promotion and strengthening of RuSACCOs have been stated as one of the priorities in the five year development programming of the government, a lot remain when it comes to actual implementation. In this regard, there may also be a need to revise the existing institutional infrastructure and organizational set-up of RuSACCOs on contextual basis.

- The Task of cooperative offices will not stop just at facilitating the formation and registration of RuSACCOs. In particular, in the context of chronically food insecure areas where the contribution of members in the form of share purchase, saving deposit, and registration fee is found to be low and inadequate to self-finance the RuSACCO, and where RuSACCOs lack capacity to sustain themselves especially in the initial stage of their development, some level of physical capacity support and intensive and continuous coaching and mentoring of executive bodies of the RuSACCO would be crucial.
- The Cooperative offices should also facilitate the linkage of matured/strong RuSACCOs with MFIs and banks as an effective response to the threat of covariate risks such as natural or other hazards that affect all group members at the same time. Such linkages would also create opportunities for RuSACCOs to scale up their operations with more financing and access to loanable fund that they would get from banks and MFIs.

2. Improving the policy and regulatory environments

The existing policy and regulatory framework for RuSACCOs needs revision and improvement. In this regard, the following could be worth considering:

- There is a need to develop separate regulatory framework and legislation for different tiers of RuSACCOs. The bases for categorization of RuSACCOs and their corresponding legal and regulatory requirements shall be their developmental stage; which means, their level of capacity with respect to size of capital, membership and amount of saving resource mobilized). Up on grouping RuSACCOs into three broad categories as: strong; medium; and low capacity, there is a need to develop separate regulatory framework (or by

inclusion of terms and conditions into existing legal documents) to be applicable to each category. The main purposes of issuing differentiated regulation are:

- to provide some incentives for those with low and medium capacities;
- to minimize or avoid excessively restrictive approaches that inhibit their innovation and entry;
- to avoid unfair competition between strong and weak RuSACCOs; and
- to closely track the progress and effectively monitor the performance of each category of RuSACCOs

The regulatory provisions for operational modalities of RuSACCOs need to be revised based on the socio-economic context in which they are operating. Some of the rules and procedures stated in the standard bylaw need amendment so that to simplify service provision and attract more membership to RuSACCOs. In this regard the following are worth mentioning:

- adjusting regular saving schedule so that to match with the earning pattern of a member and flexibility on the amount and severity of penalty to be imposed on members at the time of non-compliance to regular saving schedule
- Allowing RuSACCOs to lend to non-members, given that this will increase their operational scope and financial capacity.

3. Improving the knowledge and skills of RuSACCO management bodies and members

- a) The managerial and leadership capacity of RuSACCOs' management and the technical knowledge of other committee members need to be improved. The provision of trainings to executive bodies should be undertaken on regular intervals. The effectiveness and

efficiency of committee members would be improved through enrolling them in periodical and sequential trainings on relevant thematic areas such as: strategy development, business planning, financial management and reporting, credit risk analysis, product development and business communication. There is also a need to do continuous coaching and mentoring of committee members so that they will engage actively in the day to day operation of their cooperative.

- b) The business knowledge and entrepreneurial skills of RuSACCO members need to be improved. Raising the awareness of members on the values and objective of RuSACCO and the provision of technical trainings in relevant thematic areas (e.g. financial literacy and business plan preparation) should also be extended to ordinary members, so that to increase their involvement in the development process of their mutual organization and improve entrepreneurial knowledge of individual members.

4. Improving the financial delivery capacity of RuSACCOs

The problems affecting the operation of RuSACCOs include: (i) limited membership base and slow growth of membership; (ii) lack of alternative and appropriate financial products (saving and credit services); (iii) limited loanable fund; and (v) limited physical infrastructure and logistical facilities. The following measures are recommended to address the above mentioned problems and then to enhance the financial service delivery capacity of RuSACCOs.

a) *Recommended actions to increase membership base*

- Enhancing members awareness and deepen their understanding on principles and procedures of saving and credit services being provided through RuSACCOs would help

to minimize members' temptation to withdraw their saving for simple consumption and then terminate their membership. If they are made to utilize their saving deposit at the right time and for the appropriate purpose, through time, they would come to realize the benefit of continuing with the RuSACCO and would also be motivated to convince non-members to join them in their association.

- Improving the information system of RuSACCOs would help them to be effective in keeping track of their operations and improve their capacity to expand membership base. Assurances from government or donors, both in the form of technical support and financial resources, in developing appropriate information system would improve the operational performance of RuSACCOs such as by enhancing their capacity to track the profile of their clients, gathering feedbacks on their services, and collecting and compiling other monitoring data. Introducing and demonstrating innovative ways of service deliveries and developing a guideline or a strategy to help RuSACCOs maximize saving mobilization are also areas of technical assurances that could be considered in addressing the problems of membership base and saving mobilization.

b) Recommended changes related to saving modalities

- Diversifying the types of voluntary saving products could be taken as one strategy to expand membership base. This is to mean that the introduction of new saving products would help raise the interest of community members to join and benefit from RuSACCOs.
- The introduction of deposit interest rate, which means, paying interest for saving depositors (which is yet to be practiced by RuSACCOs) may help to attract additional people to become RuSACCO members with additional saving resource.

- It is advisable that RUSACCOs be flexible in their schedule for saving collection. Especially in the context of CFI area, mobilizing saving from the poor people who lack literacy and numeracy skills is not a challenging task. There is just to emphasize on the importance of arranging convenient time and place for clients to deposit their savings and settle their outstanding loan (if any).
- Majority of the respondents have no objection on the existence of monthly deposit of compulsory saving as this will help to instill saving culture among the poor and ensure the sustainability of the RuSACCOs. However, given the economic condition of the poor and their cash flows, it is appropriate to relax on the amount of saving to be made each month.

c) Recommended changes related to loan modalities

- There is a need for RuSACCO to introduce diverse collateral options. A requirement from borrowers for almost equal value of loan guarantee through compulsory saving of a member is found to be one of the operational constraints of RuSACCOs. Presently, the amount of individual loan to be approved depends on the size of compulsory saving that a member has deposited. If a member wants to borrow a loan in excess of his/her compulsory saving balance, he/she is required to get another member as a guarantor (s), which is often difficult to get. To mention some of the options, borrowers could be allowed to bring non-members as guarantor and/or they could be allowed to get loan using personal properties as collateral. There is also a possibility to be relaxed on the size of collateral, such as by relying more on community peer pressure, client track record and

close follow up of the borrower as supporting mechanism of ensuring the repayment of RuSACCO loans.

- Small size of one time loan is one of the constraints seriously affecting the performance of RuSACCOs in the study area. Both the survey results from individual respondents and feedback from FGD participants indicated that members want RuSACCOs to offer them with bigger-size loan. The root cause for this problem is known to be shortage of credit fund. Hence, in addressing this problem, there is a need first to improve the organizational and financial capacity of the RuSACCOs, mostly through government or NGO support; secondly, to facilitate and ensure their access to credit fund through facilitating their partnership and linkage with MFIs and Banks.
- In the context of the study area, as most of the RuSACCOs members are weak in their financial capacity, it is necessary for RuSACCOs to increase their membership and secure additional financial resources from governmental and non-governmental organizations so as to avail loanable fund to those members who are in need of credit but weak in their saving capacity to reach the minimum amount of compulsory deposit requirement.
- RuSACCOs need to be flexible in terms of setting terms and conditions of loan disbursements and repayments depending on the socio-economic context prevailed in the area. The terms and conditions to be applied could vary based on: the purpose for which the loan is taken (e.g. installment basis versus lump sum payment at the end of loan period); the cash flow pattern of the borrower and the business to be financed. It is also appropriate to introduce incentives to motivate borrowers to repay their loans. In this regard, for instance, the provision of repeater loans could help improve loan repayments.

d) *Recommended actions to address the problem of shortage of loanable fund*

- The technical supports provided to RuSACCOs in assisting them to expand their membership base may not bring immediate result and address their problem of shortage of loanable fund. The process of increasing membership size and then mobilizing adequate saving resource to be used as loanable fund is time taking and would not help address this problem in the immediate term. Moreover, in the early stage of their development, it would be unrealistic for RuSACCOs to think of getting access to credit facilities from MFIs or banks. Because of this fact, it is normal for RuSACCO to seek for seed money in the form of grant either from donors/NGOs or government itself. As it has already been practiced to a limited extent, the RuSACCO union can be further strengthened to be used as optional source of loanable fund, especially for those RuSACCOs newly established and weak capacity.

5. Addressing the problem of office space and office furniture and equipment

- Some of the RuSACCOs do not own their own office. Even for those who managed to have own office through donor/NGOs support, their offices are not spacious and safe enough to properly serve members and keep money and financial records. The availability of an office with a minimum standard should be considered as one condition for establishing a RuSACCO. The government body (cooperative offices) should take the lead in addressing this problem, using the following alternative approaches:
 - Allocating financial resource to be matched with community's contribution in the form of labor or material contribution for the construction of the office;

- Facilitating the RuSACCOs' partnership/linkage with donors/NGOs that can assist them secure an office; and
 - Allocating unoccupied public or community owned building for a RuSACCO to use it temporarily until it secures its own office.
- In a situation where a RuSACCO is newly established and yet to have financial capacity to furnish its office and procure basic equipment, it is normal to seek for external assistance (at least partially), either from government partners or from donors/NGOs. Wherever is the source of assistance, it is the cooperative (organizing body) which should facilitate and take the responsibility in addressing this problem.

6. Addressing the socio-economic constraints of RuSACCOs

The performance of RuSACCOs in the study area is being affected by socio-cultural perceptions and practices prevailed among rural community members, and economic constraints experienced both at household and macroeconomic levels. Below is a summary of recommendations to address those socio-economic constraints affecting the performances of RuSACCOs in the study area.

a) *Improving public awareness and understanding on RuSACCOs and rural finance.*

Raising the awareness of community members on vision and mission of a RuSACCO and improving their understanding of financial services in general, would help to enhance rural households' interest to join a RuSACCO. Since this task is expected to be carried out mostly by the organizing body (cooperative offices), the government has to allocate

enough operational budget and adequate number of qualified staff at woreda and kebele levels.

- b) ***Increasing rural households' knowledge of financial management and business planning.*** Majority of the rural people are either innumerate or illiterate or having elementary level of education; and their knowledge about finance and business planning is presumed to be limited. It is, therefore, necessary to deliver trainings on financial literacy and business plan preparation to the rural poor to help them gain a better understanding of the functions and terms and conditions of RuSACCOs' financial services. The provision of financial literacy is critical in terms of promoting access to finance such as by creating incentives and environments that can help inculcate the desired financial behaviors such as saving, budgeting, or using credit wisely. These trainings can be provided by cooperative staffs themselves or through the financial and technical support of donors or NGOs operating in the area.
- c) ***Diversifying sources of income and improving livelihoods opportunities to rural household.*** Majority of RuSACCOs members are found to be engaged in agricultural activities as their main means of livelihoods. Very few of them engaged in non-farm activities. The homogeneity of the membership in terms of occupation will have direct impact on the performance and sustainability of RuSACCOs. As agricultural activities relay very much on seasonal rainfall pattern, any interruption on the normal pattern of the rainfall or during the occurrence of any major drought could affect the livelihood of all or majority of RuSACCOs members.

- In dealing with this economic problem or in terms of diversifying livelihoods opportunities to RuSACCO members, the organizing body (Cooperative office) has key roles to play. *Firstly*, the technical support (financial literacy and business planning) provided through cooperative staff is expected to influence members choice of project to be financed by RuSACCO credit; *Secondly*, the cooperative office can coordinate with other government offices working in rural extension, enterprise development and job creation so that existing and potential members of RuSACCOs would be supported to diversify their source of income; and *Thirdly*, the cooperative office has to play key role in terms of facilitating the utilization of NGO resources for the benefit of RuSACCOs, which means, the financial and human resources of NGOs are a big opportunity that can be used to improving the business knowledge and entrepreneurial skills of rural households who are or will be RuSACCO members.
- Drought and erratic rainfall pattern are mentioned to be macro level economic challenges that CFI areas like Meskan district occasionally encountered. These natural disasters have a potential to negatively impact the economic status of rural households and consequently the performance of RuSACCOs. Though there is no way to avoid these natural disasters, there are, however, possible ways to minimize their negative impact both at household level and RuSACCO level. As it was mentioned above, diversification of households means of livelihoods into off-farm activities would be one strategy to be adopted by rural households so that, at least, to cope-up with the impact of the drought. At RuSACCOs level, the following two strategies are recommended to minimize the covariant risks. The first is concerned with facilitating their linkage with MFIs and banks to help them respond to huge credit demand expected to come from members affected by the disaster; the second strategic solution

could be to introduce micro-insurance scheme (saving product) which will be used either to settle outstanding loans or paid out to members during the time of disaster.

7. Concluding Remark on future prospects of RuSACCOs in the context of chronically food insecure areas

The feedback obtained from all categories of respondents confirmed that the fate of RuSACCOs in CFI context is positive. In the context of rural settings like meskan district, majority of community members lacked access to reliable and secured means to save their money; appropriate credit facilities to engage in income generation activities; and todo any kind of financial transfers. In this regard, RuSACCOs are being considered better option in serving the underserved category of rural people. The other positive factor worth mentioning about RuSACCOs in the study area is that their outreach and service delivery capacity has shown significant improvements in the past five/six years, which can be counted as one of the reasons for everybody's optimism.

Notwithstanding their positive prospect, the importance of further strengthening of RuSACCOs has been emphasized by respondents. If RuSACCOs to play role in addressing the challenges of rural finance in CFI areas, a lot has to be invested by concerned stakeholders in improving their governance and management system and strengthening their service delivery capacity. The CFI areas are: populated with rural poor; endowed with limited natural resources; and characterized with limited livelihoods opportunities. It is, therefore, unrealistic to expect RuSACCOs established in CFI areas be able to finance themselves from the very beginning of their inception.

Though it is obvious that the responsibility of sustainably developing RuSACCOs rests on members' participation and financial contribution in the form of shares and savings, different forms of external assistance coming from multiple sources would still be critical in expediting their development process and ensuring their sustenance. The level of external support could be varied depending on the initial capacity and potential of a RuSACCO. However, as a general principle, the size of external support is expected to be reduced over time until the RuSACCO be able to sustain itself and be able to serve effectively its members as well as rural communities a large.

The current policy environment seems encouraging for the expansion of RuSACCOs, which can be considered as a complement to their future prospect. Developing rural finance is a center piece of GoE's rural development strategy. This is being done through promoting and supporting for the establishment and strengthening of grass root level financial institutions such as RuSACCOs. In this regard, the Growth and Transformation Plan (GTP) provides the ground for the establishment and development of cooperatives in general and RuSACCOs in particular. There are also GoE-multi-donors co-financed programmes (e.g. RuFIP and HABP/PSNP) and NGO projects working in rural fiancé as well as in the promotion of grass-root level financial institutions such as RuSACCOs and VSLAs. These development interventions are believed to have positive impact on future prospect and growth of RuSACCOs in CFI areas.

There are some successful RuSACCOs in pocket areas of CFI across the country which can be taken as models for those in the developmental process. Complementary rural development interventions of government, donors and NGOs, such as value chain development, are

creating opportunities for business expansion which resulted in high demand for financial services such as through RuSACCOs.

Chapter Six

Summary and Conclusion

6. Summary and Conclusion

The thesis research study was conducted in Meskan Woreda of Gurage Zone, SNNP Region, Ethiopia. The administrative center of the woreda, Butajira town, is located at 132 km away from Addis Ababa. Meskan woreda (or Meskan district) is one of the seventy nine woredas of SNNPR, categorized as Chronically Food Insecure (CFI) woredas.

The characteristics and causes of Chronically Food Insecure (CFI) areas, like meskan woreda, includes : sever land degradation due to soil erosion and deforestation, a trend of shrinking land holding size per household, erratic and unreliable rainfall pattern, low agricultural production and productivity, high population pressure, poor/limited infrastructure development, and limited business and market opportunities. Chronically Food Insecure (CFI) households are characterized by: small-size land ownership; predominantly agriculture based livelihoods; and without or limited access to financial services.

In spite of the fact that financial resources/services are being recognized as an important and a vital factor for economic and social developments, majority of rural households in CFI areas have only limited access to financial services. These days, therefore, the development of appropriate and alternative financial service products for CFI households has been identified as an important initial step to address the challenges of food insecurity and rural poverty. These financial services are to be provided by a service provider best positioned (in terms of

coverage and product offering) to deliver the required service product. In this regard, the Rural Savings and Credit Cooperatives (RuSACCOs) are believed to be appropriate grass root level financial institutions that are suited to serve CFI households.

RuSACCOs are community based, member owned, and self-reliant financial intermediaries in rural areas. In the current context of Ethiopia, they are being established at kebele level. Their basic role, as financial institution, is mobilization of savings from members and returning the savings to members in the form of loans. As per the proclamation No. 147/1998, RuSACCOs are expected to play active role in bringing about broad-based development and poverty alleviation. Hence, there is a general consensus both by the Government of Ethiopia and among development partners that RuSACCOs can play significant developmental roles and poverty reduction impacts even in CFI context. Cognizant of this fact, much research has not been conducted on their potential and feasibility in a socio-economic environment characterized with limited natural endowment, poor physical and market infrastructure, and in a rural settings whereby predominantly populated by food insecure households

The main purpose of this thesis research is, therefore, to examine the status of RuSACCOs registered and operating in one of the CFI woredas of Ethiopia in terms of achieving their visions, missions and objectives stipulated in relevant policy and regulatory provisions and those stipulated in their by-laws. In Meskan woreda there are a total of 39 primary RuSACCOs operating in the rural areas of the district with a total membership of 5089 clients; out of which, 2156 (42%) are female and 2933 (58%) are male members

The performance of RuSACCOs in CFI areas is being affected by a lot of constraints. For the purpose of this thesis research analysis, the problems of RuSACCOs operating in the sample

CFIworeda are categorized into: institutional; organizational; operational; and socio-economic related constraints. The institutional capacity of RUSACCOs is found to be weak because of limited external support such as from government office, high dependence of RuSACCOs on elected voluntary members or absence of professional staff for their day-to-day management; and weak regulatory or supervisory system.

The organizational success of a RuSACCO would very much rely on the skill, knowledge and commitment level of its executive committee members. Though the situation is improving over recent years, it was found out that majority of RuSACCOs' management in the study area have been still characterized with limited knowledge and skill in understanding and disseminating the organizational vision, mission, goals and objectives among RuSACCOs members.

Inadequate number of members and slow growth in membership are considered to be operational constraints of RuSACCOs in CFI areas. The RuSACCOs operating in Meskan woreda have 130 members on the average, where the size of membership ranges from the lowest with 44 members to the highest with 688 members. For Nineteen out of the total thirty nine RuSACCOs in the district, their membership size is less than 100 members. In this regard, there are many factors reported to have been holding CFI people back from joining and benefiting from RuSACCOs. These include, but not limited to: poverty; vulnerability to livelihoods shocks; limited business opportunities; and limited awareness and understanding about financial services being provided through RuSACCOs.

Most of the RuSACCOs in CFI areas are characterized with limited capacity of saving mobilization and credit provision demanded by the rural communities. Due to shortage of

capital, individual loan size is reported to be very small to make a viable business. The menu of financial service products being availed by RuSACCOs contains few options as it is often limited to few types of saving and credit products. Because of the above mentioned and other constraints, significant numbers of RuSACCOs operating in CFI areas are not able to provide adequate and proper financial services to their members.

According to the research findings in Meskan woreda, the capacities of RuSACCOs in terms of facilities such as office spaces, office furniture and equipments are improving over the past few years because of external supports they have been receiving through the government system as well as through donors and NGOs channels. It was, however, reported that in most cases of the RuSACCOs operating in the study area, though these facilities exist, they are not adequate enough to run effective and sustainable financial cooperatives.

Limited awareness and understanding levels of the rural people in the study area on financial services are found to be social factors affecting the performance of RuSACCOs. Those socio-economic factors negatively affecting the performance of RuSACCOs in CFI context include: low educational status of rural people, dominance of big family size, small size of land ownership, and limited livelihoods opportunities other than agriculture. The performance of RuSACCOs, is also affected by economic factors such as: (i) low economic status of its members, (ii) limited natural endowments of the area (erratic rainfall pattern, low soil fertility, etc), and (iii) limited business and market opportunities available in the area.

Finally, with regard to the final prospect of RuSACCOs in the study area in particular and in CFI context in general, the results of the study conducted in Meskan woreda have assured positive prospect. There are a lot of opportunities and positive experiences identified by this

thesis research which can be taken up as lesson learned in justifying the positive prospects of RuSACCOs operating in other CFI woredas of the country.

Below is a brief overview of these justifications:

- It is obvious that the performance and future prospect of RuSACCOs is very much influenced by the overall developmental status of the rural sector in which they are operating, and on the availability of socio-economic opportunities for rural households. The implication is that a positive trend of rural development experienced at local levels is expected to have brought opportunities for RuSACCOs to prosper. The expansion of rural roads network, the improving trend of market infrastructure and transactions and the introduction of modern technologies like Mobile phones and IT facilities have direct positive impact on the economic performance and attitudinal change of rural people. When the livelihoods status of rural people gets improved, their motivation to join and benefit from RuSACCO is believed to be increased.

Even in the abundance of organizational and operational challenges specific to CFI context, RuSACCOs remain one of the optional financial service providers suited to the CFI rural households. In this regard, below are illustrative list of justifications explored by the thesis study:

- i. Members awareness on RuSACCOs' missions, objectives and their engagement in the operational affair of their mutual organization is increasing overtime;
- ii. Majority of the respondents believe that their association have shown positive progress in recent years;
- iii. The existing policy and regulatory environment is not as such constraining the promotion and expansion of RuSACCOs; of course, with the introduction of few

regulatory changes recommended in the study, the future role of RuSACCOs believed to be more effective and sustainable;

- iv. The rural development direction of GoE in general and some of its programmes and projects have embraced RuSACCO agenda as one of their priorities; and
- v. Finally, the growth and future prospect of RuSACCOs would be influenced positively by the encouraging rural development results that the GoE is achieving over the past two decades

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Appendix I: Questionnaires to Sample Respondents

Interview Guide for Sample Respondents

Date the questionnaire filled out: _____

I. Personal Information

1. Name of respondent _____
2. Address: Region _____ Zone _____
Woreda _____ Kebele _____
3. Sex _____ Age _____ Marital Status _____ Family size _____
4. Educational Level _____
5. Major source of livelihood
 - a) Agriculture
 - b) Petty trade
 - c) Employment (private or government)
 - d) Other (please specify) _____
6. How many hectare of agricultural and grazing land do you own?
 - a) Agricultural production (rain fed) _____ ha
 - b) Irrigated land _____ ha
 - c) Grazing Land _____ ha
 - d) Landless _____
7. If you own irrigated land what does it produce
 - a) a) Onion, cabbage, carrot, etc.
 - b) b) Pepper
 - c) Other cash crops only
8. What is the main construction material of your house?
 - a) Wooden/stone and mud wall with grass roof
 - b) Wood and mud wall with corrugated iron sheet roofing
 - c) Don't have own house

9. How many cattle, shoats and other livestock assets do you currently own?
- a) Ox No Yes . Number_____
 - b) Cow No Yes Number_____
 - c) Sheep No Yes Number_____
 - d) Goat No Yes Number_____
 - e) Horse No Yes Number_____
 - f) Donkey No Yes . Number_____
 - g) Other Livestock: No Yes . Number_____
 - h) No Livestock
10. What is the trend of your income (wealth status) over the past three years?
- a) Increased/improved
 - b) Stay the same (no change)
 - c) Decreased
11. If the answer is “decreased” what are/is the main reason(s) (multiple responses are possible)
- a) Due to a decrease in the productivity of my land
 - b) Due to a decreased land size per family member (additional family member)
 - c) bankrupted due to credit indebtedness
 - d) natural disaster and crop damage
 - e) livestock death
 - f) Death of or poor health status of the bread winner in the family
12. If you have previous experience of taking loan from one or more of the following rural financial institutions, would you please mention the purpose and current status of its repayment?

Financial Institute	Purpose	Amount	Repayment Status (repaid/outstanding)
MFI			
Multipurpose Coops			
Agriculture Office			
Other-----			

II. Interview Questions

1. When did you join the RuSACCO? Month and Year (E.C.)

2. How did you join the RuSACCO?

- a) Approached and convinced by RuSACCO members or friends
- b) Approached and convinced by cooperative promoter or Development Agent
- c) Self-initiation
- d) (a) and (b)
- e) (a) and (c)

3. How far is the RuSACCO office from your home ((Approx. in Kilometer and number of hours to walk)? _____

4. What is the means of transport you use to go to the RuSACCO's office? _____

5. What is the level of your knowledge or awareness on the purpose and objectives of your RuSACCO?

- a) Good -as I attended the initial awareness raising sessions and introductory trainings provided by RuSACCO promoter
- b) Moderate- though attended pre-establishment awareness raising sessions and trainings, still lacked clear knowledge on the purpose and objectives of our RuSACCO
- c) Poor- rarely attended the introductory trainings and have no clear idea on the purpose and objectives of our RuSACCO
- d) Have no idea on the purpose and objectives a RuSACCO

6. How much did you contribute at the time of joining the RuSACCO?

- a) Share Capital Birr _____
- b) First Deposit _____
- c) Voluntary saving Birr _____
- d) Any other payment (please specify) Birr _____

7. Would you please tick mark the type of saving service that you are currently benefiting from your RuSACCO?

- a) Voluntary saving
- b) Compulsory saving
- c) Commitment saving
- d) Emergency saving
- e) Group saving

8. What type of adjustments you suggest on the existing types of saving products being provided by the RuSACCO?

- a) Diversify the type of savings (e.g. _____)
- b) Reduced the minimum amount of saving deposit per week or per month
- c) Increase the amount of saving deposit per week or per month
- d) Avoid the condition of compulsory saving deposit to borrow
- e) No need to change as it has already the types of services demanded by the community
- f) Have no idea/knowledge on other varieties of saving services to be provided by a RuSACCO

9. How often did the RuSACCO hold members meetings in a year?

- a) None
- b) One time
- c) two times
- d) More than three times

10. How often do you attend RuSACCO meetings?

- a) Regularly
- b) Sometimes
- c) Hardly ever

11. If your answer to question number 10 is b) or c), which of the following are your main reasons?
- I have got competing priorities more than attending a RuSACCO meeting
 - Initially I used to attend regularly but through time I reduced my attendance because of lack of interest and other priorities
 - I can't see the value of regularly attending the meetings as long as I send the regular saving expected of me
 - The RuSACCO office is far from where I live (more than 45 minutes walk) and difficult for me to regularly attend the meeting
 - I am not happy with the services that my RuSACCO is providing and don't want to go to their meeting
 - Other (specify)_____
12. Are you satisfied with the saving and credit services you are getting from the RuSACCO?
- yes
 - No
13. If your answer to the above question is "No", which of the following are your main reasons
- I have been waiting too long to get credit
 - The amount of loan I got (expected to get) is very low
 - I am not satisfied with the manner the RuSACCO is being managed and run by the management committee
 - I don't feel ownership as the RuSACCO lacked autonomy and democratic way of operation
14. Other than saving and credit services, what kind of social services are being undertaken at the time of RuSACCO meetings?
- Discuss and resolve social problems (such as resolving conflicts and supporting each other, discuss on gender, children and other socio-cultural issues, etc)
 - Discuss on local development issues (such as environmental rehabilitation, community resource management, health, sanitation and education issues, etc.)
 - We do a) and b) regularly as part of our regular agenda
 - We do a) and b) occasionally
 - No, our discussion often focus mainly on credit and saving related issues

15. What did motivate you to continue saving money at the RuSACCO? (Multiple responses possible)

- a) Just because I am a member
- b) Expecting that I will get credit service latter on
- c) With the intention to use the saved money later-on for critical purposes
- d) Because of social pressure that I become a member and continue saving at RuSACCO
- e) Other reasons _____

16. Have you ever borrowed from RuSACCO over the past three years?

- a) yes
- b) No

17. If your answer is yes, would you please tell us the time, purpose, amount and repayment status of the loan you have taken over the past three years?

Date (month and yr)	Purpose	Amount	Repayment Status (repaid/outstanding)

18. If you have previous experience of borrowing from the RuSACCO, which of the following types Collaterals applied for your loan? (multiple response is possible)

- a. Group guarantee
- b. Guarantee of individuals (personal guarantee).
- c. Compulsory saving deposit
- d. A combination of **a** and **b**
- e. A combination of **a** and **c**
- f. Other (specify) _____

19. If you have previous experience of borrowing from a RuSACCO, what was/were the criteria used by the management committee in determining the amount (size) of loan disbursed to you?

- a) No criteria has been used in determining the size of my loan as I got the total amount I requested to run my business
- b) I received the amount which was already pre-determined (approved) by the committee for a type of business that I was engaged on

- c) I just benefited from a fixed amount that every member of the RuSACCO is entitled to get when his/her turn approached, with no consideration of the type of business that I am engaged on
- d) The size of loan is often determined based on the availability of loanable fund at the RuSACCO's account and also based on the amount of saving deposit a borrower has in his/her account with no consideration of the type of business proposed
20. Do you think that the amount of a onetime loan allowed by RuSACCO is sufficient enough to run your planned/intended business? a) Yes b) most of the time no c)Not at all
21. Is the interest rate charged by the RuSACCO? A) High b) Moderate, c) Low
22. If you have been one of the borrowers from the RuSACCO, how is the change in the level of your income since you start borrowing from the RuSACCO?
- (a) Significantly Increased
 - (b) Fairly increased
 - (c) No change
 - (d) Borrowed recently and my business has yet to start generating income
 - (e) Decreased/bankrupted
23. How do you see the importance of loan conditionality set by RuSACCOs, such as compulsory saving and group collateral?
- (a) Both are Important as there is no better way to guarantee repayment of a loan
 - (b) Both still Important for RuSACOs but needs revision in terms of its size and type depending on liquidity of the business, capacity and loyalty of the borrower
 - (c) The compulsory saving shall be avoided, while group collateral can still be applied as collateral
 - (d) Both of them are not importance and they are limiting the rural poor's' opportunity to benefit from RuSACCO's credit
24. If you **never** borrowed money from RuSACCOs, why is that? (Multiple responses are possible)
- a) The RuSACCO has no enough credit fund and am still waiting for my turn
 - b) The purpose of the loan being provided by the RuSACCO does not fit my need/requirement
 - c) Loan size is too small
 - d) The repayment schedule and period is too short
 - e) The repayment time/cycle doesn't match my income flow

- f) The interest rate is too high
- g) The loan processing time and procedure is too long
- h) So far have no interest to take a loan

25. What is/are the negative feedback (s) or experience (s) and/or information you ever came across about the credit service being provided by RuSACCOs? (Multiple responses are possible).

- a) RUSACCO loans are not easily accessible
- b) RUSACCO loans are not adequate enough to start profitable business
- c) RUSACCO loans are not available on time/at the time of need
- d) RUSACCO loans lack varieties of loan products
- e) RUSACCO loans involve difficult terms and conditions
- f) Repayment period of RUSACCO loans is too short
- g) Repayment cycle of RUSACCO loans does not fit ones income flow
- h) Repeated loans or additional loan is not allowed without settling previous/outstanding loans
- i) Other (Specify) _____

26. How were the management committee members of your RuSACCO appointed?

- a) Democratically elected by the majority vote of members (general assembly)
- b) Self-selected (voluntarily appointed themselves to serve the community)
- c) Picked by the cooperative promoter and then presented them for community endorsement
- d) A combination of a) and c)
- e) A combination of all the above

27. What is your evaluation on the capacity of current committee members in terms of managing and running your RuSACCO?

- a) Strong
- b) Basic (moderate)
- c) Weak
- d) Very weak

28. If you think that members of the management committee lack management and leadership skills to effectively run the RuSACCO, what do you suggest as a solution? (multiple response is possible)

- a) Change the management committee as a whole and re-elect another committee
- b) Change and replace those members with low capacity

- c) Capacitate existing members with technical support as the possibility of getting persons with better capacity is limited among community members

29. How is the progress of your RuSACCO since its establishment?

- a) Shown significant improvement as membership has been increased over time and moderately addressing the credit demand of members
- b) Shown positive progress in terms of membership mobilization though still struggling with shortage of credit fund to adequately satisfy the huge credit demand existing in the rural area
- c) Shown moderate progress though still remains far behind the required level to address the huge financial service gap existing in the rural community
- d) Shown very slow progress both in terms of membership increment and capital accumulation for credit

30. What do you think is the future prospect of your RuSACCO, in terms of addressing the financial problem of its members and the rural poor community member at large?

- Bright- I strongly believe that the progress of our RuSACCO is on track and will become an effective and efficient rural financial service provider in the coming one or two years
- Moderate- I believe that its progress so far is commendable, though still needs time and external support to effectively and sustainably address the financial service demand of rural community members
- Dark- entangled with both internal and external constraints, such as: weak capacity of saving mobilization,, shortage of credit fund, deep rooted poverty situation, weak market transaction, etc.
- Unknown- not sure what the future holds for RuSACCOS in the area

31. Any additional information that you want to share with us with respect to the provision of financial services to you and other rural poor households in the area?

Appendix II: Key Informant Interview Guide

Interview Guide to Government Stakeholders at Woreda and Kebele levels

Date of interview: _____

I. Background Information

1. Region _____ Zone _____
2. Woreda _____ Kebele _____
3. Name of respondent _____
4. Organization: _____
5. Position in the Organization: _____

II. Interview Questions

1. Which of the following loan products are being commonly used by rural poor in the woreda? Please rank in the order of their communality as 1st, 2nd, etc.

Type of loan	Rank
a) Seasonal loans for cereal crops production	
b) Credit for cash crop production (oilseeds, pulses, spices)	
c) Horticulture production loans (Pepper, Onions, Cabbage, Carrot, etc.)	
d) Livestock rearing and fattening loans (oxen fattening, shoats rearing and fattening, etc.)	
e) Petty trade & handcraft making loans (pottery, cereal trading, local drinking, cart,	

2. Do you think that currently the woreda cooperative office is supporting RuSACCOs at the required level to the extent that they can achieve their social and business objectives effectively and sustainably?

Yes No

3. If your answer to number 1 is “No”, would you please rank the following presumed organizational constraints in the order of their severity (please rank 1st for the most severe constraint and largest rank for the least severe constraint; possible to give similar rank for multiple constraints).

Constraint	Rank
Limited Organizational Capacity (capacity to strategically lead financial service provider institutions)	
Limited financial capacity (operational budget constraint, limited budget allocated for RuSACCOs support, etc)	
Limited Human Resource capacity, both in terms of quality and quantity (promoters, auditors, saving and credit expert, etc)	
Limited logistical and transport facilities (vehicle, motorbike, office space, office furniture and equipment, IT facilities etc.)	
Constrained by all of the above factors though their impact may vary from RuSACCO to RuSACCO	
Other (Specify)	

4. Which of the following factors affect the performance of RuSACCOs operating in the woreda? Please rank their importance starting from 1st for the very important and the largest figure for the least important, also possible to give the same rank for multiple factors.

Factor	Rank
1. Limited organizational and management capacity: lack of clear vision, mission, goals and values, strategy and business plan, Limited capacity of management bodies, Lack of clear monitoring and evaluation framework, etc	
2. Limited Human Resource Capacity (quality and quantity): absence/shortage of professional managers, auditors, bookkeepers; limited leadership skills and knowledge of management bodies, etc	
3. Limited Financial Resources: Lack of loanable fund, Lack of capacity to mobilize large savings; and limited access to external financial resources (such as from MFIs and Banks)	
4. Shortage of Physical materials and logistical facilities: absence of or limited office space; shortage of office furniture and equipment; absence of or limited IT facilities; absence or shortage of transportation facilities, etc.	
5. Limited Service Delivery Capacity: limited capacity:to do adequate awareness raising campaigns; to create demand for credit/saving among members; to support for business analysis and planning in the community; to provide training and technical support to borrowers, etc.	

5. What is the extent of involvement of rural households in the formation of RuSACCOs?
 - a) Majority of them are proactive and enthusiastically involve throughout the process
 - b) Sometimes most of them lack own initiation unless there is a strong push from the government side through Coops promoters or DAs
 - c) In most cases most of them observed to have lacked interest to join RuSACCO membership

6. What do you think is/are the major reason(s) for RuSACCOs incapability to mobilize large savingresources from existing members? (multiple response is possible)
 - (a) Poor economic status of members, which resulted lack of excess money to save at a RuSACCO
 - (b) lack of awareness and understanding on the benefit of saving

- (c) Absence or shortage of alternative saving product required by members
 - (d) Majority of the community members still prefer to save in the form of asset rather than in cash at a RuSACCO
 - (e) Other reasons (specify) _____
7. Which of the following factors you consider as the limitations of saving products being offered by RuSACCOs in the woreda? (please tick mark (√) the relevant option)
- a) Limited alternative saving products/varieties
 - b) Restricted accessibility for withdrawal
 - c) Imposition of compulsory savings
 - d) Imposition of minimum ceiling of saving amount
 - e) All of the above
8. How do you see the current dropout rate of RuSACCO membership?
- (a) High (b) Medium (c) Low
9. If your answer to question number 8 is “High”, what do you think are the major reasons? (multiple responses are possible)
- a. looking for better service provider
 - b. Couldn't be satisfied with the current services being provided by the RuSACCO
 - c. Frustrated with long waiting to get credit from the RuSACCO
 - d. Not able to afford the amount of regular saving deposit expected of them (mainly because of deteriorated economic status)
 - e. Disagreement with or disliking some of the committee members of a RuSACCO
 - f. darken view on RuSACCO's future growth and giving up hope to get better service
10. How do you see the importance of loan conditionality set by RuSACCOs, such as compulsory saving and group collateral?
- (e) Both are Important as there is no better way to guarantee repayment of a loan
 - (f) Both still Important for RuSACCOs but needs revision in terms of its size and type depending on liquidity of the business, capacity and loyalty of the borrower

- (g) The compulsory saving shall be avoided, while group collateral can still be applied as a collateral
- (h) Both of them are not important and they are limiting the rural poor's opportunity to benefit from RuSACCO's credit

11. Why do you think some poor rural households fail to pay their loan back? (Multiple responses are possible)

- (a) Attitudinal problem (thinking that their loan will be written off sometimes in future)
- (b) Ignorance and reluctance (irresponsible to abide with their contractual obligation)
- (c) Bankruptcy (failure of the business):- this could happen: due to diversion of the loan for unintended purpose; death of livestock bought by the loan; damage of crops, death of a bread winner in the family; or economic crises as a result of human or natural disaster
- (d) Lack of follow-up by the creditor (RuSACCO or MFI or Cooperative Office)

12. What are the most common risks that affect the livelihood of poor rural households in the woeda?

- i) Natural and Environmental Risks such as: drought, flood, erratic rainfall pattern, hey, etc.
- ii) Economic Risks such as: market failure, price fluctuations, indebtedness, etc.
- iii) Health Risks such as: outbreak of epidemic, malaria, high rate of HIV/AIDS, etc.
- iv) Other Risks (specify)_____

13. How do you evaluate the readiness of RuSACCOs to manage new financial products demanded by CFI households?

- (i) Most of them (> 75%) are ready to diversify their financial service products even in their present status without additional support
- (ii) Most of them will not be ready by themselves in near future (in the coming two/three years) to diversify and introduce additional financial products
- (iii) Most of them will be ready in the coming two/three years if they get adequate external support
- (iv) Most of them will not be ready in near future (in the coming five years), even with external support, as they may need more than five years to be mature enough to diversify their business

14. Which category of external support you think are a priority for RuSACCOs functioning in the woreda, so that they can effectively and sustainably serve the rural community? Would you please rank the following in order of their importance; the same rank can be given to multiple options

<u>Type of External support</u>	<u>Rank</u>
(a) Material and logistical support (physical capacity support)	_____
(b) Technical support (skill and management trainings)	_____
(c) Leveraging Human Resource capacity gap (bookkeeper, accountant, etc)	_____
(d) Facilitating their linkage with MFIs and VSLAs	_____
(e) Regulatory and policy support (facilitating the enabling environment)	_____

15. What do you think are the opportunities available that RuSACCOs can take advantage for their future growth and sustenance? (multiple response is possible)

- a) Existence of appropriate policy and regulatory environment
- b) Availability of external support (donors and NGOs)
- c) Availability of business opportunities and market infrastructure in rural areas
- d) Existence of material and technical support being provided through government channel
- e) Existence of political commitment

16. What kinds of adjustments or refinements do you suggest to existing loan products or services being provided by RuSACCOs to meet the needs of poor rural households while ensuring their sustainability? (multiple response is possible)

- a. Increase the loan size depending on the type and nature of the business
- b. Increase the current interest rate being charged by RuSACCOs
- c. Introduce flexible terms of loan and repayment schedule depending on the type and nature of business
- d. Flexible on collateral requirement depending on the feasibility of the business
- e. Other (specify)_____

17. What is your rating on the management and leadership quality of committee members in the majority (greater than 75%) of the RuSACCOs currently operating in the woreda?

- a) Marginal (very weak and needs significant support)
- b) Basic (somehow weak but can be improved with some external support)
- c) Moderate (encouraging but still need some external support)
- d) Good (majority of them are being run by strong management committee)

18. If you think that members of the management committee lack management and leadership quality to help grow and to effectively run their RuSACCO, what is your suggestion as a solution? (multiple response is possible)

- a) Strengthening the technical, leadership and managerial skills of exiting members
- b) Majority of the committee members need to be changed and replaced by new ones
- c) Only few of them shall be replaced and the rest can be up-graded
- d) Revising Improving the current governance system of RuSACCOs as a whole (of the way they are being managed and led) could be a better solution

19. How do you see the progress of majority of the RuSACCOs operating in the woreda (majority refers to more than 80% of them)?

- e) Shown significant improvement as significant number of members (more than 150 members/RuSACCO) are benefiting as membership
- f) Shown positive progress in terms of membership mobilization (100-150 members) though still struggling with shortage of credit fund commensurate with the huge credit demand observed in the rural area
- g) Shown moderate progress though still remain far behind the required level to address the huge financial service gap existing among rural community members
- h) Shown very slow progress both in terms of membership increment and capital accumulation for credit

20. How significant is the role of RuSACCOs addressing the credit demand of rural poor?

- a) Highly significant
- b) Somewhat significant
- c) Not significant

21. To what extent do you think members have faith and confidence in their RuSACCO?

- a) Majorities (>75%) have strong belief and confidence
- b) Majorities have some extent of belief and confidence

- c) Majorities have hardly any belief and confidence
- d) Majorities have indifference view on their RuSACCO

22. Based on your experience so far, what do you think is the average percentage of attendance of members in RuSACCOs' General assembly meetings?

- a) Less than 30%
- b) 31-50%
- c) 51-70%
- d) 71-100%

23. To what extent RuSACCOs are autonomous and functioning democratically?

- a) Based on the overall context of their working environment, it can be said that they are autonomous and democratic
- b) It can be said that to some degree they are autonomous and functioning in a democratic way
- c) Presently they are enjoying just minimal autonomy and democracy
- d) Hardly ever enjoyed autonomous status and democratic functioning mainly because of their high dependence on government and external support

24. What do you think is the future prospect of RuSACCOs, in terms of addressing the financial Problems of its members and the rural poor community member at large?

- Bright- I strongly believe that the progress of RuSACCO is on truck and they will soon become effective and efficient rural financial service providers in the coming few years
- Moderate- I believe that their progress so far is commendable, though still need time and external support to effectively and sustainably address the financial service demand of rural community members
- Dark- RuSACCOs are struggling with both internal and external challenges, such as: weak capacity of saving mobilization,, shortage of credit fund, deep rooted poverty situation, weak market transaction, etc.
- Unknown- not sure what the future holds for RuSACCOsin the area

25. Any additional information that you want to share with us with respect to the provision of financial services through RuSACCOs?

Appendix III: Check lists of Focus group Discussions

CHRONICALLY FOOD INSECURE HOUSEHOLDS FOCUS GROUP DISCUSSION (FGD)

I. FGD PROTOCOL

THE RESEARCHER WILL BE GUIDED BY THE FOLLOWING PRINCIPLES AND PROCEDURES WHILE CONDUCTING THIS FOCUS GROUP DISCUSSION:

1. Explaining what the purpose of the focus group is and assure all participants that personal data will be kept confidential:
 - Introduction and explaining the purpose of gathering information and how it will be used;
 - Explaining the process to be followed, what is expected of participants, including length of discussion;
 - Informing that participation is voluntary where a participant has the right to provide his/her view on a particular question.
2. Explaining the ground rules that FGD participants should abide to:
 - The need to respect for different views, privacy of information, no wrong answers, one person speak at a time, everyone has the right to speak without being interrupted
3. Asking each participant to introduce himself or herself and making sure that each participant group fills out the FGD Participant Profiling Form
4. Encourage discussants to freely express their view and provide their suggestions
5. Confirm and register the common position of participants, as a group, for those questions with multiple choice and for those which need ranking or evaluation of factors listed out under the question,
6. Making sure that the discussion ends on time, lasts anywhere between 45 minutes -1hr
7. And finally, writing the FGD report immediately after the discussion

II. FGD PARTICIPANT PROFILING FORM

1. Name -----
2. Sex: _____
3. Age: _____
4. Education: _____
5. Marital Status _____
6. Woreda _____ Kebele _____
7. Name of RuSACCO (if he/he is a member) _____

III. FGG Guiding Questions/checklists

1. What are the major sources of livelihood and source of income for the majority of rural households in this Kebele?

2. What kinds of agricultural products do poor rural households often produce in the kebele?

3. What does the saving culture/tradition of community members look like?

- a) Strong habit of saving
- b) Moderate habit of saving
- c) No awareness on the importance of saving
- d) Dominated with a culture of high spending than saving

4. What are the major constraints that community members are facing to save their money at RuSACCOs?

5. Which of the following factors influence your decision to approach a financial institution to get saving service? Please rank their importance for your decision starting from 1st for the very important and the larger figure for the least important.

Factor	Rank
6. Distance/Proximity to the service provider	
7. Security/trustworthiness of the service provider	
8. Amount set as a minimum Opening Deposit	
9. Chance of getting credit in near future	
10. Size of Interest rate on Deposits	
11. Others (please specify and rank)	

6. If you and other community members are in need of credit services, where do most of you go as your preference?
- a. RuSACCOs
 - b. MFIs
 - c. VSLAs
 - d. Local Moneylenders
7. Other than saving and credit services, which of the following social issues discussed at the time of RuSACOO meetings?
- a) Discuss and resolve social problems (such as resolving conflicts and supporting each other, discuss on gender issues, children and other socio-cultural issues, etc.)
 - b) Discuss on local development issues (such as environmental rehabilitation, community resource management, health, sanitation and education issues, etc.)
 - c) We do both a and b regularly
 - d) We do both a) and b) occasionally, but not considered in our regular agenda
 - e) No we only focus on credit and saving related discussions

8. What among the following motivate people to join RuSACCOs?
- The level of trust and sense of ownership that one has on a RuSSACO
 - Proximity to the RuSACCO office
 - Peer pressure and togetherness that one would enjoy being a member of RuSACCO
 - Easy access to credit and the level of flexibility to withdraw from his/her saving deposit
9. What factors hinder rural poor from joining RuSACCO?
- Lack of awareness and ignorance
 - Economic problems (not able to save regularly)
 - Lack of belief and confidence on a RuSACCO
 - No bottleneck that can hinder anyone from joining a RuSACCO
10. How do you evaluate the extent of technical and material support that RuSACCOs are getting from the government office?
- Adequate
 - Less adequate and inconsistent
 - Very minimal support
11. How is it possible to attract more rural poor households to join RuSACCOs?
-
-
12. Why do you think some poor rural households fail to pay their loan back? (rank from the most common 1st and the most rear case as the last rank)

Factor	Rank
1. Poor management of the loan (or business)	
1. Diversion of the loan from its original purpose	
2. Attitudinal problem/thinking that the creditor will write-off the loan	
3. Livestock death	
4. Crop failure	
5. Others (please specify and rank)	

13. What are the most common natural or environmental risks that affect the livelihood of poor rural households in the area?

Factor	Rank
1. Drought and /or erratic rainfall	
2. Flood and hey	
3. Crop pest/disease	
4. Livestock death	
5. Others (please specify and rank)	

14. What kind of collateral is being requested by RuSACCO for borrowers?

- g. Group guarantee
- h. Guarantee of individuals (personal guarantee).
- i. Compulsory saving deposit
- j. A combination of **a** and **b**
- k. A combination of **a** and **c**
- l. Other (specify) _____

15. How do you see the importance of loan conditionality set by RuSACCOs, such as compulsory saving and group collateral?

- (i) Both are Important as there is no better way to guarantee repayment of a loan
- (j) Both still Important for RuSACOs but needs revision in terms of its size and type depending on liquidity of the business, capacity and loyalty of the borrower
- (k) The compulsory saving shall be avoided, while group collateral can still be applied as collateral
- (l) Both of them are not importance and they are limiting the rural poor's' opportunity to benefit from RuSACCO's credit

16. What is/are the negative feedback (s) or experience (s) and/or information you ever came across about the credit service being provided by RuSACCOs? (Multiple responses are possible).

- j) RUSACCO loans are not easily accessible
- k) RUSACCO loans are not adequate enough to start profitable business

- l) RUSACCO loans are not available on time/at the time of need
- m) RUSACCO loans lack varieties of loan products
- n) RUSACCO loans involve difficult terms and conditions
- o) Repayment period of RUSACCO loans is too short
- p) Repayment cycle of RUSACCO loans does not fit ones income flow
- q) Repeated loans or additional loan is not allowed without settling previous/outstanding loans
- r) Other (Specify) _____

17. How do you see the current dropout rate of RuSACCO membership?

- a. High
- b. Medium
- c. Low

18. If your answer to question number 17 is “High, what do you think are the major reasons?

19. How were the management committee members of RuSACCO appointed?

- a) Democratically elected by the majority vote of members (general assembly)
- b) Self-selected (voluntarily appointed themselves to serve the community)
- c) Picked by the cooperative promoter and then presented them for community endorsement
- d) A combination of a) and c)
- e) A combination of all the above, depending on the situation

20. What are the criteria used by RuSACCO management committee in determining the amount (size) of loan to be disbursed for a potential borrower?

- a) No criteria is being used in determining the size of loan as the person will get the total amount he/she requested so long as his/her business is bankable
- b) The size of loan is determined by the committee for different types of businesses as it comes for approval
- c) The size of loan is predetermined the same amount across the board so that members will benefit equally whatever type business a person is going to start

d) The size of loan is often determined based on the availability of loanable fund at the RuSACCO's account and the amount of saving deposit a borrower has in his/her account

21. What kind of external support (such as from donors and NGOs) do you propose for RuSACCOs to be able to serve the community at large and their members in particular effectively and sustainably?

22. What is your evaluation on the capacity of current committee members in terms of managing and running your RuSACCO?

- a) Strong
- b) Basic (moderate)
- c) Weak
- d) Very weak

23. If you think that members of the management committee lack management and leadership skills to effectively run the RuSACCO, what do you suggest as a solution?

- a) Change the management committee as a whole and re-elect another committee
- b) Change and replace those members with low capacity
- c) Capacitate existing members with technical support as the possibility of getting persons with better capacity is limited among community members

24. How is the progress of RuSACCOs these days since they start operating in the area?

- a) Shown significant improvement as significant number of members are benefiting from their saving and credit services
- b) Shown positive progress in terms of membership mobilization though still struggling with shortage of credit fund which could commensurate with the huge credit demand prevailed in the rural area
- c) Shown moderate progress though still remains far behind the required level to address the huge financial service gap existing in the rural community

d) Shown very slow progress both in terms of membership increment and capital accumulation for credit

25. What do you think is the future prospect of your RuSACCO, in terms of addressing the financial problem of its members and the rural poor community member at large?

- a) **Bright**- we strongly believe that the progress of our RuSACCO is on track and will become an effective and efficient rural financial service provider in the coming one or two years
- b) **Moderate**- we believe that its progress so far is commendable, though still needs time and external support to effectively and sustainably address the financial service demand of rural community members
- c) **Dark**- entangled with both internal and external constraints, such as: weak capacity of saving mobilization,, shortage of credit fund, deep rooted poverty situation, weak market transaction, etc.
- d) **Unknown**- not sure what the future holds for RuSACCOs in the area

Appendix IV: Thesis Proposal Approval Sheet

PROFORMA FOR SUBMISSION OF M.A. (RD) PROPOSAL FOR APPROVAL

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DATE OF SUBMISSION : AUGUST, 2015

NAME OF STUDY CENTURE : ST. MARRY UNIVERSITY
: ADDIS ABABA, ETHIOPIA

TITLE OF THE PROJECT : PROBLEMS AND PROSPECTS OF RURAL SAVING
AND CREDIT COOPERATVES (RuSACCOs) IN THE
CONTEXT OF CHRONICALLY FOOD INSECUR
AREAS: THE CASE OF MESKAN DISTRICT,
GURAGE
ZONE, SOUTHERN NATIONS, NATIONALITIES
AND
PEOPLE REGION (SNNPR)

SIGNATURE OF THE STUDENT:

APPROVED/NOT APPROVED:..... DATE:

Appendix V: Approved Thesis Proposal

**PROBLEMS AND PROSPECTS OF RURAL SAVING AND CREDIT
COOPERATVES (RuSACCOs) IN THE CONTEXT OF CHRONICAL
FOOD INSECUR AREAS: THE CASE OF MESKAN DISTRICT,
GURAGE ZONE, SOUTHERN NATIONS, NATIONALITIES AND
PEOPLE REGION (SNNPR)**

**A THESIS PROPOSAL SUBMITTED TO INDIRA GANDHI NATIONAL
OPEN UNIVERISITY /IGNOU/ IN PARTIAL FULFILAMENT OF THE
REQUIREMENT FOR MASTER OF ARTS IN RURAL DEVELOPMENT
(M.A. (RD))**

**BY
AHMED MOHAMMED ALI**

August, 2015

ENROLMENT NO: ID 1216820

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I. Introduction

Chronic food insecurity is the defining feature of significant portion of rural Ethiopia. Different studies showed that more than 50% of rural districts/woredas¹ in Ethiopia are vulnerable to drought and food insecurity (MoA, 2014). Sever land degradation due to soil erosion and deforestation, the shrinking of land holding size per household, erratic and unreliable rainfall, low agricultural production and productivity, high population pressure, poor infrastructure development and lack of appropriate farming techniques are the major causes and characteristics of these food insecure areas (MoA, 2010).

Chronically Food Insecure (CFI) households are characterized by: small-size land ownership; predominantly agriculture based livelihoods; and without or limited access to financial services. They also own either very few or no livestock asset and small or no primary food stock for emergency purposes. Majority of these households are lack capability to fulfil primary necessities such as food, clothing, and housing. Moreover, they are characterized by low economic to access to other basic needs such as health, education, better sanitation, clean water, and transportation services; weak capacity for wealth accumulation; and high vulnerability to individual and mass external shocks like draught and flooding.

The Government of Ethiopia and its Development Partners (DPs), have considered food security as one of their development priority agendas and are investing a lot of resources to address the root causes of chronic and transitory food insecurity problems in the country. To this effect, enormous resources were mobilized and various programmes have been implemented since 2005 throughout the country to help the nation break-out of the widespread suffering caused by food insecurity problems.

The development of appropriate and alternative financial service products for CFI households was identified as an important initial step to address the challenges of food insecurity and rural poverty. These financial services are expected to be provided by a service provider best positioned (in terms of coverage and product offering) to deliver the required service product (R. K. Todd and Wolday Amha, 2011). In this regard, the Rural Savings and Credit

¹ The local term “woreda” means “District” and the two terms are use alternatively across all sections of the document

Cooperatives (RuSACCOs) are believed to be appropriate grass root level financial institutions that are suited to serve CFI households.

Brief Description of Rural Saving and Credit Cooperatives (RuSACCOs) in Ethiopia

RuSACCOs are community based, member owned, and self-reliant financial intermediaries in the rural areas (Federal Negarit Gazeta, 1998). In the current context of Ethiopia, most of them are being established at kebele level. Their basic role, as financial institution, is mobilization of savings from members and returning the savings to members in the form of loans. Their main difference from conventional banks and Micro Finance Institutions (MFIs) is that RuSACCOs are owned, controlled and financed by their members. Particularly, in the context of Chronically Food Insecure (CFI) areas of Ethiopia, RuSACCOs are being considered as appropriate instruments to provide financial services to disadvantaged groups such as *chronically food insecure households*. Their appropriateness could be explained by their proximity to the rural community, their simple procedures and low transaction costs (World Bank, 2007).

RuSACCOs are governed by Federal Cooperative Society Proclamation No.147/98, amendment Proclamation No.402/2003, Council of Ministers Regulation No.106/2003, Cooperative Society Proclamation of the region, and Directives issued at the federal and regional levels. In addition to the above proclamations, regulations and directives issued by different government bodies, each RuSACCO has its own bylaw developed with the assistance of woreda and kebele administrations. The bylaw is, of course, developed in line with the legal and policy framework of cooperatives. In the past five years, significant numbers of RuSACCOs have been established in rural Ethiopia through government support, donors' financial assistance and NGOs' technical support.

The Status of RuSACCOs in Chronically Food Insecure (CFI) Woredas²

In CFI areas, RuSACCOs are being considered the major players, next to MFIs, in financial service provision to rural households. In few Woredas of the country, more often in NGOs areas, grass root financial service providers such as, the Voluntary Saving and Lending Associations (VSLAs) are also providing related services in a very limited scale. According to

²CFI woredas/districts in this study refers to those woredas found in the four big regions of the country: Amhara, Oromia, Tigray and SNNPR

the Federal Cooperative Agency (FCA) annual report (FCA, Ethiopian Fiscal Year- EFY-2005) a total of 4,132 RuSACCOs exist in CFI woredas of Amhara, Oromia, SNNPR and Tigray regions.

In terms of membership, RuSACCOs' coverage in the CFI woredas is just about 10% of the working age group of the rural households (HEDBEZ Consulting PLC, 2012). The total number of members of RuSACCOs in the CFI woredas is estimated at 530,849 members, of whom 192,926 (36%) are women (FCA EFY 2005). It was reported that most of these RuSACCOs are established in the past five years; which means, the development of RuSACCOs in CFI areas is at its infant stage. The implication here is that newly established RuSACCOs have relatively lower capacity to deliver the envisaged financial services to their members.

II. Statement of the Problem

The Mission, Vision and Organizational Objectives of RuSACCOs

According to The GoE's Proclamations on Cooperatives and FCA's Directives (Federal Negarit Gazeta, 1998 and ICOS Consulting PLC, 2012), the RuSACCOs' vision and mission revolves around poverty eradication. The vision and mission statement of a RuSACCO, developed in a participatory manner by the members, is included in the bylaws and/or strategic plans of the cooperative. The main objectives of RuSACCOs include: mobilization of savings from members and lending the money out (providing loan) for its members and other RuSACCOs; create investment capacity to members and others and develop saving culture within the members and others.

The organizational values of RuSACCOs stated that a RuSACCO should be: (i) technically and financially sufficient, (ii) bearing own responsibilities, (iii) democratic in the course of operation, (iv) impartiality, and (v) integrity. Organizational values were expressed in terms of embedding social element for example in terms of special treatment for the poor and the extent to which these values are shared among the members of the RuSACCOs.

In principle, RuSACCOs are free to decide on their operating procedures, credit and savings products, and lending interest rates with due attention to financial and operational sustainability under the rules and procedures that is set by Federal Cooperative Agency and

Regions' Cooperative Promotion Bureaus. Even if they are involved in financial intermediation, RuSACCOs are not under the supervision and regulation of the National Bank of Ethiopia. They are rather under the supervision and support of Federal Cooperative Agency (FCA) and its line offices at regional and woreda levels. Based on the restated mandate in Proclamation No.106/2004, the Federal Co-operative Authority (FCA), established in 2002, has been playing a supportive role for the promotion and development of cooperatives.

The Performance Trend of RuSACCOs in CFI Areas

As per the proclamation No. 147/1998, RuSACCOs are expected to play active role in bringing about broad-based development and poverty alleviation. However, this proclamation has failed to recognize RuSACCOs as formal financial institutions even though they were allowed to accept deposits and grant loans. As a matter of this fact, RuSACCOs are not subjected to the regulation and supervision by the National Bank of Ethiopia (NBE) that other formal financial intermediaries are subjected to.

Various studies revealed that the performance of RuSACCOs in CFI, such as in saving mobilization and provision of credit, is being affected by a lot of constraints, which are reported to be both internal and external factors (R.K Todd and Wolday, 2011). Most of the RuSACCOs in CFI areas are characterized with limited capacity of saving mobilization and credit provision demanded by the rural communities. In most cases, the interest rate set for RuSACCOs loans is not business oriented, and is not covering their operation costs, let alone generating additional profit. Due to shortage of capital, the loan size is also reported to be very small to make a viable business. The menu of financial service products being availed by RuSACCOs contains few options as it is often limited to saving in cash and financial credit (Aregawi and Deribe, 2013). Because of the above mentioned and other constraints, significant numbers of RuSACCOs existing in the CFI areas have not been able to provide adequate and proper financial services to their members.

According to the study conducted on the capacity gap of financial service providers operating in CFI areas (HEDBAZ Business and Consultancy PLC, 2012), the outreach of RuSACCOs in the CFI Woredas is limited, as 25% of CFI Woredas and 48% of CFI kebeles yet to have RuSACCOs. Even for those kebeles in which RuSACCOs started operation, they are being constrained by physical, financial and human capacity limitations.

There seems strong belief both by the Government of Ethiopia and among development partners that RuSACCOs can play significant developmental roles and poverty reduction impacts through improving income generation, smoothening consumption and reducing vulnerability to shocks of their beneficiaries. Cognizant of this fact, much research has not been conducted on their potential and feasibility in a business environment characterized with limited natural endowment, poor physical and market infrastructure, and in a rural settings whereby predominantly populated by food insecure households. Different evaluation studies and researches indicated that specific problems associated with the functioning of RuSACCOs and their future prospects, in the context of CFI areas, require further investigation (Kifle and Hailemichael, 2013). Unfortunately, little empirical evidence has been generated so far in this regard. For RuSACCOs to perform, grow and achieve sustainability, while at the same time prove to be the instruments of development and poverty alleviation endeavor in a CFI business environment, there is a need to address operational, environmental and institutional problems that they are being entangled with.

III. Objectives of the study

The Purpose and Objectives of the Study

The main purpose of this thesis research is to examine the status of RuSACCOs registered and operating in one of the CFI woredas of Ethiopia pertaining to their visions, missions and objectives stipulated in relevant policy and regulatory directives issued by government and stated in their by-laws.

Specific Objectives of the thesis research are:

- 4) To examine the socio-economic problems affecting the performance of RuSACCOs operating in Meskan woreda
- 5) To investigate natural, institutional and policy related factors impeding the effectiveness and determining the prospects of RuSACCOs operating in the research woreda
- 6) To identify opportunities and recommend strategies for policy makers and other stakeholders on how to enhance the role and optimize the potential contribution of RuSACCOs to poverty reduction

Main Research Questions:

The study will answer the following research questions:

- How are RuSACCOs functioning in Meskan woreda vis-a-vise their vision, mission and objectives envisaged to achieve?
- What are the internal and external constraints of RUSACCOs to effectively and sustainably provide adequate and appropriate financial services to members?
- What are the perceptions and prospects of members towards their RuSACCO?
- What kind of external support is required for RuSACCOs to be effective and sustainably serve their members in the CFI context?

Scope& Limitations of the Study

The results of this study will provide useful information to policy makers in the government office, development partners (donors and NGOs) and field level implementers who are engaged in the promotion and development of RuSACCOs. The findings and recommendations of the study could be used by stakeholders to guide their interventions pertinent to RuSACCOs support in CFI areas, so that these financial institutions can play significant role in addressing food insecurity and contributing to the reduction of rural poverty in general.

The study has limitations of coverage of area and population, due to the obvious constraints of time and resource. Hence, this research is by no means exhaustive and representative, as it is a piece of effort to identify realities regarding problems and prospects of RuSACCOs operating in all CFI woredas of a huge country like Ethiopia. It is also important to note that the country is diversified in agro-ecological, ethnicity, socio-economic, cultural and institutional environment and the study being location specific in nature, its results could not be generalized.

IV. Hypothesis

The hypothesis is that the performance of RuSACCOs in CFI woredas is being affected by factors specific to the socio-economic features of the area. As a result, the subsequent hypothesis is that the prospects of RuSACCOs in the context of CFI areas are yet to be clarified.

V. Universe of the Study

Ethiopia is one of the big countries in Africa, with area coverage of 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 (northern) Mountains. With an estimated population of more than 90 million, Ethiopia is the second populous country in Africa, next to Nigeria. Currently approximately 85% of Ethiopians live in rural areas. The Southern Nations Nationalities and People Region (SNNPR) is the third populous region (20%), next to Oromia (35%) and Amhara (26%) (Tufa, 2008)

The Socio-economic Characteristics of Meskan Woreda

Meskan woreda is one of the seventy nine woredas of SNNPR, categorized as Chronically Food Insecure (CFI) woredas. Located in Gurage zone, the administrative center of the woreda is called Butajira town, located at 132 km away from Addis Ababa. The district has total land area coverage of 54100 hectares and total population of 232,053, among which 116,129 are male, and the rest 115,924 are female. The woreda has forty rural kebeles (the lower level of administrative unit) and two medium urban towns (Tufa, 2008).

Meskan woreda is known by its famous Mareko Fana red pepper production in the country. Maize and Enset (false banana) are the main food crops. Moreover, farmers are growing vegetables using seasonal rainfall and traditional irrigation system during dry season. Rural households are highly dependent on pepper and chat production for their household income. In terms of ethnic mix, Meskan, Dobbee, Sodo and Silte tribes are the major ethnic groups living in the woreda. The Meskan tribe is the dominant one followed by Dobbee.

There are three religions existing in the woreda; namely, Muslim, Orthodox Christian and Protestant Christian. The Muslim religion is the dominant one as compared to the others. The society is male dominated and patriarchal system. Though the people living in the woreda are hardworking and business oriented, they are being suffering from food insecurity problems.

VI. Sampling

Selection of Sample RUSSACOs and Individuals

For the purpose of this thesis research, multi-stage sampling procedure was employed to select the sample. First Meskan woreda was selected purposively from SNNPR, Gurage Zone, as it is one of the CFI woredas in the region. At the second stage, discussing with woreda cooperative desk and Netsanet Fana RuSACCOs union manager, all 39 RuSACCOs of the woreda were stratified into three categories i.e. weak, medium and high performing RuSACCOs. Next, four RuSACCOs were selected randomly for the study purpose, one each from the weak and high performing categories and two from the medium performing category. This categorization of sample RuSACCOs was made just to get a broader perspective in regard to problems that majority of the RuSACCOs in CFI areas are encountering and to identify relevant opportunity areas that can enhance the future role and sustenance of RuSACCOs in CFI context.

Up on identifying four sample RuSACCOs, the lists of member farmers were collected. Finally, a proportional sample of 20 households was selected from each RuSACCO for interviews. Management committee members of sample RuSACCOs were included in the FGD sessions.

VII. Data Collection: Tools and Procedures

The data needed for the research will be collected from primary and secondary sources. The tools used to collect data include: review of existing documents, beneficiary interviews, Focus Group Discussions (FGDs), key informants interviews, discussion with key stakeholders, meetings with beneficiary communities and program implementers, and field observations. .

Data collection tools:

- ***Performance and capacity data collection format:*** Relevant background and performance information obtained from the RuSACCOs and their union, and Woreda Cooperative Desk will be collected using structured format prepared for the purpose. In addition to the 4 sample RuSACCOs visited for data collection, data on the current profile and status of all RuSACCOs registered and operating in the woreda will be collected. This includes year of establishment, size of membership disaggregated by

sex, and size of capital. The status on the loan disbursement and saving mobilized by sample RUSACCOs will also be collected and analyzed.

- ***Focus Group Discussions (FGDs)***: FGDs will be conducted with selected beneficiary communities of sample RuSACCOs including members of management committee. The purpose of FGDs is to get qualitative firsthand information from beneficiary communities that can be triangulated with information gathered through interview of sample respondents.
- ***Key Informant Interviews (KIIs) and Meetings***: KIIs will be conducted with key government stakeholders at Woreda level. The discussions will be guided using checklist/interview guide developed for this purpose.
- ***Interviews with beneficiaries of RuSACCOs***: The main purpose of this interview is to examine their experience as a member of the RuSACCO, to investigate on the appropriateness and adequacy of financial services being provided to members, and to assess constraints of RuSACCOs to meet the financial service needs of the community in the area.
- **Review of literature**: The secondary sources of data include: reviews of relevant policy documents, directives, guidelines, by-laws, design and evaluation reports, best practices documented locally and internationally. It also includes review of implementation documents of Joint Government-donors initiatives in related subject matter.

VIII. Data Analysis/Data Processing

Data analysis

The data generated using different tools will be triangulated and analyzed using appropriate tools. Descriptive statistics such as frequencies, means and ratios will be used to present the findings in tabular or graphic forms. Data collected from the sample 4 RuSACCOs visited by the researcher and the profile of all RuSACCOs in the Woreda will be used to extrapolate the problems of RuSACCOs in the woreda.

IX. Chapter Plan/Chapterization

The Thesis research consists of six chapters. The first chapter deals with the background, statement of the problem, objectives, significant of the study and scope and limitations of the study. Chapter two reviews literature related to the research topic. Methodological issues including description of the study area are presented in chapter three. The fourth chapter presented the results of the study and their interpretation. The fifth chapter summarizes recommendations of the thesis research. The final chapter summarizes and concludes the main points of the study.

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Appendix VI: Advisor's Curriculum Vitae

Curriculum vitae

Bio data

Name: Mulugeta Taye

Nationality: Ethiopian

Sex and Marital Status: Male and Married

Address

Addis Ababa, Zone/subcity: Nefasilk/Lafto – Woreda 01

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Mobile: 0911-345728

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Expertise

environment ,rural development, coffee, tea, vegetables, fruits and spices production and marketing, tuber and root crops, seed production, home gardening, post harvest handling, seed system, food systems, honey production and marketing, biodiversity, food security and livelihood,

Education

a. PhD degree in Ecology and Resource Conservation, Wageningen University, the Netherlands

b. Master of science degree in Agriculture (Horticulture), Alemaya University of Agriculture

c. Bachelor of science degree in Agriculture (Plant science), Addis Ababa University: Alemaya College of Agriculture, Ethiopia

Academic rank

PhD, Associate Professor

Trainings (diploma, certificate)

- Horticulture production, processing and protection technology
- Participatory Rural appraisal (PRA) Training (FARM AFRICA-

Ethiopia),

- Championship for change leadership training on food security, Kenya (Nairobi), (organizers: USAID and CAADP)
- International potato course: production, storage and seed technology , the Netherlands,
- Recent development in potato technology for rural development in sub-Saharan Africa ,
- Action research programme on the improvement of peeper production SOS-Sahel
- Applying Innovation System Concept in Agricultural Research for Development (Haramaya University)

Employment and related experience

- Educator and Researcher at Hawassa University, College of Agriculture (over 25 years), St Mary's University and Hope College of Business, Science and Technology (over four years)

Academic experience

- Thought several courses on production, processing and marketing of vegetable crops, temperate and tropical fruit crops, root and tuber crops, coffee and tea, spices and herbs, research methodology, post harvest handling, seeds and seed production, landscaping, environment, rural development, food security, livelihood and rural development

Thesis research advising

- Advising over two hundred master students on development, food security, livelihood, microfinance, irrigation, cooperative, honey production and marketing, production, processing, quality and marketing of vegetables, tropical and temperate fruit crops, coffee, tea and spices; cassava production and cyanide, at Hwassa University, St Mary's University, and Addis Ababa University

Consultancy experiences

Consulted several national and international institutions/organizations in several subjects, which some of them are:

- At **ILRI and African RISE**: an assessment on highland fruit crops and vegetable production under the title: **Understanding production and marketing constraints of vegetables and fruit crops across the value chain in the Ethiopian highlands: case study at Sianna, Mahoney and Debreberhan**. Supervisor Dr Tilahun Amede ICRISAT-Principal Scientist and Country Representatives, Tel :251-911230135, (in the year 2014)
- **CIP and USAID project**: Evaluating the potato and sweet potato programs in north and south Ethiopia with **HEDBEZ Business and Consultancy PLC**. Project title: **Tackling food insecurity and malnutrition through diversification: exploiting the potential of potato and sweet potato to reduce food insecurity and dependence on cereal in SNNPR and Tigray** (in the year 2014).
- With **SOS/SAHEL/Ethiopia**- Establishing pepper value chain project in south region particularly in Gurage area. An action research program financed by smallholder livelihood Improvement project (SLIP of SOS/SAHEL).
- With **SOS/SAHEL/Ethiopia**- Establishing an extension manual on pepper production and processing. Financed by smallholder livelihood Improvement project(SLIP of SOS/SAHEL).
- With **Dryland Coordination Group (DCG- Norway)**: Consulting a project entitled : **Contributing to wealth creation and food safety to farmers by reducing yield loss and mycotoxin contaminations of ground nut in selected drylands of Ethiopia**”.
- With **Dryland Coordination Group (DCG- Norway)**: reviewing, and compiling a report entitled “**Impact of Resettlement on the Livelihood, Food Security and Natural Resource Utilization in Ethiopia**”

Engagement with the farming community

- Several communities in Sidama/Hawassa, Woliyta on the production and protection of root and tuber crops: potato, *Plectranthus edulis*, enset, cassava, yam,
- Several farming communities on the production of groundnut in Eastern and Southern Ethiopia with the Dryland Coordination Group/ Norwegian Church Aid,
- Several farming communities on the value Chain of pepper with SOS/Sahel at Hawassa/Sidama, and Gurage zone/Butagera,
- On the production of apple and olive crops at Debreberhan

Research Project leading

- Studies on agronomy and crop physiology of *Plectranths edulis* (Vatke) Agnew”,
- Study on the growing and utilization of cassava plant, and its anti-nutritional factor: cyanide,

Publications:

- Tilahun Amede and Mulugeta Taye. 2015. Home garden assessment: System niches, production and marketing constraints and intensification barriers in the Ethiopian highlands, africa-rising.net , ICRISAT.
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- Mulugeta T., Girma T., Lideta S., Shimeles A., Waga M., Kebede A., (2011) Peeper production, post harvest and marketing, Manual. (with the help of SOS—SAHEL.

Teaching material

- MulugetaTaye (2000). Principles and Practices of Coffee and Tea production. Hawassa University, Institute of Plant and Horticultural Sciences

Reading materials

- Mulugeta Taye (2010) Spices and herbs production and management, Hawassa University,College of Agriculture;
- Mulugeta Taye (2010)Fruit crops production and management, Hawassa University, College of Agriculture;
- MulugetaTaye (2009) Root and tuber crops production, Hawassa University, College of Agriculture

Experience as manuscript and reviewer

Editor : International journal of biodiversity and conservation, India

Journal of Agriculture and Development, Ethiopia

Reviewer: African journal of agricultural research, Uganda

References

1. Dr Tilahun Amede ICRISAT-Principal Scientist and Country Representative ,
Tel:251-911230135,
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3. Dr Firdu Azerefegn; Hawassa University; Tel:0911876563

Appendix VII: Profile of Sample RuSACCOs

Sr. No	Name of RuSACCO	Year of Establishment (Ethiopian Fiscal Year (EFY))	No of Members	Amount of Saving (Birr)	Total Capital (Birr)	Amount of Loan disbursed (Birr)	Average Size of Saving per member (Birr)	Average size of loan per member (Birr)	Capital Per member (Birr)
1	Edeget	6/7/1996	358	2,956,654.00	831,488.00	2,254,104.00	8,259.00	6,296.00	2,323.00
2	Madeg	24/07/2004	68	37,556.00	9,669.00		552.00		142.00
3	Beche	13/10/1996	102	135,177.00	49,638.00		1,325.00		487.00
4	Feker	3/10/1999	130	155,632.00	48,119.00	211,204.00	1,197.00	1,624.00	370.00
Total			658	3,285,019.00	938,914.00	2,465,308.00	4992	5051	1,427.00

Appendix VIII: Background information on RuSACCOs Operating in Meskan woreda

Sr. No.	Name of the RuSACCO	Neme of Kebele	Year of Establishment (Ethiopian Fiscal Year (EFY)	Membership		
				Male	Female	Total
1	Edeget	Ensano	6/4/1996	147	211	358
2	B/bulchan	Beehe	13/10/1996	63	39	102
3	Koche Lemat	Jole 2,3	20/10/1996	11	75	86
4	Nethanet	Shere Shagam	27/7/1997	55	83	138
5	Lakech	Semen Shershera	28/7/1997	27	93	120
6	Selame Admas	Ensano Esmā	27/7/1997	53	19	72
7	Tenker	Koto	27/7/1997	63	1	64
8	Debub Shershera	Debub Shereshera	24/10/1997	19	71	90
9	Fetan Edget	Woja	27/7/1997	44	15	59
10	Beletech	Wita	23/10/1997	18	114	132
11	Jolye 1st	Jolye 1st	20/10/1998	30	44	74
12	Hebrete	Dobenabati	20/10/1998	32	74	106
13	Dobena Gola	Dobenagola	20/10/1998	5	70	75
14	Eshetu	Bati Feto	20/10/1998	45	30	75
15	Edeget Besera	Hamusgebeua	20/10/1998	56	1	57
16	Abromadeg	Berasa	2/9/1999	81	3	84
17	Feker	Berasa	5/10/1999	92	38	130
18	Dejen	Deroma	3/7/2000	2	123	125
19	Demsēs	Bati Lagano	4/7/2000	12	92	104
20	Kokeb	Yemer Wacho 3rd	4/7 2002	29	261	290

21	Tegele Fera	Ensano	21/2/2001	55	95	150
22	Yal Fale	Goyeban	25/6/2001	29	15	44
23	A/ateken	Ochagenema	21/9/2000	70	31	101
24	Sera Betesfa	D.Tuto	25/9/2001	9	44	53
25	Sera le Lemata	Dida	14/4/20002	3	88	91
26	Chereka	Geaana Aborate	14/5/2002		53	53
27	Yeteghebi	Marabe Embol	22/7/2002	3	40	43
28	Adis Ableme	Dobi	12/1/2003	447	241	688
29	Taaagi	Weribe	12/1/2003	118	403	521
30	Erinzafe	Yetebone	18/6/2003	100	8	108
31	Andenete	Welen Sho 1st	29/7/2003	91	11	102
32	Meserete Lemata	Welen Sho 2nd	13/12/2003	83	42	125
33	Madege	Shere Sherbido	24/7/2004	41	27	68
34	Biaara	Merabenbore	11/7/2005	45		45
35	Sehame	Ila	27/3/2006	57	43	100
36	Bamo	Bamo	23/10/1997	25	117	142
37	3 Ambo	3 Amba	23/10/1997	14	43	57
38	Yemer Wacho 1st	Yemer Wacho 1st	20/10/1998	50	17	67
39	Yemer Wacho 2nd	Yemer Wacho 2nd	23/10/1997	32	158	190
Total				2,156	2,933	5,089

