Ten year after: What is special about the development of financial cooperatives (SACCOs) in Ethiopia

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Objectives

- Review the development of financial cooperatives or Saving and Credit Cooperatives (SACCOs) in Ethiopia
- Examine the unique features of the financial cooperatives in Ethiopia
- Assess the challenges of financial cooperatives
- The roadmap to support the development of financial cooperatives: Ten year after
- Propose interventions and support
Key characteristics of financial cooperatives (SACCOs)

- SACCOs are part of the development and financial sectors (i.e., they are supported and regulated by FCA, including the RCPBs)
- SACCOs are dynamic business organizations
- Financial and non-financial cooperatives regulated by one and same proclamation
- Financial inclusion is the driver of inclusive growth and transformation and SACCOs are key instruments to ensure financial inclusion
- They are the key tools to develop the culture of saving and investment
- Financial cooperatives also serve as vehicles to implement the GTP
Development of SACCOs in the last ten years

Regulatory environment

- The federal government issued Proclamation 147/98 to establish cooperative societies
- There is no separate law for financial cooperative
- There is no separate and clear institutional framework, from federal to Woreda, to promote and regulate financial cooperatives
- There is no regulatory space to establish cooperative banks and insurance companies
- The movement to establish one RuSACCO in one Kebele has contributed to the increase in outreach
Development of SACCOs in the last ten year [Continued]

**Financial products**

- SACCOs in Ethiopia provide traditional saving and loan products
- However, there are initiatives to provide micro-insurance products
- The interest rates on loan products and voluntary savings varied from one SACCO to another
- Default rate is very low
- Member’s saving is low and loan demand is high
- Members preferred big and easily accessible loans without collateral
- Financial products of SACCOs, particularly RuSACCO’s, lack diversity, flexibility, and quality
- There is a need to develop flexible and demand driven financial products and services (saving, credit, micro-insurance and payment system)
Outreach & key performance indicators (KPIs)

- There are currently about 14,453 SACCOs (1,922 Urban with 337,170 members; 45.5% women) with total members of 1,736,122 in Ethiopia.
- About 86.7% (12,531) are RuSACCOs with a total members of 1,398,952 (37.4% women)
- The numbers of RUSACCOs increased from 132 in 2003 to 14,453 in 2014.
- Total Saving as of the end of 2014 reached 5,126,912,681 (90% from Urban SACCOs)
- The average saving and loan of members in 2012 was Birr 400 and Birr 462 respectively.
- As of the end of 2014, there were 86 RuSACCO unions (2418 members) and 3 Urban union (327 member SACCOs)
Support service providers

Growth of SACCOs is the result of government and Development partners’ support

- Pre-formulation (high)
- Post-formulation (high)

Support of development partners

- RUFIP II
- HABP
- PCDP III

However, promoting financial cooperatives is the shared responsibility of various institutions and stakeholders
Challenges of SACCOs

Regulatory challenges

- Absence of a separate law for SACCOs
- Absence of a regulatory space for cooperative banks and insurance companies
- Lack of clear direction to establish independent federation of SACCOs
- Developing a strategy only for agricultural cooperatives or non-financial cooperatives
- Lack of a clear and holistic roadmap for the cooperative movement and financial cooperatives
- Lack of coordination and harmonization of support services
Challenges of SACCOs [Continued]

Challenges related with the rural primary SACCOs and unions

- Huge demand for loan and limited capacity to meet the demand
- Limited capacity SACCOs to mobilize saving
- Limited membership
- Lack of financial education
- Lack of linkages among primary and secondary SACCOs
- Lack of linkages between SACCOs and formal financial institutions
- Lack of tailored funding products of commercial banks for the development of cooperatives
- Limited financial products
- Limited managerial and technical capacity of SACCO management committees and weak financial reporting
- High dependency on government promoters
Challenges of SACCOs [Continued]

Meso-level challenges

- Absence of federation of SACCOs
- Weak MIS and limited use of IT to increase outreach and performance, saving mobilization
- Insufficient capacity building and training initiatives
- Limited of data (KPIs, outreach such as survival and mortality, social performance indicators)
- Lack of focus on research and development
Challenges of SACCOs [Continued]

Challenge related with regulators and support service providers

- Limited technical skill or expertise of regulators and support service providers
- High staff turnover and limited incentives
- Budgetary limitations
- Logistical constraints (transport, ICT, etc)
- Lack of flexibility in the support programs
- Lack of coordination among the support service providers
What is special about financial cooperatives in Ethiopia

- Proliferation of financial cooperatives in rural areas (establishing one rural SACCO in each Kebele) as result of government support
- Establishing sustainable rural SACCOs in each Kebele which started distributing dividend without the support of NGOs
- Ensuring access to finance in remote areas and the pastoral community
- Serving the financial needs of the very poor households at the Kebele level through SACCOs
- Developing the culture of saving and investment at the Kebele level
- Promoting inclusive finance at Kebele level
- Implement the objectives of development programs or projects at the grassroots level
Ten year after: What do we expect?

- Appropriate policies and regulations are in place
- Sustainable SACCOs are established in all Kebeles in the country
- Dependency on government promoters is reduced
- Sustainable SACCO unions are established in all Woredas
- Strong and independent federation of SACCOs are established at regional and federal levels
- Cooperative banks are established
- Cooperative insurance companies are established
- Strong vertical and horizontal linkages are established among SACCOs and between SACCOs and with non-financial cooperatives and the formal financial institutions
- Poor households have financial access from different competing sources
The roadmap: Vision, mission, objectives, and indicators

- The roadmap of financial cooperatives development is a sub-roadmap of the cooperatives and financial sector development strategies.
- The roadmap aims to create an enabling environment for a vibrant financial cooperative movement in Ethiopia and has clear vision, mission, objectives and rationale to promote financial cooperatives.
- Vision (eg.): To move towards a growing, sustainable and integrated financial cooperative sector and ensure financial inclusion and inclusive growth and transformation.
- Rationale (eg.): Financial cooperatives have potential benefits over other types of finance providers.
- Identify the measurable indicators that will be utilized in forthcoming decade to measure the progress and performance with respect to implementation, follow up and monitoring.
- Identify the interventions and streamline the support measures and eliminate duplications.
Interventions and support in the coming decade

**Macro level**

- Developing a clear and holistic roadmap and implementing and monitoring the activities
- Addressing all the regulatory challenges
- Coordinating and harmonizing the polices and support services up to the grassroots levels
- Capacity building of the support service providers
- Promote financial education
- Establishing Ministry of Cooperatives
- Joint support, regulation and supervision by NBE and FCA
Interventions and support [continued]

Meso level
- Develop national, regional and Woreda level database centers by improving the MIS
- Promote horizontal and vertical integration through the promotion of network of SACCOs
- Establishing and strengthening unions
- Establish federation of SACCOs at national and regional levels to create a central financial facility, facilitate shared services, training, advocacy
- Provide support to financial cooperatives in order to promote front-office
- Promote research and development
- Build the capacity of training institutes and other technical service providers
Interventions and support [continued]

Primary and secondary level SACCOs

- Promote SACCOs through awareness creation programs
- Establish new primary SACCOs and build their capacity (new and existing) through training, awareness creation, marketing, exposure visits etc)
- Foster the culture of saving mobilization and proper management of resources through financial education
- Increase membership through marketing and member awareness campaigns
- Meet the loan demand of members through saving generation, borrowing from commercial sources establish central finance facility, taking loan from unions and others
Champions to promote SACCOs

- Policymakers
- Development partners
- Practitioners
Thank You