



**ADDIS ABABA UNIVERSITY**  
**School of Graduate Studies**

**The Role of Rural Saving and Credit Cooperatives  
in Enhancing Financial Inclusion: a Case of Biftu  
Batu Rural Saving and Credit Cooperative**

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**In loving memory of my late brother, Nimona Tilahun Emanu.**

**God has you in his keeping, I have you in my heart.**

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## Table of Contents

<b>Acknowledgment</b> .....	<b>iii</b>
<b>Table of Contents</b> .....	<b>iv</b>
<b>List of Tables</b> .....	<b>vi</b>
<b>List of Figures and Charts</b> .....	<b>vi</b>
<b>List of Abbreviations</b> .....	<b>vii</b>
<b>Abstract</b> .....	<b>viii</b>
<b>Chapter One: Introduction</b> .....	<b>1</b>
1.1. Overview .....	1
1.2. General Background .....	1
1.3. Statement of the Problem.....	3
1.4. Research Questions.....	4
1.5. Objectives of the Study.....	5
1.6. Delimitation of the Study.....	5
1.7. Limitations of the Study .....	5
1.8. Significance of the Study .....	6
1.9. Organization of the Thesis.....	6
<b>Chapter Two: Literature Review</b> .....	<b>7</b>
2.1. Understanding Financial Inclusion and Exclusion .....	7
2.2. Access Dimension of Financial Inclusion.....	9
2.3. Measuring Financial Inclusion .....	10
2.4. Meaning and Objectives of SACCOs.....	11
2.5. SACCOs in Saving Inclusion .....	12
2.6. SACCOs in Credit Inclusion.....	14
2.7. SACCOs in Educational Inclusion .....	16
2.8. SACCOs in Agency Banking .....	17
2.9. Uniqueness of SACCOs Model for Financial Inclusion .....	18
2.10. The Support of other Actors to SACCOs .....	20
2.11. Constraints of Enhancing Financial Inclusion .....	23
2.12. National Commitment for Financial Inclusion .....	25
<b>Chapter III: Methodology</b> .....	<b>27</b>
3.1. Description of the Study Area .....	27

3.2. Research Setting.....	28
3.3. Sources of Data.....	29
3.4. Data Collection Techniques.....	29
3.5. Methods of Data Analysis.....	30
3.6. Ethical issues .....	30
<b>Chapter IV: Data Presentation and Analysis.....</b>	<b>32</b>
4.1. Introduction .....	32
4.2. General background of Biftu Batu RuSACCO.....	32
4.3. The Role of Biftu Batu RuSACCO in Promoting Savings (Saving Inclusion) .....	34
4.4. The Role of Biftu Batu RuSACCO in Creating Credit Access (Credit Inclusion) .....	37
4.5. The Role of Biftu Batu RuSACCO in Financial Literacy (Educational Inclusion) .....	42
4.6. Reflection on Affordability, and Convenience .....	44
4.6.1. Affordability .....	44
4.6.2. Convenience.....	45
4.7. The Potential Role of Biftu Batu RuSACCO in Agency Banking .....	46
4.8. Barriers and Constraints Faced by Biftu Batu RuSACCO in Enhancing Financial Inclusion.....	47
4.8.1. Demand Side Barriers.....	47
4.8.2. Supply-side Barriers.....	48
4.9. The Support of Stakeholders to Biftu Batu RuSACCO.....	49
4.10. Uniqueness of Biftu Batu RuSACCOs in Financial Inclusion.....	49
4.11. A Review of a National Financial Inclusion Commitment .....	51
4.11.1. National financial inclusion strategies.....	51
4.11.2. National Financial Inclusion Indicators .....	52
<b>Chapter V: Summary, Conclusion, and Policy Implications .....</b>	<b>53</b>
5.1. Summary.....	53
5.2. Conclusion .....	54
5.3. Policy Recommendations .....	55
<b>References .....</b>	<b>56</b>
<b>Appendices .....</b>	<b>64</b>
<b>Declaration .....</b>	<b>xxii</b>

## List of Tables

<i>Table No:</i>	<i>Title of the table</i>	<i>Page No</i>
1	Biftu Batu RuSACCO Membership Trend	33

## List of Figures and Charts

<i>Fig/Chart No:</i>	<i>Title of the Fig/Chart</i>	<i>Page No</i>
Fig 1	Map of Adami Tullu-Jiddo Kombolcha District	28
Fig 2	Organo-gram of Biftu Batu RuSACCO	33
Chart 1	Trend of members' saving	35
Chart 2	Loan Portfolio Allocations to different sectors	38
Chart 3	Number of borrowers	39
Chart 4	Sources of Fund for loan	41

## List of Abbreviations

AFI	Alliance for Financial Inclusion
ATA	Agricultural Transformation Agency
ATM	Automated Teller Machines
CFI	Center for Financial Inclusion
E-money	Electronic Money
FGD	Focus Group Discussion
FI	Financial Inclusion
FICCI	Federation of Indian Chambers of Commerce and Industry
GDP	Gross Domestic Product
GPMI	Global Partnership for Financial Inclusion
ICT	Information and Communications Technology
ID	Identity Document
IMF	International Monetary Fund
MDG	Millennium Development Goal
MFI	Microfinance Institutions
NBE	National Bank of Ethiopia
ND	Not Dated
NGO	Non-governmental Organization
PA	Peasant Association
QoL	Quality of Life
RUFIP	Rural Financial Intermediation Programme
RuSACCOs	Rural Saving and Credit Cooperatives
SACCO	Saving and Credit Cooperative
SACCOL	Saving and Credit League of South Africa
SMS	Short Message Service
UK	United Kingdom
US	United States
WB	World Bank

## Abstract

*Ethiopia has a very low rural banking density and a lowest financial inclusion standing as mainstream financial institutions are heavily tilted towards the urban centers with good physical infrastructure, and leaving the rural areas underserved. On the other hand, with local ownership and control, RuSACCOs are considered as an ideal model for enhancing financial inclusion, and can help financially excluded segments who are often perceived as too risky by commercial banks and MFIs. Yet, the role of rural financial cooperatives as financial inclusion model haven't been well thought by the regulatory institutions and other actors. With these premises, the study have explored the role of rural-based saving and credit cooperative society in improving financial inclusion. Data required for the study were collected from both primary and secondary sources. It was conducted on a single selected RuSACCO in Adami Tullu Jiddo Kombolcha district in Oromia region of Ethiopia. The cooperative society has generated an opportunity for the excluded poor segments through creating financial access, delivering micro-credit, promoting savings, and financial literacy. This is of utmost importance in order to upgrade RuSACCOs as a key actors in financial inclusion. The study calls for an improved enabling environment for pro-poor actors like financial cooperatives (RuSACCOs) to improve financial inclusion.*

**Keywords: Cooperative, Financial Inclusion, Financial Exclusion, Financial Services, RuSACCO.**

# Chapter One: Introduction

## 1.1. Overview

This thesis looks at properness of cooperative model for financial inclusion which particularly answer the role in creating access, convenience, affordability, and welfare issues. It duly given an immense coverage to the role of SACCO in creating access by taking insights of proximity of the service to the excluded rural segment with a portfolios of financial products offered.

## 1.2. General Background

Financial inclusion as a topic has attracted global attention in the recent past. Delivering financial services to the poor is a powerful means of providing low income households with the chance to escape from poverty and to transform their lives. In view of that, improving the supply of financial services in rural areas hence seems to be one of the most concrete ways to improve poor households' capacity to change their living conditions (Quach, Mullineux, and Murinde 2005; Kibua 2007).

According to The WB<sup>1</sup>, one of the key structural issue that help to achieve higher and more inclusive growth is the expansion of access to financial services for both individuals and small enterprises, or financial Inclusion, which could help reduce poverty and inequality and stimulate job creation.

Financial Inclusion according to Joshi (2011) is:

*the process of ensuring access to appropriate financial products and services needed by vulnerable groups such as weaker sections and low income groups at an affordable cost in a fair and transparent manner by mainstream Institutional players.*

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<sup>1</sup><http://www.worldbank.org/en/news/press-release/2013/05/29/financial-inclusion-plays-vital-role-in-reduction-of-poverty-inequality-and-stimulation-of-job-creation>

IMF<sup>2</sup> emphasized to that financial inclusion as the effort directed towards making financial services accessible for everyone, especially for the poor. According to GPFI<sup>3</sup>, financial inclusion has many direct benefits to poor households that are using loans or savings to accelerate consumption, absorb shocks such as health issues, or make household investments in durable goods, home improvements or school fees. Other financial products, such as insurance, can also help the poor manage risks. It added that, financial inclusion can result in women's economic empowerment. There is also macroeconomic evidence to show that economies with deeper financial intermediation tend to grow faster and reduce income inequality. Likewise, it enables and accelerates progress toward numerous development goals and national priorities, such as job creation, equitable growth, poverty alleviation, health, education and food security<sup>4</sup>. Center for Financial Inclusion underlined that very poor producers need increased access to markets and financial services in order to increase economic well-being<sup>5</sup>.

To this end, cooperatives are becoming a very important weapons for creating broad access to financial services to benefit poor people and other disadvantaged groups and thereby promote FI.

SACCOs are self-help, financial cooperatives, established throughout the world to serve their members with accessible and affordable financial services. Grounded in cooperative values, SACCOs often exhibit a strong sense of social purpose and in many countries endeavor to serve those unserved or underserved by the mainstream banking sector. Unlike banks, they are owned entirely by their members and operate according to the democratic principle of one member one vote (Jones 2009; Tulus 2012).

It has been proved in many countries that cooperative model of financial inclusion is ideal to serve communes that are unbanked and financially unprivileged. In Kenya, Saving and Credit Cooperative Societies (SACCOs) are very popular among middle-

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<sup>2</sup><http://fas.imf.org/>

<sup>3</sup><http://www.gpfi.org/about/why-financial-inclusion>

<sup>4</sup><http://ethiopiaembassy.eu/ethiopia-royal-visit-highlights-need-for-financial-inclusion/>

<sup>5</sup><http://cfi-blog.org/tag/care-ethiopia/>

and low-income people unable to access traditional bank accounts (Vohla 2014). Likewise, financial inclusion is a key government policy in Rwanda, and the government set-out to establish a SACCO in each of the country's districts for this end. By 2012, FinScope data showed that the percentage of Rwandans using a formal financial product had doubled to 42%. The increase is attached to significant role played by SACCOs in promoting FI<sup>6</sup>.

In India, cooperative institutions play a key role in enhancing financial inclusion. With their grass roots level presence and vast outreach in rural areas, they are the most suitable institutions for providing financial services to the small and marginal farmers, they are playing a very constructive role in meeting the objective of greater degree of financial inclusion in India (Ramji 2013; Mohapatra and Kumar ND).

### **1.3. Statement of the Problem**

For Ethiopia, where almost 84 percent of population lives in the rural areas and engages in agriculture and allied activities, financial inclusion assumes paramount importance (Girma 2012). According to AgriFin<sup>7</sup>, with a population of more than 94 million people (WB<sup>8</sup>), Ethiopia is among countries under financed as its financial infrastructure is still very minimal, and only eight percent of the population has a bank deposit account. It added that, while mobile banking has contributed to improvement of financial access for the rural poor in other African countries, Ethiopia has only recently allowed a pilot project with such platform. Likewise, Ethiopia has a very low rural banking density and consequently one of the lowest financial inclusion ratios of Sub-Saharan Africa, with only 14 percent of adults having access to credit. Predominantly, the main financial service providers, especially banks are heavily tilted towards the urban areas and districts with good physical infrastructure, leaving the rural areas underserved.

In Ethiopia, financial inclusion as a topic has been emphasized at high level through becoming a member of AFI, a network of financial inclusion policymakers.

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<sup>6</sup> <http://afrol.com/articles/38449>

<sup>7</sup> <http://www.agrifinfacility.org/enabling-environment-access-financial-services-ethiopia>

<sup>8</sup> <http://www.worldbank.org/en/country/ethiopia>

Nevertheless, it has made slight measurable commitments in key areas identified by AFI that have been proven to increase financial inclusion (AFI 2012). On that account, limited outreach particularly by women, lack of related studies on impact of financial intermediation in rural areas, less/limited attention of third sectors (NGOs) to rural financing, limited regulatory framework to enforce and support rural financing esp RuSACCOs were cited as critical impediments in rural financial intermediation and ensuing FI realizations in Ethiopia (Wolday 2012).

Financial cooperatives (RuSACCOs) can help increase the success of small producers and financially excluded segments who are often perceived as too risky by commercial banks and MFIs. Yet, the role of rural financial cooperatives as financial inclusion model haven't been well thought by regulatory institutions and other actors. To achieve greater financial inclusion, according to Wolday (2012), the role of rural financial agents like SACCOs should be well recognized and their services should reach socially excluded group's particularly poor people.

This will be mainly achieved through creating an enabling policy and regulatory environment, and building and improving the capacities of RuSACCOs that care and appropriately respond to the needs of poor excluded people and government support and to promote establish self-sustaining financial institutions and increase outreach. While the purpose of SACCOs is inadequate because of various internal and external constraints, this has made it difficult for the SACCOs to grow their wealth, and contribute favorably to National Financial Inclusion. With these premises, the study will try to assess the role of rural-based saving and credit cooperative society in improving FI.

#### **1.4. Research Questions**

This study has answered to the following important questions:

- i. What roles RuSACCOs play in enhancing financial inclusion to the poor in rural of Adami Tulu Jido Kombolcha district of Oromia region in Ethiopia?
- ii. What barriers are there for promoting financial inclusion by the RuSACCO?

- iii. What would the national framework and strategies to financial inclusion look like?
- iv. What unique features does a 'cooperative model' have for financial inclusion?

### **1.5. Objectives of the Study**

The central objective of this study is examining a cooperative model in delivering financial services to the excluded segments of the area in a sustainable method and with the capacity to serve rural communities in effective manner basically to the poor segment by taking Biftu Batu RuSACCO. Specifically it aims to examine:

- ✍ The role of the RuSACCO in promoting saving inclusion;
- ✍ The role of the RuSACCO in promoting credit inclusion;
- ✍ The role of the RuSACCO in promoting educational inclusion;
- ✍ The role in creating convenience while delivering financial services;
- ✍ The role in reducing over-indebtedness while delivering financial services; and
- ✍ The constraints that the RuSACCO has been facing in an effort to expand financial inclusion to the rural poor.

### **1.6. Delimitation of the Study**

The study has been delimited to assessing the role of Biftu Batu RuSACCO in financial inclusion from the accessibility perspective from its establishment (May 2008) till May 2014.

### **1.7. Limitations of the Study**

Existence of national measurement instruments/standards on the subject matter could have enabled to depict the level of financial exclusion in the country in general and study area in particular, that may entail to draw attention of readers and relevant organs, and spot the issue more extensive and engaging.

## **1.8. Significance of the Study**

This study will provide key stakeholders with an opportunity to share experiences about cooperative options in financial services, and discuss experiences used in the promotion and expansion of outreach, and ultimately escalate the level of financial inclusion. It will provide an approach that is of special relevance in order to increase rural outreach.

This study would provide information on the issues of financial inclusion particularly on the roles of rural financial cooperatives, which at this time is on the inadequate level. This study would be beneficial to the governmental bodies (NBE, Cooperative Promotion Bureau, and MoFED) as it enhance their knowledge of the RuSACCOs suitability for financial inclusion, thus entails them to consider financial inclusion as a central development agenda through arranging a relevant framework and strategy in general, and regard SACCOs as proper weapon for improved financial inclusion.

Furthermore, this study would be beneficial to the rural financial intermediaries and collaborators as this study would provide the necessary information on the different opportunities and possibilities in increasing financial inclusion in rural areas. To the future researchers, this study can provide baseline information on the recent status of RuSACCOs contribution in financial inclusion.

## **1.9. Organization of the Thesis**

This thesis has five chapters. Chapter I introduces the concept of financial inclusion and discusses certain aspects of the problem. Chapter II discusses dimensions of financial inclusion, role of actor, and role of financial cooperatives on improving financial inclusion. Chapter III outlines the research methodology. Chapter IV presents the study results and analyzes them. Finally, Chapter V presents conclusions and policy implications.

## Chapter Two: Literature Review

### 2.1. Understanding Financial Inclusion and Exclusion

Financial inclusion (banking the poor) has made its way into the center stage of development policy over the last decade as many research findings proved access to financial services is a powerful means of reducing poverty (Ndii 2009; Sharma and Kukreja 2013). Subsequently, many countries, have adopted outreach or reaching the un-banked and under-banked population as a fundamental objective of financial policy alongside stability and supporting economic growth (Ndii 2009). Siddaraju (2012) discusses that banking services are in the nature of public good; and thus, it is essential that availability of banking and payment services to the entire population without discrimination is the prime objective of the public policy.

According to the European Commission (2012)<sup>9</sup>, as many as 3 billion people still lack access to formal financial services such as a bank account, credit, insurance, a safe place to keep savings and a secure and efficient means to receive social benefit payments through a registered financial institution. Likewise, 2.5 billion people, more than half of the world's adult population lack bank accounts. Although this problem is universal, the financially excluded person is more often than not the average citizen in a developing country. Low-income countries face especially daunting challenges (The WB<sup>10</sup>; Koven 2013). And, usually the weaker sections of the society are completely ignored by the formal financial institutions in the race of making chunks of profits or the complexities involved in providing finance to the weaker section (Sharma and Kukreja, 2013).

The Center for Financial Inclusion proposes a simple yet multi-dimensional definition of financial inclusion: "full financial inclusion is a state in which all people who can use them have access to a full suite of quality financial services, provided at affordable prices, in a convenient manner, and with dignity for the clients." Financial services are

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<sup>9</sup> [http://ec.europa.eu/europeaid/what/economic-support/microfinance/index\\_en.htm](http://ec.europa.eu/europeaid/what/economic-support/microfinance/index_en.htm)

<sup>10</sup> <http://www.worldbank.org/en/news/feature/2013/11/11/New-World-Bank-Group-Report-Charts-Road-Map-for-Financial-Inclusion>

delivered by a range of providers, most of them private, and reach everyone who can use them, including disabled, poor, rural, and other excluded populations, or generally disadvantaged sections of society (CFI 2014; Lakshmi and Visalakshmi 2013).

Although financial inclusion has traditionally been associated with access to credit, it is important that it is more than this. There is a universal need for a portfolio of quality financial products and services which also include deposit services, insurance, transfer, pensions and payment systems, as well as financial education and consumer protection mechanisms, and access to them empowers less advantaged social groups to grow or stabilize their incomes and become more resilient to economic shocks. In terms of supply, financial inclusion tends to leverage the financial services industry by stimulating the offering of innovative services and highlighting opportunities to provide differentiated services through various institutions, aimed at reaching segments of the population that are generally excluded from the traditional banking system (Banco Central do Brasil 2010; Reyes, Allain Canote, and Mazer ND).

Financial inclusion is not just a matter of providing various financial products and services to the excluded population but doing so in a responsible manner. Being responsible entails providing financial services based on the six principles of client protection (i) prevent over-indebtedness, (ii) transparent pricing, (iii) appropriate collection practices, (iv) ethical staff behavior, (v) mechanism for client protection and (vi) privacy of client data (FICCI 2011; Gardeva and Rhyne 2011).

Furthermore, according to the United Nations the main goals of Inclusive Finance are:

- Access at a reasonable cost of all households and enterprises to the range of financial services for which they are 'bankable', including savings, short and long-term credit, and others.
- Sound institutions, guided by appropriate internal management systems, industry performance standards, and performance monitoring by the market, as well as by sound prudential regulation where required.
- Financial and institutional sustainability as a means of providing access to financial services over time.

- Multiple providers of financial services, wherever feasible, so as to bring cost-effective and a wide variety of alternatives to customers (which could include any number of combinations of sound private, non-profit and public providers) (FICCI 2011; and Mohieldin 2012).

On the other hand, financial exclusion would mean the inability of the disadvantaged to access financial services. A range of obstacles could lead to financial exclusion; barriers include geography (limiting physical access), regulations (lack of formal identification proof or of appropriate products for poor households), psychology (fear of financial institution's staff, structures, complicated financial products, etc.), information (lack of knowledge regarding products and procedures), and low financial acumen (low income and poor financial discipline), among others (Ramji 2009). Linked to this, there have been many formidable challenges in financial inclusion area such as bringing the gap between the sections of society that are financially excluded within the ambit of the formal financial system, providing financial literacy and strengthening credit delivery mechanisms so as to improvise the financial economic growth (Sharma and Kukreja 2013).

## **2.2. Access Dimension of Financial Inclusion**

Full financial inclusion is a state in which all people who can use them have access to a full suite of quality financial services, provided at affordable prices, in a convenient manner, and with dignity for the clients. Financial services are delivered by a range of providers, and reach everyone who can use them, including disabled, poor, rural, and other excluded populations (CFI 2014).

The core set of financial inclusion indicators, according to AFI (2010b), addresses the two basic dimensions of financial inclusion: *access* and *usage* of financial services. So, access component of financial inclusion is concerned primarily with the ability to use available financial services and products from financial institutions, whilst usage refers to the performance and depth or extent of financial services and product use, which includes the regularity, frequency, and duration of use over time.

Access is often seen as the goal of financial inclusion, and denotes the availability to a given person of affordable and appropriate financial services (Center for Financial Inclusion 2014). Understanding levels of access require insight and analysis of potential barriers for opening and using a bank account for any purpose, such as cost and physical proximity of financial services. It needs to explore alternative methods of delivering their products and services to even the most isolated communities (AFI 2010b; Triki and Faye 2013; CFI 2014; The WB 2013). In addition, while accessing financial services the relations of users/consumers with financial service providers should implicate convenience and affordability values (AFI 2010b).

### **2.3. Measuring Financial Inclusion**

Having appropriate and up-to date information about levels and trends of financial inclusion is a critical first step towards devising relevant policy approaches to further deepen the reach of the financial sector. Interest in collecting such data is increasing across the globe, resulting in the development of a number of cross-country and country-specific data collection strategies in recent years (AFI 2010b). Additionally, literatures suggest that measuring financial inclusion is a key step in addressing financial inclusion. Numerous indicators have been developed in order to measure the extent of financial inclusion in different countries (Javaad 2012).

According to Reserve Bank of India (2012), a robust financial inclusion design depends on a multiplicity of parameters encompassing varied socio-economic backdrops and feasible financial service delivery mechanism. Like any broad based financial system, financial inclusion measures and performance monitoring system require a rich body of performance data and analytics.

In recent years, data sources for financial inclusion have become richer yet more complicated to navigate. On the demand side, there are numerous sources: The Global Findex, Finscope Survey, FinAccess, and Financial Inclusion Insight Survey are among common measures, while the IMF Financial Access Survey (FAS), GSMA Mobile Money Adoption Survey, World Bank's Global Payment Survey, and The MIX's Geospatial Maps are the common supply-side measurements. Demand-side

measurements gives a clear picture of financial inclusion from customers (actual and potential) particularly, whether financial inclusion is equitably distributed across the population. Supply-side data typically offers information from regulated financial institutions. This data allows identifying relevant issues of financial inclusion such as geographical access (by location of branches), pricing of different products and services, and penetration or usage of products and services (The WB 2011).

## **2.4. Meaning and Objectives of SACCOs**

A Savings and Credit Co-operative (SACCO) is a democratic, unique member driven, self-help co-operative. It is owned, governed and managed by its members who have the same common bond: working for the same employer, labor union, social fraternity or living/working in the same community. A Savings and Credit Co-operative's membership is open to all who belong to the group, regardless of race, religion, color, and gender or job status. Members elect a board that in turn employ staff to carry out the day-to-day activities of the SACCO. Members also elect a supervisory committee to perform the function of an internal audit (SACCOL 2014; Getachew 2006; Orlando, Mbewa, and Jagongo 2012).

SACCOs are recognized as an important means for achievement of individual members' development goals. The SACCOs are important providers of credit to low income earners, they are pooling together resource of people of limited means and create source of credit to them and reduce the gap of credit need for low income earners. Interest is charged on loans, to cover the interest cost on savings and the cost of administration. There is no payment or profit to outside interest or internal owners. The members are the owners and the members decide how their money will be used for the benefit of each other (Kushoka 2010; SACCOL 2014).

SACCOs are able to advance loans at interest rates lower than those charged by other financial providers as they have relatively low-cost source of funding and low administrative costs. In addition, SACCOs have the ability and opportunity to reach clients in areas that are unattractive to banks, such as rural or poor areas. This has

made SACCOs more attractive to customers, thus deeply entrenching themselves in the financial sectors of many countries (Olando, Mbewa, and Jagongo 2012).

SACCOs create the opportunity for people to take responsibility for their own financial organization. The democratic process is an integral part of the co-operative and encourages people to take control of their own financial affairs. According to SACCOL (2014), and Getachew (2006), among the many advantages of SACCOs are:

- Savings are mobilized locally and returned to members in the form of loans. The money stays and works within the members.
- SACCO interest rates on both savings and loans are generally better than rates given by banks and the reason for this is that SACCOs have very low overheads as compared to banks who pay low interest on savings but charge a lot of interest to cover their overheads.
- SACCOs encourage members to save, essential for economic empowerment.
- SACCOs educate their members on financial matters by teaching prudent handling of money, how to keep track of finances, how to budget and why to keep away from hire purchases and loan sharks.
- SACCOs pay dividends on shares to their members once the SACCO is established and profitable. Members therefore take pride in owning their own SACCO.
- SACCOs perform a critical and unique function as financial intermediaries. They mobilize significant volumes of personal savings and channel them into small loans for productive and provident purposes at the community level.

## **2.5. SACCOs in Saving Inclusion**

Oxfam America Inc (2013) noted that, three-quarters of the world's poorest people do not have a formal saving account. With few viable means to save, these individuals and their families are vulnerable to life-threatening hardships. Yet, savings is a cornerstone or the foundation for financial inclusion, as per Martin (2013), as wide-scale savings mobilization is fundamental to building inclusive financial systems. He added that, it is now widely understood that savings has great potential impact.

Saving constitutes the key elements on which the development of the society depends. Local savings provide the asset for the society's investment in future. Savings can be defined as the sacrificing of current consumption so as to increase the availability of resources for future consumption (needs). It can also be defined as the part of a member's income that has not been spent but rather stored for future use or invested in Income Generating Activities so that it can earn more income in the future (Cheruiyot, Kimeli, and Ogendo 2012; Getachew 2006).

One of the pillar objectives of SACCOs is to promote a saving culture amongst their members. Some of reasons for saving by the members of SACCOs include: for smoothening the household cash flow, or protect the households against the uneven income stream, accumulation of wealth, saving for future investment, or as a means of insurance (Rwanda Cooperative Agency ND). SACCOs have enabled the savers to acquire the capacity to build low cost, yet high quality, housing units, and to buy vital household item, and put their children through affordable school system and SACCOs have enabled members to put some of their loans in agricultural development thereby increasing the productivity in the agricultural sector and enhancing food security (Cheruiyot, Kimeli, and Ogendo 2012).

SACCOs have been efficient in achieving an objective to ensure members empowerment through mobilization of savings and disbursement of credit. They were a key actors to improve the savings culture in Kenya, once the Ministry of Cooperative Development and Marketing ascertained that the saving culture in Kenya is underdeveloped and something needs to be done. For instance, SACCOs have mobilized a savings accounting for over 30% to Kenya's National Domestic Saving in 2010 (Cheruiyot, Kimeli, and Ogendo 2012; Olando, Mbewa, and Jagongo 2012).

In RuSACCOs, savings products can broadly be classified in to three namely (Rwanda Cooperative Agency ND);

- i. **Compulsory savings:** - are funds that must be contributed by all members of the SACCOs as a condition of membership and in some instances to access

credit (loans). Compulsory saving is a saving that a member is forced to make on regular basis.

- ii. **Voluntary savings:** - a type of savings the members deposit with the SACCOs excess to their mandatory savings. This savings generally do not have any fixed amount, fixed frequency and any restriction to withdraw.
- iii. **Contractual savings products:-** are the kind of saving accounts were by the person saves to meet a particular goal like for their children's education, to meet a particular target like buying land, paying a mortgage among others.

Savings is a key source of funds for many financial institutions including the RuSACCOs. Proper savings mobilization is very critical for the eventual success of the RuSACCOs because if they could mobilize more savings they can be able to lend to their members at the low interest rate (*ibid*).

## 2.6. SACCOs in Credit Inclusion

Financial exclusion continues to damage the lives of millions of people in low income communities throughout the world. Without access to appropriate financial services especially affordable credit, they are faced with making financial decisions that often result in greater financial hardship and over indebtedness, reported UK based Research Unit for Financial Inclusion<sup>11</sup>.

Credit is the main component of the RuSACCOs services. It is a system of allowing members to improve their living standard by providing credit support without collateral. It has evolved as an economic development approach intended to benefit the poor (Institute of Microfinance 2014<sup>12</sup>).

According to IMF (2014), access to credit is a key link between economic opportunity and economic outcome. It underlined that, by empowering individuals and families to cultivate economic opportunities, financial inclusion can be a powerful agent for strong and inclusive growth. With improved financial access, families can smooth out

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<sup>11</sup> <http://www.ljmu.ac.uk/EHC/Financialinclusion/>

<sup>12</sup> [http://www.inm.org.bd/faq/all\\_in\\_one.htm](http://www.inm.org.bd/faq/all_in_one.htm)

consumption and increase investment, including in education and health; and they can also insure against unfavorable events and therefore avoid falling deeper into poverty, which is often the case with such incidents.

Studies conducted on the impact of micro-credit to rural poor depicts that, the loans advanced by SACCOs to members have brought living standard and investment culture of members. It is from the loans that the members invested in various business activities. The money is lent to the impoverished entrepreneurs who use the money to start or finance businesses that enables them to rise up out of poverty (Onchangwa and Memba 2012; Peace 2011). Likewise, Cooperatives were the first formal institutions to be conceived and developed to purvey credit to rural India and have been a key instrument of credit delivery to enable farmers to meet their production needs and so increase production and productivity in the rural areas (Joshi 2014).

On the other hand, credit may be accompanied by onerous terms or conditions, excessive penalties and even threats if repayment is not made. Too much access to credit and irresponsible lending and borrowing can lead to a spiral of over-indebtedness and wider problems. High rates of interest commonly lead to unmanageable levels of debt and the attendant poor health, insecurity of accommodation and culling of aspiration (The House of Commons 2006). On the other hand, the rural credit cooperative sector in Russia it has been very effective at increasing rural people's access to credit. Developments there indicate that rural credit cooperatives are more effective than banks at serving the credit needs of the rural population. Credit cooperatives' success in improving access to credit stems from their ability to reduce geographical barriers and transaction costs. Moreover, the interest rate charged by rural credit cooperatives compares favorably to interest rates charged by other financial institutions for loans of similar sizes (Lohlein and Wehrheim 2003).

Emphasis on know your member (KYM) has enabled SACCOs to manage credit risks, enforce lending contracts and reduce the transaction costs of delivering credit. Evidence from poverty eradication strategies shows that without empowering the poor by training them on how to utilize limited resources, focusing on provision of credit only leads to excessive debt burdens and depressed income growth. Therefore empowering

the poor on how to utilize limited resources wisely and developing a saving culture is vital (Ayieko 2013).

## **2.7. SACCOs in Educational Inclusion**

Diversification of products and services has already resulted in rich, and complex, choices for consumers, especially compared to the early days of one-size-fits all working capital loans. Yet, increased access and better choices do not automatically translate into effective use. Financial education is an important tool to address an imbalance which holds real potential for negative outcomes due to institutional abuses or ill-informed client decisions, and help consumers both accept and use the products to which they increasingly have access. Because it can facilitate effective product use, financial education is critical to financial inclusion. It can help clients to both to develop the skills to compare and select the best products for their needs and empower them to exercise their rights and responsibilities in the consumer protection equation. Properly designed, financial education is tailored to the client's specific context, helping them to understand how financial instruments, formal or informal, can address their daily financial concerns, from the vagaries of daily cash flow to risk management (Cohen and Nelson 2011).

Financial education and awareness can take many forms, which include, instruction in personal finance concepts, the financial services landscape, the development of the skills, attitudes and behaviors needed to make the right decisions for the individual. Financial Education primarily relates to personal finance, which enables individuals to take effective action to improve overall wellbeing and avoid one's business. It is the ability to know, monitor and effectively use financial resources to enhance the well-being and economic security of oneself, one's family and savings, budgeting, financial planning, and basics of banking. To understand financial planning, a person should be financially literate to understand the importance of preparing household budgets, cash-flow management and asset allocation to meet financial goals (Joshi 2013).

Financial Inclusion and Financial Literacy need to go hand in hand to enable the consumers to understand the need and benefits of the products and services offered

by financial institutions. Financial inclusion is defined as the access to appropriate financial products and services needed by vulnerable groups, such as weaker sections and low income groups, at an affordable cost, in a fair and transparent manner by mainstream institutional players. So, from the financial literacy perspective, it essentially involves two elements, one of access and the other of literacy which enables usage (ibid).

The promotion of financial education for poor people in developing countries calls for identification of partner organizations to deliver financial education training and counseling. Accordingly, SACCOs are one of suitable options for captioned end. Likewise, SACCOs and other rural financial institutions are more cost effective choice for the poor (Cohen and Sebstad 2003).

In Kenya, Financial Education Centre<sup>13</sup> in collaboration with the SACCOs have been working on educational inclusion, which is a key parameter to increase the county's financial usage. The Centre believes that by reaching 20 million people in Kenya with financial education relevant messages by 2015, the journey to full financial literacy for all by 2030 will have started on the right footing, and SACCOs hold important portion in this collective goal.

## **2.8. SACCOs in Agency Banking**

One of the primary impediments to providing financial services to the poor through branches and other bank-based delivery channels is the high costs inherent in these traditional banking methods. The amount of money expended by financial service providers to serve a poor customer with a small balance and conducting small transactions is simply too great to make such accounts viable. In addition, when financial service providers do not have branches that are close to the customer, the customer is less likely to use and transact with their service. However, the emergence

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<sup>13</sup> <http://financialeducationcentre.co.ke/2012/10/kefec-launches-financial-education-campaign-2015/>

of new delivery models (like agency banking) have drastically changed the economics of banking the poor (Veniard 2010).

Brazil is one of the most successful countries in agent banking. In less than ten years, Brazil's agent network has reached 13 million extra unbanked people. Since 1999, more than 100,000 retail outlets, distributed in all Brazilian municipalities, were transformed into agent banks. In the Brazil case, payments, transfers and deposits are made using real-time Point-of-Sale devices and bank cards. In other countries like in Colombia, and Peru demonstrate that agent banking has significant potential to increase access to financial services to remote areas (Rojas 2012; CGAP 2014<sup>14</sup>).

In countries like Brazil, Kenya and Rwanda, SACCOs are serving as the main agents in agency banking services which lets them offer services together with telecom outlets, SMEs, and retail chains (AFI 2012; Biallas, Ngahu and Stefanski 2012; Ratio Magazine<sup>15</sup>). This enables them create convenience for those who were forced to travel long distances and spend huge amounts on transport in order to access a branch. The development of agent banking models has thus been crucial to the spread of financial services to poorer and more rural areas.

## **2.9. Uniqueness of SACCOs Model for Financial Inclusion**

According to World Council of Credit Unions (1992), SACCOs are constituted not-for-profit financial institutions chartered and supervised, for the most part, under national cooperative law and created to meet the basic financial service needs of primarily low and middle income citizens who generally cannot obtain these services through the existing banking system. It added that, they are form of economic empowerment, based upon an individual's ability to control and manage the financial institution which provides savings, credit and financial management.

In the context of globalization, cooperatives are particularly well-equipped to combine the advantage of local activities with regional and national networking within the system,

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<sup>14</sup> <http://www.microfinancegateway.org/p/site/m/template.rc/1.1.14613/>

<sup>15</sup> <http://www.wap.ratio-magazine.com/inner.php?id=4170>

provided they adapt their structures and operations accordingly, thus contributing considerably not just to strengthening their members but the local/regional economic structure in which they are operating (DGRV 2008).

According to Olando, Jagongo, and Mbewa (2013), SACCOs are able to advance loans at interest rates lower than those charged by other financial providers. In addition, SACCOs have the ability and opportunity to reach clients in areas that are unattractive to banks such as rural or poor areas. The core objective of SACCOs is to ensure members empowerment through mobilization of savings and disbursement of credit.

The existence of functioning cooperative societies leaves a positive mark on the economic and social structure of a country since cooperatives develop on the basis of local initiative and local economic strength; and decentralized cooperative systems can operate in close proximity to markets and target groups. Accordingly, the rural SACCOs, have a common bond in residences and associations, and a members of these schemes usually reside in the same village, and rely on the same primary cooperative society for various appropriate ends. And, thus contributing considerably not just to strengthening their members but the local/regional economic structure in which they are operating (DGRV 2008; Wangwe 2004).

Berhane (2013) added that, cooperatives are a key organizational form in combating poverty and social exclusion through local development initiatives. SACCOs particularly creates opportunities to reach the unreached people in order to support the endeavors of saving mobilization efforts, which has a good impact in improving the saving culture of the people and generate capital for different investment opportunities. Likewise, RuSACCOs have had a substantial role in the mobilization and allocation of untapped resources in the rural areas. They are willing to offer even small sized loans to members which is something that the formal financial institutions will not do in view of the high costs of administration, and lengthy procedures involved in processing information before a decision is made to give out a loan. The high transaction costs, inadequate information and the associated perception of high risk associated with rural finance have limited the growth and development of rural financial services (Wangwe 2004).

## **2.10. The Support of other Actors to SACCOs**

Constructing a financial inclusion sector that reaches everyone with quality services will require the combined efforts of many actors.

### ***Government***

According to Shah (2011), the Government needs to take on a leadership role and focus the attention of the financial services industry and community-based financial institutions on the issue of financial inclusion. Promoting financial inclusion requires action by a range of Government departments, including those involved in tackling poverty, protecting consumers and promoting employment and economic growth. Promoting financial inclusion needs to be a key part of the Government's overall agenda to promote financial inclusion (Staschen and Nelson 2013; World Economic Forum 2012).

Formal access to finance is hindered by a lack of basic infrastructures. Moreover, it is very expensive for financial service providers to pay out and collect small amounts of cash from lots of poor people using the proprietary physical infrastructure that financial service providers use. The absence of such physical and informational infrastructure often makes it unattractive for financial service providers including SACCOs to offer products designed specifically for the needs of the poor, including appropriate transaction sizes and charging models. It's thus the government's role to improve efficiencies in the system. The government can create a framework to facilitate private-sector investment in the necessary infrastructure, and to catalyze broad initiatives that address technical, regulatory, market and consumer considerations. In parallel, government can also define risks, establish broad goals, craft enabling regulation, provide checks and balances, and otherwise set clear guidelines that influence financial inclusion (World Economic Forum 2012).

Government play the leading role in SACCOs business beginning from their establishment by preparing supportive legal framework (The DTI 2012). Government Support to SACCOs mostly includes<sup>16</sup>:

- i. Equipment: - these include; money safes, filing cabinets, calculators, generators, computers, office furniture (chairs and tables), bicycles, and motorcycles.
- ii. Operational cost subsidy: - this involves provision of; External audit services, refurbishment of the SACCO premises, contribution to office rent and salaries.
- iii. Training: - governments facilitate/offer various relevant trainings which enable SACCOs fulfill financial inclusion goals, like in entrepreneurship skills, business planning, governance, financial management, internal controls and accounting, savings mobilization, loan appraisal and delinquency management, risk management and interest rate setting.

### ***Civil Societies***

The role of civil societies is very significant in supporting SACCOs that entails them optimize financial inclusion. They partake in identifying success factors for the delivery of inclusive financial services which are accessible to disadvantaged populations, and most importantly mobilize resources, and support SACCOs in their efforts to promote FI (Universal Postal Union 2013).

Likewise, financial NGOs have been very instrumental in pushing the frontiers of financial services to the poor and remote areas. As part of an initiative for poverty reduction, they have been assisting SACCOs and MFIs by providing loans and technical skills. As capacity building deserves high priority too, collaboration with NGO's and related institutions helps in starting up and building capacity of rural financial institutions like SACCOs and MFIs that is needed anytime (Wangwe 2004).

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<sup>16</sup> <http://www.rfspug.org/details.php?option=menu&sid=20>

### ***Technology Providers***

Evolving and newly emerging business models, rapid technological innovations and state initiatives have greatly facilitated supply conditions to improve and for the providers to consider building market-led self-sustaining alternatives to extend banking and other financial services to the excluded. Technological progress and innovation has the potential to emerge as a game changer in terms of costs, convenience, and speed of reach. Thus, business models of banks, telecom operators and other stakeholders need to converge. Widespread penetration of mobile technologies and their integration with banking infrastructure has enabled financial services outreach in a low cost and efficient manner (Chopra and Wright 2011).

As SACCOs in some countries are delivering online services (online loan application, ATMs, SMS and mobile banking), the upkeep of technology is becoming important. For Instance, in Kenya some SACCOs have embraced computerization 10 years ago, changing to a more modern and versatile system in recent years. The new system has gone a long way to enhance efficiency of service delivery, eliminating differences between members' balances and controls. Moreover, the new IT system allowed introduction of ATM services and electronic bank reconciliation (SACCO CAP 2007).

### ***Financial Institutions***

Micro finance serves as an umbrella term that describes the provision of banking services by poverty focused financial institutions (MFIs, SACCOs, and others) to poor parts of the population that are not being served by mainstream financial services providers. Likewise, banks have a critical part to play in financial inclusion through granting loans to these rural financial intermediaries like SACCOs in soft interest. In India, Indonesia, and Egypt, banks played a key role to be the backbone of such system that reaches the poorest (AFI 2010b).

## **2.11. Constraints of Enhancing Financial Inclusion**

Developing effective FI programmes and bringing them to the target can be challenging. Research shows that there are several issues that can make it difficult to enhance FI to the people who could benefit from it. Some of constraining factors includes:

### ***Accessing the Target***

Barriers such as a lack of trust from potential recipients, limited opportunities for learning about financial issues, and geographical location can make it difficult for public authorities and financial service providers to reach out to such groups with financial services/products (Atkinson and Messy 2013).

### ***Low Levels of Literacy***

Low levels of literacy creates challenges when implementing FI initiatives. Education is a variable that is frequently used for analyzing financial decisions, due to its association with financial knowledge, and as it is a proxy for financial literacy. Researches show that a higher educational level increases financial inclusion (Atkinson and Messy 2013; Joshi 2011). Within the context of lowest literacy, the population's ability to understand technology-based financial services is not optimal (Triki and Faye 2013).

The financial isolation of poor people often results in their lack of financial understanding, which in turn leads them to further distance themselves from formal financial institutions. Evidence shows that poor financial literacy represents a significant barrier to accessing and properly using formal financial services. Poor financial literacy limits people's capacity to be aware of financial opportunities, make informed choices, and take effective action to improve their financial well-being. Yet again, financial literacy is particularly important as it is intrinsically linked to consumer protection. With greater knowledge people are less likely to fall victim to unscrupulous moneylenders, or financial service providers who might be offering inappropriate products, with no transparency and high interest rates (CARE, Plan and Barclays UK 2013).

### ***Price Exclusion***

The Global Findex survey, as stated in Demirguc-Kunt and Klapper (2012), cited expensiveness or non-affordability of financial services as one of FI constraints. Affordability remained a challenging issue for enhancing FI in developing regions as also noted in Kibua (2007) high bank charges coupled with low interest on saving deposits make it difficult for the rural poor to participate in the financial markets.

### ***Self-exclusion***

Self-exclusion occurs due to fear of refusal or due to psychological barriers or cultural obstacles which deter people from using banks. Rural households may feel intimidated by financial institutions and develop a belief that these institutions are intended for more educated and richer individuals. This self-exclusion by low-income households may be as important a cause for exclusion as direct exclusion by financial institutions (Ramji 2009). Likewise, Demirguc-Kunt and Klapper (2012) noted that religious factors as one of cited reason for not having a formal account.

### ***Legal Requirements/Procedures***

A lack of legal documentation is another major obstacle that poor households face when trying to open any kind of an account, be it savings, credit, or current. Poor individuals, especially women and other marginalized groups, rarely have legal proof of identity, address or employment. This renders obtaining formal credit even more onerous (Ramji 2009). Kibua (2007) added that, a requirement for high minimum balances by the banking sector can discourage the rural poor from participating in the financial system; and by discriminatory procedures such as providing facilities only to the formally employed.

### ***Absence of Reliable Financial Data***

The absence of reliable data (even for baseline issues such as “how many people have no access to or make little use of financial services?” or “who are they and where do they live?”) is still a reality in many developing countries. This poses a major obstacle

to policymakers' ability to make well-informed decisions as well as to monitor the progress of financial inclusion initiatives. Without data, financial inclusion enters a vicious cycle, no data means it is difficult to have a complete picture of the situation in a country, which in turn results in lack of political awareness and few subsequent actions being taken. Regulators indicated that policymakers addressing financial inclusion are often unable to collect data and therefore develop informed policy because they lack the budget or mandate for these activities as this policy area lacks a clearly assigned overseeing authority (AFI 2010a).

## **2.12. National Commitment for Financial Inclusion**

Governments have increasingly embraced financial inclusion as a policy objective, recognizing its potential for economic growth and poverty alleviation, and acknowledging supply-side barriers, demand-side barriers, and poor regulatory frameworks as three primary challenges. The government can potentially play an important role in promoting financial inclusion through legislative actions, as mentioned by Bayot, Disneur, & Kempson (ND):

- i. **Direct legislation**, designed to impose upon financial services providers an obligation or prohibition to provide a certain kind of financial service, and to organize, regulate, monitor or control financial services provision in order to ensure financial inclusion.
- ii. **Indirect regulation**, designed to remove obstacles that reinforce financial exclusion
- iii. **Positives incentives**, designed to encourage the changes in the banking system to promote financial inclusion.

Similarly, the Maya Declaration is the first global and measurable set of commitments by developing and emerging country governments to unlock the economic and social potential of the 2.5 billion 'unbanked' people through greater financial inclusion (AFI, 2012). Accordingly, more than 90 such countries representing more than 75 percent of the world's unbanked population have supported the declaration. Each country makes

measurable commitments in four broad areas that have been proven to increase financial inclusion. These include:

- i. Create an enabling environment to harness new technology that increases access to and lowers the costs of financial services;
- ii. Implement a proportional framework that advances synergies in financial inclusion, integrity, and stability;
- iii. Integrate consumer protection and empowerment as a key pillar of financial inclusion;
- iv. Utilize data for informed policymaking and tracking results.

## Chapter III: Methodology

### 3.1. Description of the Study Area

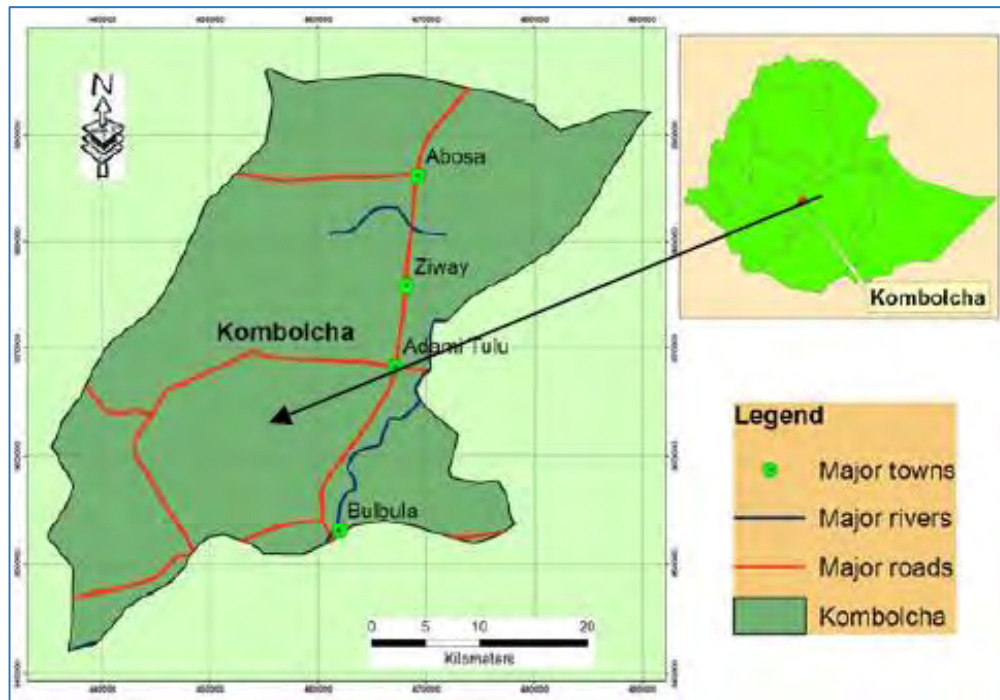
Adami Tulu Jido kombolcha is located in central rift valley area of East Shewa Zone, Oromia region, Ethiopia. It is bordered by Dugda district in the North, Arsi Negelle district (West Arsi Zone) in the South, Ziway Dugda district (Arsi Zone) in the East, and SNNP National Regional State in the West.

According to data obtained from BoFED, the district is located within 7°36'46"-8°04'20"N latitudes and 38°24'07" - 38°48'36"E Longitudes, extending for about twenty-eight minutes (28') north to south or vice versa and about twenty-four minutes (24') east to west or vice versa.

The District is sub-divided into 43 rural and 4 urban Pas (kebeles), with its total surface area of 1491.66km<sup>2</sup> (149,166.25hactare of land). Adami Tulu Jidokombolcha district is the fifth largest district in the zone. The Main semi-urban and urban localities of the district are Abosa, Bulbula, Jido and Adami Tullu. According to this data, the total population of the district by the year 2012 was estimated 181,033.

Agriculture is the principal economic activity that provides employment opportunity and make their livelihood the large residents of the area. The district is suitable for crop production, livestock rearing, and fishery development. Cooperative sector holds a key role in the district, covering about 19,064 household members. The major types of service delivered by cooperatives for their members includes saving and credit service, supplying their product to the market, provision of fertilizers, and improved seeds. There are about 221 different types of cooperatives in the district running a total capital greater than birr 15 million.

Fig 1: Map of Adami Tullu-Jido Kombolcha district



Source: BoFED, Socio-economic Profile of the district

### 3.2. Research Setting

The research is set in Biftu Batu Rural Saving Credit Cooperative which is found in Adami Tullu Jido Kombolcha District. There are many factors that make the cooperative society an interesting and appropriate setting for this study. This cooperative is formed, led, and mostly serve women who are generally evident as higher levels of financially excluded in the world. In Biftu Batu RuSACCO, nearly all members of the cooperative (99.31%) are female. Nevertheless, poor people in general tend to be financially excluded, but women in many countries are more financially excluded than men at similar levels of income<sup>17</sup>. Even globally, access to financial services is highly unequal, with poor people and particularly poor women are frequently the least served by existing

<sup>17</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/213907/promoting-womens-financial-inclusion-toolkit.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/213907/promoting-womens-financial-inclusion-toolkit.pdf)

institutions and systems (DFID 2013). The problems of gender inequalities are very much prevalent in and relevant to Ethiopia as well. Ethiopia is a patriarchal society that keeps women in a subordinate position, and they are under-represented in education, employment opportunity, decision-making, and economic empowerment<sup>18</sup>. Moreover, women's participation in rural cooperatives is no exception. According to Bezabih (2012), only 23% of members are women in cooperatives of Ethiopia. This study, therefore, portrayed the role of the RuSACCO whose leadership and members are women, in increasing access to financial services to the excluded rural poor. Moreover, it as there is no previous study and baseline on this specific subject matter in Ethiopian context, it will serve as an input for further study.

### **3.3. Sources of Data**

#### ***Primary Data***

Primary data are results of interviews and FGD conducted. Field notes, unpublished documents like inter-office memorandums, circulars, performance reports, and diaries were employed.

#### ***Secondary Data***

Unpublished reports pertaining to the RuSACCO, journals, magazines, reports, on-line sources, national strategies, and literatures were assessed and utilized.

### **3.4. Data Collection Techniques**

Data were collected through in-depth face-to-face interviews. It also involved a document review to grasp data's supporting the study. This broader context of financial inclusion was accounted for in the interview framework, which covered issues of financial inclusion including saving inclusions, outreach, credit inclusion, financial literacy inclusion, agency banking, and related aspects. During the interview process,

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<sup>18</sup> <http://ethiopia.unfpa.org/drive/Gender.pdf>

care was taken to be fairly open about when and how questions were asked and asking new questions to understand the processes that lead to financial inclusion more clearly. Interviews with NBE and RuFIP highlighted the links cooperatives and financial inclusion, their contribution to lessen over-indebtedness and affordability, being an important influence on processes of financial inclusion, and national commitments for FI.

The structured interview method guided the researcher to persuade (through motivation) respondents to answer questions and explain the objectives of the survey. With structured questionnaire, it guided to follow the sequence of questions in the questionnaire, careful thought linkage of topics, and minimize non-responses.

FGD (focus group discussion) has also been employed to secure data from member primary cooperatives. Being with the union manager and coordinator at cooperative promotion office of the district, target audiences were selected depending on mixes and exposures of participants. Accordingly, by following relevant guidelines the discussion was held on 11<sup>th</sup> May, 2014 in the compound of Biftu Batu RuSACCO with 13 individuals, who also represent member primary cooperatives.

### **3.5. Methods of Data Analysis**

Once all sufficient data are obtained, they were organized in a way suitable for analysis. Responses from agencies, interview responses, and inputs of FGD were formatted into similar topics (subjects), and sorted in folders. Thematic analysis has been employed to analyze these data through interpretive statements about the themes obtained through interviews, and explore relationships among the variables. Besides, descriptive analysis were utilized, and graphs and charts were used to display the distribution of data together with simple graphics analysis.

### **3.6. Ethical issues**

It was important to inform respondents fully about the nature and purpose of the research, what would happen to 'their' data and the confidentiality of the interview.

Likewise, all participants of FGD were willingly to provide inputs to the discussion. The FGD lasted in 1 hour and 30 minutes. At the end the discussion, field notes were gathered into organized frame through using a brief standardized outline.

## **Chapter IV: Data Presentation and Analysis**

### **4.1. Introduction**

This chapter deals with presentation of data collected and analysis. The main purpose of this study is to identify the roles of rural savings and credit associations in delivering financial services to the excluded and disadvantaged sections of the society in the district of Adami Tullu Jiddo kombolcha, East Shawa Zone, Oromia regional state of Ethiopia. The selected targeted cooperative society is Biftu Batu RuSACCO, and data were collected from relevant sources including federal regulatory organs, regional bureaus, district offices, civil societies, and appropriate cooperative societies.

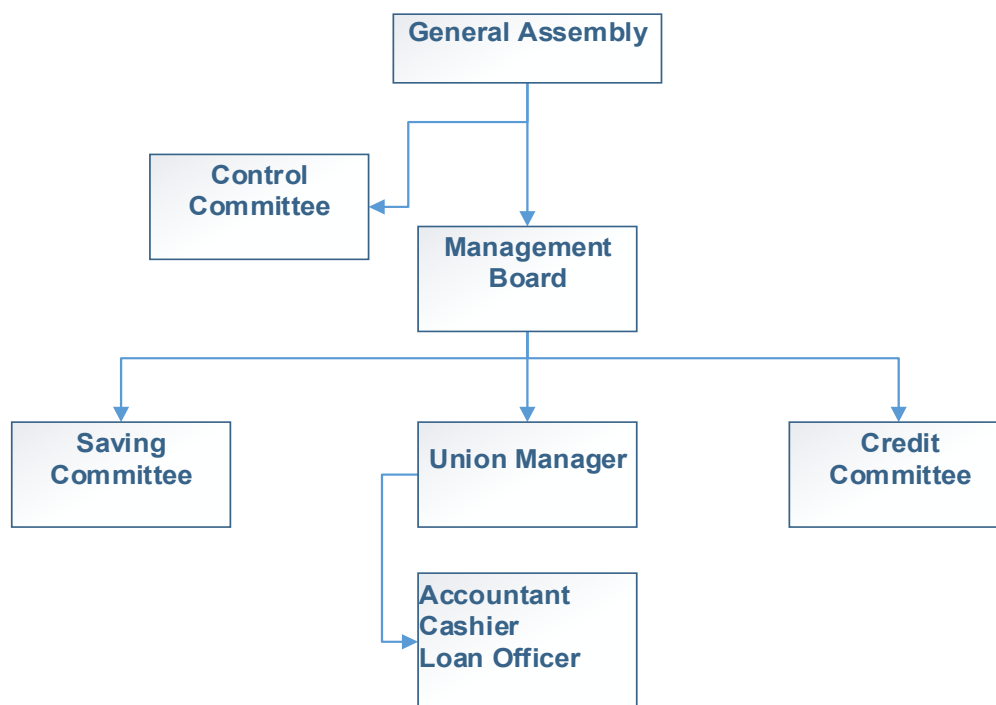
### **4.2. General background of Biftu Batu RuSACCO**

According to data obtained from the RuSACCO, it was established in May 2008 in Adami Tullu Jiddo Kombolcha district, East Shawa Zone of Oromia Regional State with a total capital of ETB 160,000 and 27 member cooperatives having 2,622 members. It has a mission of rendering quality services to members through coordinating human and financial capital of the cooperative and complying with a guiding principles of a cooperative societies so as to ensure members' interest and meet social values. Promoting savings and credit services, minimizing the individual impact of risks and uncertainties, developing the social and economic culture of the members through education and training, and collectively solve economic problems of members are some of identified objectives of the RuSACCO.

Regarding the legal structure, the supreme organ of the cooperative is the general assembly, which is the highest decision making organ including the approval and amendment of by-laws and internal regulations of the society, the annual work plan, and budget. Management Committee execute such other decisions given by the general assembly, and submit reports to the general assembly on the activities of the society. Whereas, the Control Committee follows up that the management committee

is carrying out its responsibilities properly, and property of the society are properly utilized. The detail structure of the society looks like:

Fig 2: Organ-gram of Biftu Batu RuSACCO



Biftu Batu RuSACCO has been serving as financial intermediaries, channeling savings into loans, provide saving opportunities for the poor for the rural poor in the district. Its member primary cooperatives has reached 42, and membership base increased by 102% from establishment date.

Table 1: Biftu Batu RuSACCO membership trend (2008-2013)

Year	Membership (RuSACCOs)	Members			Family Size
		Male	Female	Total	
2008	27	1	2,620	2,621	11,284
2009	32	3	3,309	3,312	14,648
2010	36	4	4,406	4,410	21,565
2011	37	4	4,478	4,482	22,205

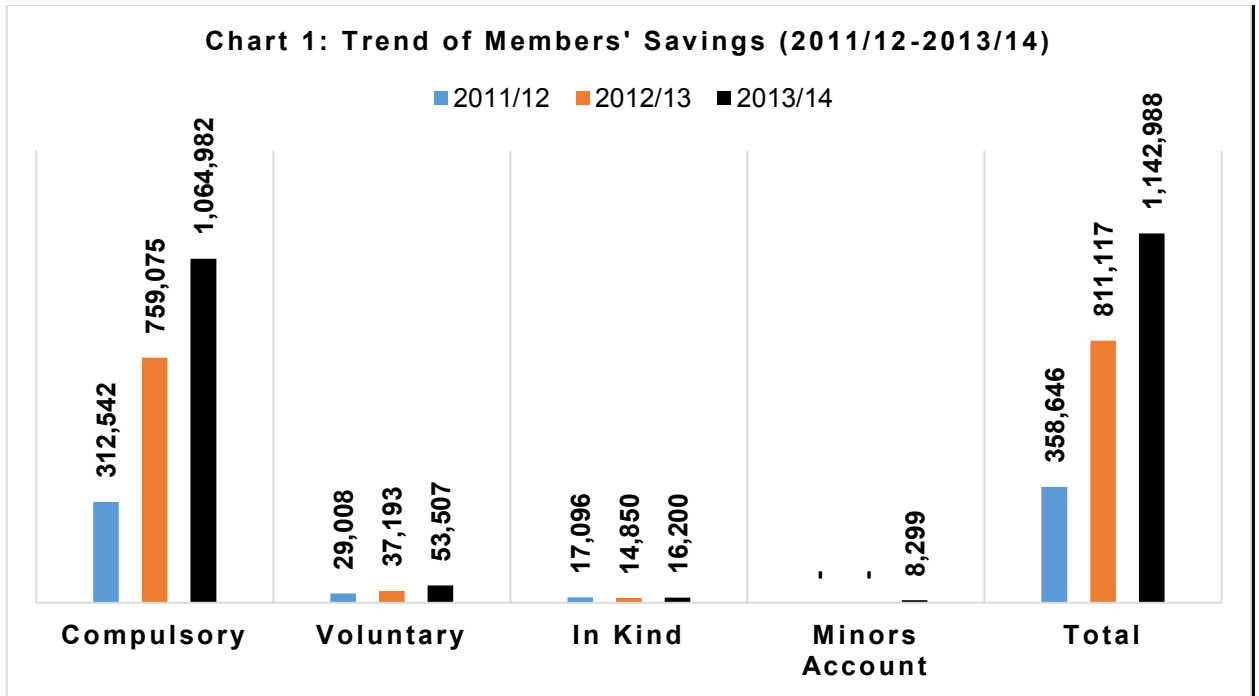
2012	39	7	4,958	4,965	23,853
2013	42	36	5,247	5,283	24,639

Source: Biftu Batu RuSACCO (unpublished)

This table shows that, the RuSACCO has constantly been increasing its membership base in terms of number of cooperatives and household size. The number of member primary cooperatives, which is equivalent to number of outlets for the union which aids to channel its products/services has been increasing straightly across years, and resulting number of member households have also raised expressively. This implies that, Biftu Batu RuSACCO has increased its outreach through increasing its access to unreached rural poor who had not been able to reach any formal financial institution.

#### **4.3. The Role of Biftu Batu RuSACCO in Promoting Savings (Saving Inclusion)**

The SACCO is increasingly providing formal saving opportunities for members, which is a cheap and reliable refinancing tool for the SACCO. There are savings of various types provided by the union viz ‘compulsory’ signifying a forced saving scheme where members should save an amount that is determined by the assembly; whereas ‘voluntary’ saving is a saving arrangement whereby a member can save by own interest with no limitation on minimum amount to be saved. Saving ‘in kind’ denotes a warehouse facility where members hoard commodities, principally agricultural produces, for future use (marketing); and ‘minors account’ is account maintained by kids in which the cooperative deliver them coin/deposit boxes and keys kept at the cooperative. The beneficiaries should bring the box to the cooperative office for getting registered on books of their accounts and get an interest income. As can be seen from the following chart, the Union has managed to increase members’ total savings by an average of 84% in the last three FYs to surpass birr 1.14 in 2013/14.



According to data obtained from the SACCO, the main drive for members to save at the SACCO is often to have access to loans in the future since the RuSACCO normally link the accessible loan size with an amount of compulsory savings that a potential borrower has to hold at the union. By saving small amounts (initially as little as 30 to 40 birr a month), members gradually begin to save, and subsequently access loans from their savings plus fund from the RuSACCO.

The minors account, targeted for both members' and non-members' teenagers, commenced by the cooperative in partnership with RuFIP (Rural Financial Inclusion Programme), the programme aimed to enhance access of the rural poor to regular and reliable financial services. According to data obtained from the RuSACCO and FGD, the minors account scheme has been targeted to inculcate saving culture to youngsters, minimize family burden on educating their children, support their prospective entrepreneurial motives, or just as a patronage to their families. As of May, 2014 the total number of minors account has reached 673 beneficiaries, as per the report of the union.

With a view to expand the reach of its services to the unreached, the union opens no-frills savings accounts to bring into the service fold with only birr 5 initial amount of

deposits with no additional (extra) service fee. Now, savings account can be opened with such a marginal deposit. Through this it has been able to reach out to people having very low income to become members.

The service rendered by the RuSACCO is reaching a substantially smaller number of families in the lower middle class and marginal segments. Wide-scale savings mobilization is fundamental to building inclusive financial systems. This insight is grounded in evidence that the poor do save in cash and in kind whether as a way to build assets, manage household cash flow, or effectively cope with risk. When members deposit their savings with the cooperative, the amount is usually switched as credit. When they deposit their savings with the cooperative, they participate in the business of the cooperative. The advantages of starting savings schemes in the cooperative, as understood from FGD and data obtained from the RuSACCO, inter alia, include:

- Members have greater involvement in cooperative activities via saving;
- A habit of savings encourages discipline among members;
- Members can avail of credit from their savings; and as a consequence inspires members to save with the cooperatives,
- They can benefit from interest on deposits;
- It helps them keep their money safe and at convenient place;
- It helps them for weathering bad times on unexpected adverse events and emergencies;
- Builds a culture of self-reliance; or the SACCO acquires a greater degree of control as its capital base increases, enabling it to take better financial decisions;
- When the SACCO's capital base increases, it will have enough credibility to be able to obtain loans for its business from banks (credit worthy).

Evidently, savings is an essential and integral element of a strategy to promote financial inclusion. They provide a financial buffer, made access to credit for members, the process of accumulating savings itself drawn members into financial services and increases their familiarity with financial concepts. Biftu Batu RuSACCO has thus provided financially excluded people with saving opportunities (saving inclusion) and empowered the poor of the area, which is a vital step toward financial inclusion. It is

desirable that the RuSACCO membership embraces a saving culture so as to increase their low incomes, leading to improved quality of life as well. The role of the SACCO in mobilizing savings and thereby channeling funds into members' investment opportunities is therefore central to a successful scheme for financial inclusion and a resultant economic development.

#### **4.4. The Role of Biftu Batu RuSACCO in Creating Credit Access (Credit Inclusion)**

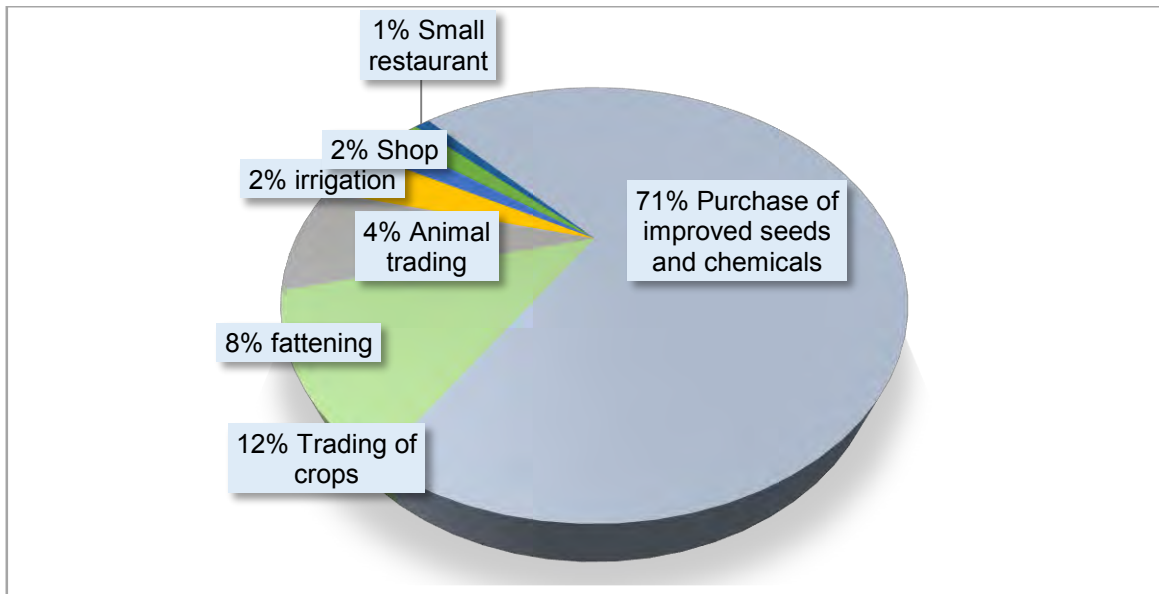
As per data obtained through FGD, for most excluded rural poor, obtaining a commercial loan to start a business has been very difficult. They didn't have the opportunity to carry on business and cannot afford the interest rates charged by MFIs. However, Biftu Batu RuSACCO have begun easing their access to credit and enabling them to start small businesses and improve their livelihood. It is a unique because it fundamentally supports women, especially those engaged in agriculture and small businesses. The credit they get in the form of microfinance has helped-out communities to grow food, trade cereals, livestock, poultry, access inputs, improved seed and others.

According to data obtained from the RuSACCO, credit is the main facility that retains members' interest towards the cooperative society. Deposit is a compulsory to get loans by members; and analysis involves KYC or collection and analysis of basic manners of borrowers, and persistent savings (currently, 6 months in row). As member primary cooperative societies are established by persons who live or work within a given area, it streamlined the process of exploring members' behavior. Moreover, collateral is not a requisite in any way for lending purpose.

#### **Portfolios**

As can be referred from the following table (Table 2), the cooperative allocated micro loans to different segments, essentially for the agricultural production purposes (purchase of inputs, irrigation, and fattening) with 81% of total portfolio, and the remaining 19% held by trade activities.

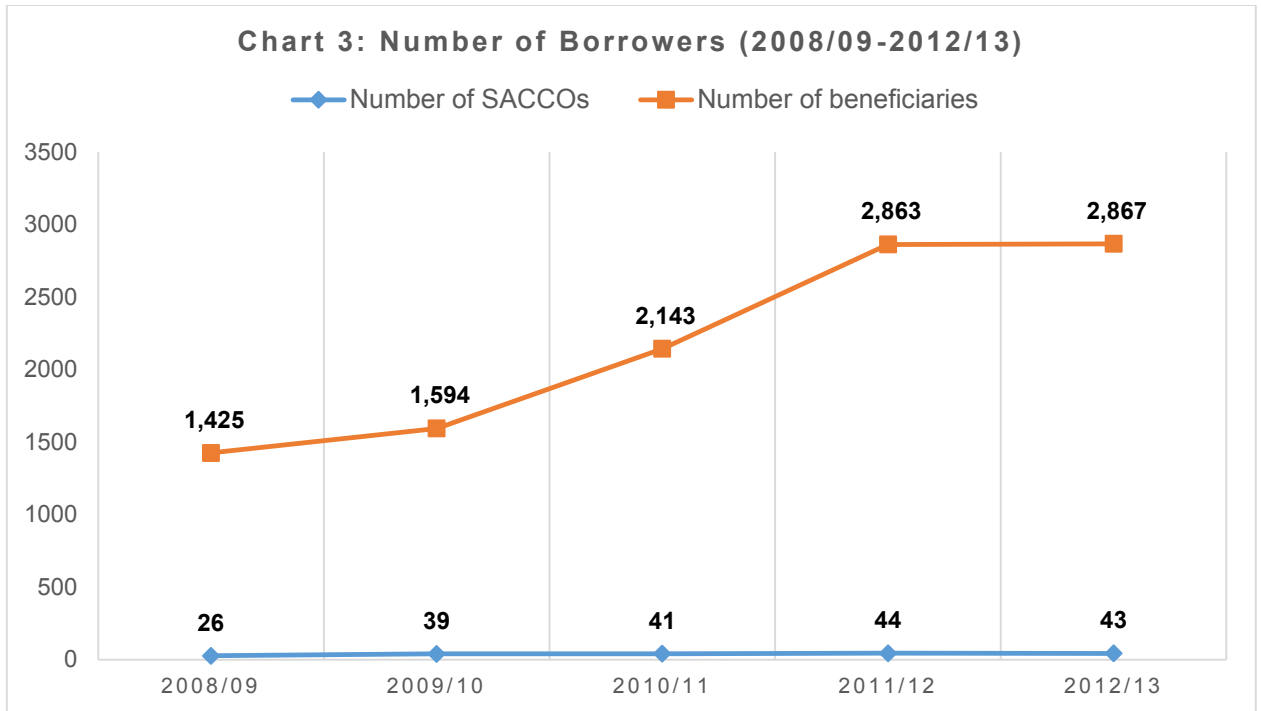
**Chart 2: Loan portfolio allocation to different sectors (2008/09-2012/13)**



According to FGD conducted, these loans meet seasonal needs for inputs, labor, storage facility, equipment, livestock expansion, and production services. Without access to the credit, members cannot easily expand or upgrade their business or overcome unforeseen events. Moreover, they added that the RuSACCO have created opportunities to an employment which is enormous and more people are joining their cooperative societies.

### **Number of borrowers**

Number of borrowers show beneficiaries or loan accounts held at the RuSACCO, which is supposed to have benefited the borrowers and their descendants. It's a good indicator of financial inclusion as well.



Within the last 5 operational years, the RuSACCO has increased its credit access by delivering a loan to a total 10,892 members (number of cases) or it has succeeded to disburse a loan to 2,178 members per annum. Likewise, the number of member primary cooperatives which have benefited (gained loan access) has also increased, with 65% increment in review period. On average, the RuSACCO has disbursed a loan to 39 cooperatives per annum.

It can thus be inferred that, credit is often viewed as an entry point for initiating development activities among the poor. This specific research thus conveyed an evidence that the poor individuals in society are part of SACCOS and have therefore effectively benefited from the financial interventions targeting the poor through SACCOS. In such a context, direct provision of credit to poor is considered an important way to initiate a process of social and economic change that is to facilitate a transition from a life of dependency and social disadvantage to greater self-confidence and self-

reliance. Results of FGD conducted<sup>19</sup> and data collected from the Union, inter alia, depict:

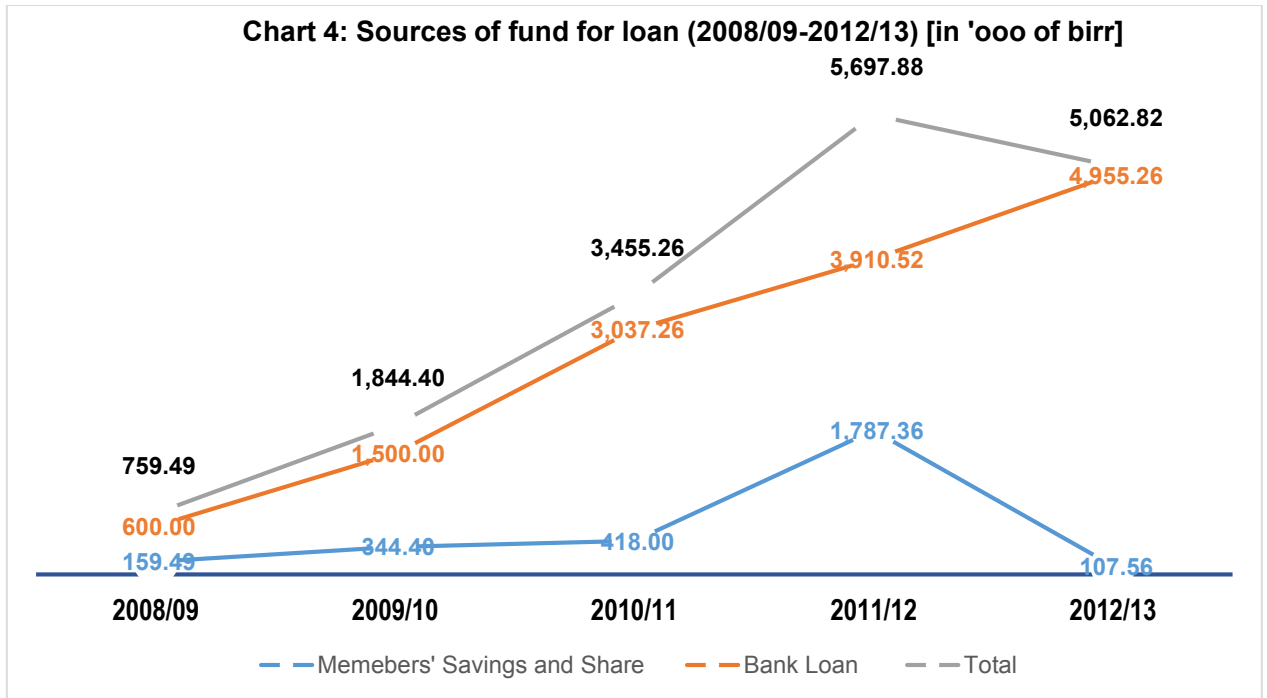
- It improved an income, employment, housing conditions as it offered an opportunity to take in business and agriculture;
- It entailed them to have enhanced money management (saving, credit, and others);
- It helped to reduce inequitable distribution of income in a society; and
- It enabled them to reduce extreme vulnerability and risks of members.

### **Source of Fund for Lending**

The cooperative society in the last five budget years (2008/09 to 2012/13) has managed to boost its loan by an average 71% (1.08 million birr) from year to year, the sources of loanable funds being banks, and members' savings and share with an average 83% and 17% in respective order.

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<sup>19</sup> The representatives of the member primary cooperatives who also manage the cooperative societies are also beneficiaries of financial services provided by Biftu Batu RuSACCO.



It is important to emphasize that while the loan quantity has increased, members' savings has marginal share of loanable funds which have an impact on sustainability of credit activities. Lack of own source of loanable fund (members' saving and share) will have a negative effect on operating activities and thus credit to members. That show the level of dependence of the SACCO on external sources which would affect the price of loans and sustainability of the loan. It's thus important for the RuSACCO to focus more on sustainable sources like members' fund and share.

### Repayment and Collection

With respect to repayment and collection, the RuSACCO has strong collection scheme with a dedicated committee supporting this end. The repayment status of Biftu Batu RuSACCO since its establishment nets a minimum of 95% to a maximum of 98.5%, which is outstanding performance. The union usually ensures end use of loans, monitors repayment schedule, identifies early warning signals and initiates remedial measures when there are problems, and detects deviations from conditions and terms of approval. Sources of repayment for a typical client includes crop harvest or sale of animals, and proceeds from trade and services. Important factors for successful

outcomes of credit collection by the RuSACCO includes denying access to future credit in the case of default by a member, and training at the grass roots as well as at management levels. Thus, a good credit recovery mechanism established by the cooperative society coupled with good repayment culture entailed an exemplary credit inclusion in the area.

### **Advisory Services**

As the cooperative is established with a members with no or little business experience, less financial management know-hows, and limited overall banking skills the role that the cooperative is playing with this aspect is worthy. The RuSACCO has been giving face-to-face money advice focusing on customer retention and relationship management to improve its excellence among the poor especially the deprived ones. Advisory services rendered by the RuSACCO with respect to credit as per data obtained from the Union and FGD mainly include proper use of funds, feasible areas to invest, and repayment culture which is one of the critical foundations of financial inclusion. As a main financial service provider in study area, the RuSACCO has emerged as the institution with a close connection to the community which counsel them in financials and related subjects unlike other financial intermediaries like MFI, according to results of FGD.

### **4.5. The Role of Biftu Batu RuSACCO in Financial Literacy (Educational Inclusion)**

Financial literacy is one of an essential pre-requisite for financial inclusion. Biftu Batu RuSACCO, despite facing acute constraints in capabilities and capacities, has been working much in changing attitudes and behaviors of the society that inhibit use of, and trust in, formal financial products. The rural segment of the area often lacks financial understanding, which in turn leads them to further distance themselves from formal financial institutions, according to interview result with the cooperative and FGD made with members.

Biftu Batu RuSACCO has succeeded to render education to its members entailing them understand how to use financial products and services, how to manage personal or household finances, and similar subjects over time. Within the last five operational years it has trained its members in the course of KYC (know your customer), while recruiting members, when opening accounts, and before/after loan delivery for the mutual benefits of its members and the cooperative society. It delivered an opportunity to upturn financial inclusion and subsequent progress in members' wellbeing on one hand, and reduced non-performing loans and loan collection efforts of the SACCO on the other hand.

The government support with respect to promoting financial literacy for the RuSACCO has been eminent according to data obtained. Office of Cooperative Promotion of the district being with the RuSACCO and member cooperatives has been delivering relevant trainings in auditing, basic accounting, finance system, general ledger, and auditing. Whilst, RuFIP in the this budget year, being with the RuSACCO has delivered trainings to 23 member cooperatives and on subjects like savings, account opening, business process, marketing, basic accounting, revenue and expense management, leverage ratios, credit management, interest rate calculation, and petty cash.

Continued effort made by the RuSACCO and its members have improved understanding of mainstream financial services, deeper understanding of benefits of financial services, improved household savings levels, and protection against informal financial agents, and in due course to improved economic opportunity, according to FGD made with member primary cooperatives, and the SACCO.

They added that, they are seen as a key target in relation to microcredit since it's understood that these self-employed and would-be entrepreneurs need financial education. This aims to improve financial inclusion and financial literacy, whilst also enabling women members to build networks, and improve their security.

The role played by the Biftu Batu RuSACCO in enhancing financial literacy to marginalized communities like women with low levels of literacy is, therefore, vital and is the necessary footstep to increase their likelihood of becoming financially included.

## **4.6. Reflection on Affordability, and Convenience**

### **4.6.1. Affordability**

Banks are not offering rural targeted financial activities to the excluded due to the lack of economies of scale on the side of the banks, according to NBE sources. They haven't been serving remote and economically unprivileged areas in consideration of operational costs. Moreover, with limited cellphone penetration in such a rural area and early stage of electronic banking platform in the country, mobile banking is still hardly possible to implement.

From the outset, according to the Proclamation<sup>20</sup>, a cooperative society is established with an objective to improve the living standards of members by reducing production and service costs, by providing input or service at a minimum cost or by finding a better price to their products/services. Holding this, it's not a profit that drives business of Biftu Batu RuSACCO, rather it's a motive to collectively solve members' economic and social problems.

According to interview results of the cooperative society, in view of low banking coverage to the rural areas, lack of formal financial services forced the unbanked into informal banking sectors where interest rates are higher. Because the informal banking structure is outside any legislative framework, any dispute between lenders and borrowers cannot be settled legally. Borrowers are at much greater risk of usury and exploitation, farmers are pushed into borrowing funds for fertilizer, machinery and seeds at the beginning of the growing season that the farmers then cannot repay after the harvest is being sold. Emphasizing this as root problem, member cooperatives on FGD underlined that pricing structure of the Biftu Batu RuSACCO is reasonably better-off and outweighs the cost their members/customers incur.

As banks are still far-off the excluded rural population and solely concentrating to urban areas, MFIs and SACCOs persisted as an available financial options. MFIs model, yet,

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<sup>20</sup> FDRE (1998), 'Cooperative Societies Proclamation No 147/1998'

vis-à-vis 'affordability' principles is questionable counter to RuSACCOs' one. In MFIs, profit is still the underlying orientation in supporting their noble motivation to gain outreach to the poor. Data obtained from NBE depicts that, MFIs charge ranges from 9% to 30% interest rate on loans (averaging 19.5%). Whereas, Biftu Batu RuSACCO charges from 15% to 18% (16.5%), which is a 6% plus the lending rate of banks. As Biftu Batu usually depends on bank loan for obtaining loanable funds, a marginal 6% interest is thought to cover operational expenses of the cooperative and minimal profit.

In addition to MFIs, informal finance continues to exist in a large scale in the area of study. Family, friends and moneylenders who make up this informal finance take advantage of social sanctions, which is essentially an intangible and subtle collateral based on in-depth knowledge of their borrowers. But informal finance being illegal and purely personal, its interest rates are typically very high.

Hence, contrasted with restricted loan access from banks, likely risk from usury (illegal money lenders), and higher rate charged by MFIs, Biftu Batu RuSACCO come about a better-off alternative for the excluded segment of the area. Moreover, the tremendous loan recovery rate the cooperative have seen (from 95% to 98.5%) within its operational years depicts the same as well.

#### **4.6.2. Convenience**

Compared to MFIs and informal finance, cooperatives have an ownership structure that is unique. Providing magnificent service is a quality valued and appreciated by Biftu Batu RuSACCO members and has become a unique advantage of the cooperative. Being member-based and member-driven, the cooperative is mandated to serve its members. Besides, Biftu Batu RuSACCO builds and maintains close relations with its members to ensure members' needs and aspirations are continually listened to. According to data obtained via FGD and interview made with the Union Manager, the RuSACCO delivers financial services by identifying specific needs of members. For instance, as also depicted in the portfolio allocation (Chart 2), since the area is suitable for agricultural production, the union succeeded to allot majority of loan to this sector. Moreover, to create convenience in service accessibility, alongside physical visit to

branches, the cooperative society has been offering a door step service delivery by field agents/staffs especially for account opening, loan collection, and counseling.

#### **4.7. The Potential Role of Biftu Batu RuSACCO in Agency Banking**

Pursuant to a regulation of Mobile and Agent Banking Services<sup>21</sup>, agents are thought to have significant contribution in deepening financial service accessibility to the wider section of the population at an affordable price. In view of that, agent is a person engaged in a business activity and has been contracted by a financial institution to provide the services of the financial institution on its behalf in a manner specified in these directives. To serve this purpose, cooperatives especially saving and credit cooperatives have the potential to serve as agents bearing in mind their presence at grassroots level. SACCOs are economic agents appropriate for extending financial services in locations for which bank branches would be uneconomical, and holds high potential for closing location gap. Biftu Batu RuSACCO has a potential and a conclusion to serve as an agent to banks considering the following factors:

- It offers deep and broad product line and mixes which thereby brings new products and resultant benefits to the cooperative society;
- It enables the cooperative keep connected with stakeholders and enlarge the capacity and capability of the cooperative;
- It offers additional line of business and ensuing revenue for the cooperative;
- It enables secure, prompt, easy, accessible, and affordable financial services to the society;
- It offers a chance to increase service outreach, and reach new customers by solving the critical bottlenecks of costs; and
- It helps to reduce the cost of financial services, and be more affordable to the community.

This will have an implication that, a cooperative sector will have an opportunity to take part in agency-banking model, and serve as an outlets to banks so that increase financial service

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<sup>21</sup> NBE, Directives No. FIS /01/2012

outreach in a commercially viable way and at the same time encourage customers (most importantly) the excluded segments at an affordable rate.

#### **4.8. Barriers and Constraints Faced by Biftu Batu RuSACCO in Enhancing Financial Inclusion**

Although the RuSACCO has been playing its role in promoting financial inclusion in the study area, there are various barriers and constraints. These barriers include the demand side (from the user point of view) as well as supply-side constraints (from the cooperative side of view) which summarized here-below:

##### **4.8.1. Demand Side Barriers**

They are a barriers to access which can undermine consumers' willingness to engage with financial services and/ or affect capacity and ability to make effective, informed choices and decisions. Major demand-side barriers for promoting FI in the study area, according to interview results, includes:

- i. **Low level of literacy:** - despite a mounting effort made by the union to increase financial literacy/understanding, there is a vast community with less opportunity to understand merits of financial issues. According to socio-economic profile of the district as well as data obtained from primary cooperatives (through FGD), the society (target population) typically lack knowledge of formal financial institutions and the terms and benefits of financial products such as savings and credit. This have entailed the union not to increase its membership base, the outreach, and ensuing financial inclusion concern. Poor financial literacy limited people's capacity to be aware of financial opportunities, make informed choices, and take effective action to improve their financial well-being.
- ii. **Low Income of the Society:** - data obtained from the cooperative through interview depicts that, poor people often do not believe they have enough income to transact with RuSACCO. Irregular and unreliable cash flows, and less income further dissuade these people from availing themselves of formal

financial services, despite the fact that the services of the SACCO is very useful for people with less cash flow.

- iii. **Socio-cultural Obstacles:** - there exists also socio-cultural factors such as traditions or religion which led to voluntary exclusion, or to a person's own decision not to use and not to be interested in using the financial system, as majority of the residents (72%) practice Islamic religion according to the profile of the district.

#### 4.8.2. Supply-side Barriers

On the other side, a number of factors relating to the way the financial services industry operates and is structured means that consumers can be excluded or don't have access to fair and affordable products and services. As the unit of analysis to this study is at the cooperative level, it identified the key barriers and challenges faced by the union in enhancing FI in the study area, which among others, include:

- i. **Low ICT Implementation:** - findings supported that low adoption to technology and inadequate systems were one challenge to the cooperative. Until the manual operations and management information systems are replaced by an efficient, suitable, computerized system, the RuSACCO will be challenged when it comes to reporting and data management.
- ii. **Weak Financial Base:** - the cooperative society is not financially strong enough to deliver vibrant products and services so as to ensure sustained services. As also stated previously, major sources of fund is from bank loans which will have serious impact on sustainability of the loan and related services to the vulnerable and disadvantaged sections of the society. It should be financially self-sustained by increasing the members' contribution.
- iii. **Managerial and Staff Capabilities:** - In order to successfully deliver on its mandate, the RuSACCO needs to ensure that it has necessary skills and capabilities that are critical to achieve its objectives. According to the finding, the capacity of the RuSACCO is insufficient (both quality and quantity) to deliver efficient services to all members.

## **4.9. The Support of Stakeholders to Biftu Batu RuSACCO**

Stakeholders have their own contribution in support of the cooperative society on the issue of financial inclusion. Here-are stakeholders which have played a role to support an effort to promote FI:

### **a. Government**

Cooperative promotion office at the district level organize cooperatives and register them from the outset, provide technical support (like during election of committees), provide audit service, facilitate linkage with external sources, cover salary cost of the management team, and play other roles such as facilitation of market linkage as per interview made with the cooperative. Likewise, RuFIP is the government body which has been supporting the cooperative society in providing material support, offering trainings, and financial support. These continuous capacity building laid a solid basis for more effective and efficient services and activities of the RuSACCO, and strongly supports the development of FI effort by the cooperative society.

### **b. Financial Institutions**

Though the existing banking system didn't allow both public and private banks to serve the poor parts of the population at the bottom level, Cooperative Bank of Oromia stood a major source of fund for Biftu Batu RuSACCO. Since its establishment, 85.75% of loan funds were accessed from Cooperative Bank of Oromia.

## **4.10. Uniqueness of Biftu Batu RuSACCOs in Financial Inclusion**

The RuSACCO model seems to have important advantages for promoting financial inclusion in rural areas. Biftu Batu has the following unique features which is important in stimulating financial inclusion:

### **a. A Strong Local Base**

Biftu Batu RuSACCO has a strong local base, which allowed it to be fully integrated in the environment and to have a proper understanding of working context. Moreover, it has benefited from a network of inter-institutional relations (local authorities, farmers' organizations, and public institutions). This local base also allowed it to know its members and clients well. It generated a geographic and socio-cultural proximity that provided a better way to adapt the different products and services to the needs and characteristics of users. Finally, this proximity favored mutual trust and social control. It reinforced the members' identification and sense of belonging to the RuSACCO, and then contributed to the sustainability and social viability of the cooperative society.

### **b. Less Profit Character**

Biftu Batu RuSACCO is basically a welfare driven rather than being profit driven, that embodies a cooperative enterprise. This doesn't mean it's a charitable like, but protecting and promoting the economic and social wellbeing of members is the primary concern of the cooperative society. Consequently, it allowed the cooperative to offer lower interest rates than other accessible financial operators. Moreover, as customers are also members of the RuSACCO (the concept of member economic participation) it laid emphasis on economic benefits to members via dividend payout. This is an effective stimulus which encourages member's involvement in the cooperative.

### **c. A Broad Range of Services**

The RuSACCO offer a broad range of financial services that go far beyond the granting of credits. Savings are one of the main pillars of the cooperative, 'compulsory', 'voluntary', 'kind', and 'minors' savings being available. Furthermore, it has already started micro-insurance, which supports as a safety for loans rendered to members.

### **d. Women**

Just as it is said that a woman getting educated would educate the family, a woman being financially literate and included, would pave way for inclusion of all members in

the family. Biftu Batu RuSACCO, hence, emerged as a cooperative society which acts as a source of empowerment and allowed women to participate in the economic and social process. Currently serving a total of 5,283 members with 24,639 family size, women make 99.32% of members of the RuSACCO. Moreover, on the governance as well all 16 members of policy preparation structure (management committee, control committee, loan committee, and saving committee) are women.

#### **4.11. A Review of a National Financial Inclusion Commitment**

Financial inclusion is a win-win opportunity for the poor, for the banks and for the nation. It's important to assess the attention paid to financial inclusion and policies devoted to enhancing access to finance. Thus, this topic dealt with government's commitment in an attempt to arrive at enriched financial inclusion, and presence of operative policy interventions. The two important areas covered are discussed here-below:

##### **4.11.1. National financial inclusion strategies**

The Maya Declaration, the first global measurable set of commitments by developing and emerging countries to advance financial inclusion, has bolstered interest in developing and implementing strategic approaches. In view of that, the Maya Declaration has been an opportunity to make specific strategy commitments, and the Central Bank of Ethiopia had vowed to include its financial inclusion strategy within Ethiopia's Growth and Transformation Plan. Yet, according to interview made with NBE, Ethiopia has no national financial inclusion strategies with clearly specified action plans and milestones.

As understood from the finding, there is no a roadmap for providing banking services covering villages in a structured way. Likewise, initiatives have not been made on financial awareness like opening and operating accounts, credit, insurance, and the like that ought to accompany the financial inclusion effort. It didn't materialize by insisting financial institutions to improve their access to excluded segments, and tailor new products to income streams of poor borrowers and according to their needs and interests at affordable pricing.

#### **4.11.2. National Financial Inclusion Indicators**

According to interview results made with NBE representatives, there exists no FI indicator used within the formal financial access network or FI standards. Hence, identifying excluded from included segment is indefinite task. In the context of improving financial penetration, NBE should have developed a financial inclusion indicators, which is used to measure access and use of financial products and services across the country, so that adequate measures can be taken to correct and improve any identified weaknesses and to measure/identify policy actions that are effective in boosting financial intermediation. Likewise, distribution inequalities across different districts, zones, and regions is unidentified.

## **Chapter V: Summary, Conclusion, and Policy Implications**

### **5.1. Summary**

An inclusive financial system that responsibly reaches all citizens is an important ingredient for social and economic progress of all countries, and thus helps poor households and small businesses generate income, build assets, smooth consumption, and better manage risks. At the macroeconomic level, the depth of financial intermediation under most circumstances spurs growth and reduces inequality. An inclusive financial system also helps governments to better execute social policy in other priority areas such as education and health.

In Ethiopian context, financial infrastructure is still very minimal, and only eight percent of the population has a bank deposit account, and has a very low rural banking density and consequently one of the lowest financial inclusion ratios of Sub-Saharan Africa. Banks and MFIs are not reaching the excluded-poor segments in rural areas and remote areas to the required and sufficient level. National commitments are deficient to define a clear financial inclusion strategies with clearly specified action plans and milestones and there is no any financial inclusion indicators/measurements indicating the included/excluded.

Cooperatives are pertinent and can play a very constructive role in meeting the objective of greater degree of financial inclusion in the country. Financial cooperatives are simple and unsophisticated institutions when they start, and with an increasing array of services and products over time, they can become as advanced a business model as any other type of financial institution. For the reason that, in the current situation, financial institutions (banks and MFIs) seek the most profitable places to operate and poor farming communities do not belong to them, financial cooperatives may offer not only larger outreach to a clientele that includes poor farming families, but also access to an extensive array of financial products and services.

Biftu Batu RuSACCO has played a role in increasing outreach by offering an opportunity to achieve rural outreach. By offering a saving products of voluntary, compulsory, kind, and minors account it has emerged as an institution that creates promote saving culture/habits, convenience, build self-reliance, and opportunity to weathering emergencies.

Credit access created by the RuSACCO has helped poor households of the area have an opportunity for improvement of their lives. Necessary credit counseling and technical guidance has been provided along with the credit facility at an affordable and timely manner (by considering seasonality). Likewise, cooperative endeavors to educate and train its members to improve their economic activity, have improved banking culture, manage their funds properly, and spread the details of cooperatives among the masses.

Given a restricted loan access from banks, likely risk from illegal money lenders, and higher rate charged by banks and MFIs, the cooperative society come about a better-off alternative for the excluded segment of the area. It has maintained close relations with members to ensure members' needs, and has created convenience in service accessibility via rendering a door step service for basic services. Furthermore, the interest charged by the cooperative society is affordable to beneficiaries not let them in unpredictable vulnerability.

The cooperative society has been facing various constraints, both supply and demand side barriers, in an endeavor to promote financial inclusion. On the demand-side low level literacy, low income of the society, and socio-cultural (self-exclusion), whereas on the supply-side inadequate ICT implementation, weak economic base, and low managerial and staff capabilities are constraints that the cooperative society faced.

## **5.2. Conclusion**

Generally, the role of Biftu Batu RuSACCO in financial inclusion is growing, which represents a significant opportunity for the rural population that has hitherto been excluded from the financial system. It is, thus, important to spot the importance of rural saving and credit cooperatives within the financial inclusion system. To do so, progress

has to continue on sustaining and strengthening 'financial cooperative model' for financial channels and products in order to provide the best possible supply of products and services for the excluded rural poor.

### **5.3. Policy Recommendations**

Depending on key findings the following key policy implications are forwarded:

- i. National government should promote and maintain an enabling environment for pro-poor actors like financial cooperatives (RuSACCO), so as to promote financial inclusion.
- ii. The role of SACCOs as absorber of savings has a great potential to improve the welfare of the rural population. Therefore, getting the focus on micro-savings would lead to more sustainable financial provider. Policy makers should contemplate orienting SACCO's towards micro-savings.
- iii. Traditional branch models will increasingly be accompanied by new service-delivery ways. Mobile phone and agent banking (branchless banking) will be a game changer in the future, enabling people to easily get served. Revolutionizing SACCOs' pattern will thus be imperative to gain from technology, and carry out financial service delivery through such platform.
- iv. Actors like NGOs, banks, and governmental agencies should be reinforced to support SACCOs so that they can proceed as strong rural financial intermediaries. It's thus important to attain synergies between the technology providers, NGOs, banking channels, and SACCOs is important.

#### **Future Research Agenda:**

- The impact of Inclusive Financial services on livelihood
- The role of technology in Financial Inclusion

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# APPENDICES



**ADDIS ABABA UNIVERSITY**

**School of Graduate Studies**

**Graduate Programme in MPMP (Specialization in  
Development Management)**

Dear respondents,

I would like to invite you to take part in my thesis entitled “**The role of rural savings and credit cooperatives in enhancing financial inclusion: a case of Biftu Batu Rural Saving and Credit Cooperative**”, whose main goal is to identify and explore the role played by RuSACCOs in promoting financial inclusion to the rural poor. The aim is to generate a new finding which can inform regulators and all other stakeholders to minimize financial exclusion prevailing in the country particularly in rural areas through ‘cooperative’ model. I believe that your expertise and knowledge are essential for the success of my project. Your contribution could influence policy making in this country looking to learn about good practices and successful practices in the areas covered by this study. Once the study is complete, I will share the report and results with you. While thanking you in advance for your valuable time and contribution, I want to guarantee you that your responses are held in strict confidentiality.

Sincerely,

Tadele Tilahun

## Interview Questionnaire for the Cooperative Society (Biftu Batu RuSACCO)

### Part I. Profile of the Respondent

1. Your position or job title: [\_\_\_\_\_]
2. Education
  - Doctoral Degree/PhD       Master's Degree       Bachelor's Degree
  - Diploma                       Higher Secondary Education
3. Your Experience
  - a) In current position [\_\_\_\_\_]
  - b) In Current Organization [\_\_\_\_\_]
  - c) In Other Organization [\_\_\_\_\_]

### Part II: General Information about the Cooperative

- 1) Name of the Cooperative [\_\_\_\_\_]
- 2) Year of Establishment [\_\_\_\_\_]
- 3) Address
  - a. Region [\_\_\_\_\_]
  - b. Zone [\_\_\_\_\_]
  - c. District/Woreda [\_\_\_\_\_]
- 4) Please provide background of the cooperative society and its legal structure. (Enclosure)
- 5) Please provide data on the following performance trends

	2008	2009	2010	2011	2012	2013	2014
Members							
Household							
Cooperatives							
Capital							
Amount of Savings							
Loan Amount							
Number of borrowers							
Number of Staff							

### Part III: Product Information

*The following list of questions composed of financial products related information that are delivered by the cooperative. Please encircle appropriate answer from the choices availed and briefly describe in vacant options.*

#### **Saving Inclusion:**

1) Please list down and provide types of savings, and volume of savings in the last three operational years. (Use enclosure).

2) Does the cooperative provide 'No frill account' (account with "nil" or very low minimum balance requirement as well as no charges for not maintaining such minimum balance)?

a. Yes       b. No

3) If your answer for Qn #4 is 'No', what is the minimum balance insisted to open an account? [birr \_\_\_\_\_]

4) Do you claim service charge for not maintaining the minimum balance? a. Yes     b. No

5) If Yes, how much? [birr \_\_\_\_\_]

6) Do you think that the following factors have stimulated members to save?

<b>Reasons</b>	<b>(tick in the box)</b>
To have access to loans	
To get incentives (interest)	
To keep their money safe and at convenient place	
For weathering bad times an unexpected adverse events and emergencies	

7) Which mode of access do the cooperative utilize for providing services to members?

mode	(tick in the box)	remark
Door step delivery (by field agents/staffs)		Collection, account opening, withdrawals, etc
Direct branch/office visiting		
Others (please mention)		

**Credit Inclusion:**

8) Please provide lending portfolio of the Cooperative with types of loans, number of borrowers, outstanding amounts in the last three years. (Use enclosure).

9) Does the cooperative consider time factor like for harvest need, trade, and others to satisfy need of clients well-timed? a. Yes  b. No

10) Source of fund for lending and other purposes:

Source	2011/2012	2012/2013	2013/2014
Bank loans			
Loans from MFIs			
Members Savings			
Donations			
Grant/subsidy from the government			
Others (please mention)			

11) Is "saving" a mandatory to loan entitlement? Why?

[ \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_ ]

12) Is a collateral required (mandatory) to get loans by clients? a. Yes  b. No

13) If your answer for qn #12 is 'Yes', what kind of properties are pledged?

[ \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_ ]

14) Do you conduct KYC (know your customer) for understanding your customer?

a. Yes  b. No

15) Does the Cooperative conduct appropriate loan collection and follow-up practices?

a. Yes  b. No

16) If your answer for the qn # 15 is 'Yes', how?

- a. The union ensures end use of funds
- b. The union identifies early warning signals and initiate remedial measures
- c. The union detects deviations from conditions and terms of approval
- d. The union monitors periodic loan repayments
- e. Others (please mention)

[ \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_ ]

17) Does your cooperative provide 'advisory services' to clients? a. Yes  b. No

18) If your answer for Qn #17 is 'Yes', in which areas does it provide? *(tick in the appropriate box)*.

- a. Market information
- b. Wise use of funds (credit)
- c. Possible and feasible areas to invest
- d. Financial management (budgeting, cash management, and related)
- e. Others (please mention) [\_\_\_\_\_]

19) Provide flowchart (process cycle) depicting the whole course of your activities esp credits. (Use enclosure).

### **Financial literacy**

20) Please provide the role played by the cooperative society in financial literacy (use enclosure)

21) Describe the role played by the Cooperative in financial literacy (necessary skills to manage money more effectively, and use of financial services/financial matters).

### **Convenience, over indebtedness, affordability and improvement of lives**

22) Does the cooperative prevent over-indebtedness of its clients? A. Yes  B. No

23) If your answer for the above question is 'Yes', how?

- a. conducting intensive and thorough analysis prior to loan disbursement
- b. disbursing loan on an installment basis
- c. rendering advisory services on how to effectively utilize loans
- d. arranging suitable repayment schedule
- e. training staff to better assess the payment capacity of potential clients (cash flow analysis).

f. Others (please mention)

[ \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_ ]

24) Do you think that prices of services/products offered by the union are affordable and reasonable?

a. Yes       b. No

25) If your answer for qn #24 is 'Yes', how?

- a. Relatively it's cheaper than analogous institutions like MFIs
- b. The target is to serve the community than making business
- c. It will have a retrogressive effect on clients through affecting their repayment capacity
- d. Its pricing structure is cost plus marginal profit (lesser profit)
- e. Others (mention)

[ \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_ ]

26) Please provide 'price structure' or terms and tariffs to each product item? (Use enclosure).

27) How often do customers visit the cooperative (all services including non-financial services like advisory services) on average?

- a. daily
- b. weekly
- c. monthly
- d. quarterly
- e. bi-annually
- f. > ½ a year

28) Do you think that financial devices/services provided by your cooperative society had improved lives of members/community? a. Yes  b. No

29) If your answer for qn #28 is 'Yes', how?

- a. It offered people the opportunity to take in business, agriculture, and thus enabled them to improved lives
- b. It entailed them to have enhanced money management (saving, credit, and others)
- c. It helped to reduce inequitable distribution of income in a society
- d. It enabled them to reduce extreme vulnerability and risks
- e. Others (mention)

[ \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_ ]

30) Do your cooperative serve members (clients) depending on the following conditions?

	Yes	No
The cooperative serves individuals who have no or few assets		
The cooperative serves individuals who have nothing to offer as collateral		
The cooperative serves individuals who have no business experience		
The cooperative serves individuals who have no credit history		
The cooperative serves individuals who cannot understand the nuances of finance due to illiteracy or lower education		

**Innovation and Agency banking**

31) In your view, how many of your members (people) in your cooperatives can operate mobile device and can run simple functions like sending message, understand texts and confirm balance?

- a. very few
- b. few
- c. half of them
- d. majority
- e. great majority
- f. I don't know

32) If many of them can't operate (qn #31), what do you think are the major reasons?

- a. low level of literacy
- b. low level of mobile penetration or availability
- c. low purchasing capacity and/or running cost
- d. Others. (Please mention) [\_\_\_\_\_]

33) Pursuant to agency banking proclamation went into effect in the country, does your cooperative need to serve as an agent?    a. Yes     b. No

34) If your answer for qn #33 is 'Yes', why?

- a. It offers deep and broad product line and mixes which thereby brings new products and resultant benefits to the cooperative society
- b. It enables the cooperative keep connected with stakeholders and enlarge the capacity and capability of the cooperative
- c. It offers additional line of business and ensuing revenue for the cooperative
- d. It enables secure, prompt, easy, accessible, and affordable financial services to the society
- e. It offers a chance to increase service outreach, reach new customers
- f. It helps to reduce the cost of financial services
- g. Others (mention)  
 [\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_]

## **Role of Stakeholders**

35) What support/s have you been getting from the following stakeholders like government, NGOs, banks, and others (in finance, training, technical support, marketing, etc). Use enclosure.

## **Challenges and Constraints**

36) What are the major challenging and constraining factors you are facing in enhancing financial inclusion? (*tick if appropriate*):

- a. low level of literacy, lack of financial understanding, less opportunity to understand its merits
- b. higher charges and fees to get services
- c. religious factors
- d. poor/lack of timely loan repayment culture
- e. geographic barrier
- f. tough procedures and requirement to get services
- g. lack of resources (financial support, human capital, equipment, others)
- h. management and supervision of Cooperatives
- i. others (mention)

# National Bank of Ethiopia

## Part I. Profile of the Respondent

1. Your position or job title: [\_\_\_\_\_]

2. Education: [\_\_\_\_\_]

3. Your Experience

a) In current position [\_\_\_\_\_]

b) In Current Organization [\_\_\_\_\_]

c) In Other Organization [\_\_\_\_\_]

## Part II. About National Financial Inclusion Framework

5. Is there a dedicated government organ to promote FI in the country? [Please discuss]

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6. Is there a national financial inclusion strategy; and policy framework? [Please discuss]

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7. Is there a standardized measurement tool on financial inclusion/exclusion? [Please discuss]

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8. Has the country measured number of financially excluded population in the country? [Please discuss]

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9. Could you please provide general status of MFIs including their outreach, capital, accounts, and credit?

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# Rural Financial Inclusion Programme (RuFIP)

## Part I. Profile of the Respondent

1. Your position or job title: [\_\_\_\_\_]

2. Education

Doctoral Degree/PhD       Master's Degree       Bachelor's Degree

Diploma       Higher Secondary Education

3. Your Experience

a) In current position [\_\_\_\_\_]

b) In Current Organization [\_\_\_\_\_]

c) In Other Organization [\_\_\_\_\_]

## Part II. About the Program

4. Objectives of the Programme

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## Part III. About the role of RuSACCOs in Financial Inclusion

7. Why did you choose RuSACCOs as your main partner (target) for your programme?

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8. Why are RuSACCOs important to enhance Financial Inclusion?

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## **Declaration**

This thesis is a presentation of my original research work. Wherever contributions of others are involved, every effort is made to indicate this clearly, with due reference to the literature, and acknowledgement of collaborative research and discussions.

Signed: \_\_\_\_\_

Date of Submission: \_\_\_\_\_

Addis Ababa University

## **Supervisor's Declaration:**

I, hereby, declare that this thesis is from the student's own work and effort, and all other sources of information used have been acknowledged. This thesis has been submitted to examiners with my approval.

Signed: \_\_\_\_\_

Date: \_\_\_\_\_