
ROLE AND POTENTIAL OF 'IQQUB' IN ETHIOPIA

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BY

(TEMESGEN TESHOME)

PROJECT ADVISOR

Ato. ABEBE YITAYEW (Asst. Professor)

**DEPARTMENT OF ACCOUNTING AND FINANCE
FACULTY OF BUSINESS AND ECONOMICS
ADDIS ABABA UNIVERSITY
ADDIS ABABA**

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By Temesgen Teshome

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Approved by board of examiners

Asst. Professor Abebe Yitayew

Advisor

Signature

Examiner

Signature

Examiner

Signature



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TABLE OF CONTENTS

ACKNOWLEDGMENTS	i
TABLE OF CONTENTS	iii
LIST OF TABLES	v
LIST OF FIGURES	vi
LIST OF APPENDICES	vii
ACRONYMS	viii
ABSTRACT	ix
CHAPTER ONE	1
INTRODUCTION	1
1.1 Background of the study	1
1.2 Statement of the problem	2
1.3 Objective of the study	3
1.4 Scope of the study	4
1.5 Limitation of the study	4
1.6 Significance of the study	5
1.7 Research Methodology	6
1.8 Organization of the Paper	7
CHAPTER TWO	8
REVIEW OF THE RELATED LITERATURE	8
2.1 Definition	8
2.2 What is the informal sector?	9
2.3 Why Informal?	10
2.3.1 Entry costs	11
2.3.2 Operating formal cost	12
2.4 Cost of informality	14
2.4.1 Penalties and corruption	14
2.4.2 Informality opportunity costs	14
2.5 Is formalization a solution?	16

2.6	Informal finance in Asian countries.....	18
2.7	Linking RoSCAs with Formal institutions – The case of Argentina.....	22
2.8	Review of informal Finance in Ethiopia.....	24
CHAPTER THREE		36
DATA ANALYSIS AND FINDINGS		36
3.1	Respondent’s Background	36
3.2	Background of Surveyed ‘Iqqub’s.....	38
3.2.1	‘Iqqub’ Fund Allotment Mechanisms:.....	41
3.3	The Role of ‘Iqqub’	46
3.4	Features of Surveyed ‘Iqqub’s.....	53
3.1	Default Risk	53
3.2	Return.....	55
3.3	Cost of ‘Iqqub’ participation.....	56
3.4	Liquidity of ‘Iqqub’	60
3.5	Divisibility in ‘Iqqub’	61
3.6	Safety of ‘Iqqub’	62
3.5	Noted problems of surveyed ‘Iqqub’s.....	63
3.6	Noted strengths of ‘Iqqub’	65
3.7	Potential of ‘Iqqub’	68
3.7.1	Creating linkage with the formal sector.....	68
3.7.2	Turning ‘Iqqub’ to village bank.....	74
CHAPTER FOUR		76
CONCLUSIONS AND RECOMMENDATIONS		76
4.1	Conclusions.....	76
4.2	Recommendations.....	78
5	References.....	80
6	Appendices.....	84

LIST OF TABLES

Table 1: Correlation between average monthly income and periodical ‘Iqqub’ contribution (Source: Own survey).....	38
Table 2: Year of establishment and Annual turnover (own Survey)	39
Table 3: Utilization by members of ‘Iqqub’ lots (Source: Own survey)	48
Table 4: Interest rates charged by surveyed ‘Iqqub’ (source: Own survey)	50
Table 5: Distribution to members of ‘Iqqub’ profit (Source: own survey).....	52
Table 6: Number of Default cases (Source: own survey)	53
Table7: Respondent’s response on their ‘Iqqub’ ability to accommodate loan request (Source: own survey)	61
Table 8: Bank’s Liquidity Status in millions (Source: National Bank of Ethiopia)	68

LIST OF FIGURES

Figure 1: Age and Sex summary of respondents	36
Figure 2: Academic background of respondents	37
Figure 3: Commercial banks Liquidity Status (in millions)	69

LIST OF APPENDICES

Appendix 1: questionnaire for Iqqub members (English).....	84
Appendix 2: questionnaire for Iqqub members (Amharic).....	92
Appendix 3: Interview schedule with ‘Iqqub’ organizers.....	100

ACRONYMS

- BDS Business Development Services
- IS Informal Sector
- NGO Non Governmental Organization
- RoSCA Rotating Saving and credit Association
- RoSCAs Rotating Saving and Credit Associations
- SME Small and Medium Enterprise
- SMEs Small and Medium Enterprises

ABSTRACT

This paper examined the role of 'Iqqub' within the community. The findings show that people participate in 'Iqqub' for more than economic reasons. Within the paper two types of 'Iqqub' are identified, the Traditional small scale and simple 'Iqqub's and Emerging large scale complex 'Iqqub's. The operations, number of members they incorporate, the cycle period and their fund allotment mechanisms of these two 'Iqqub's differed widely. 'Iqqub' plays a dominant role in serving the financial needs of households that are excluded from the formal sector due to bureaucratic working processes and high collateral requirements. The paper also examined features of emerging 'Iqqub's, including safety, return, Liquidity, divisibility. The default rate as observed in surveyed 'Iqqub's is very low, implying good collateral management and loan screening in these informal financial sectors. The paper also examined the potential of 'Iqqub' to be further enhanced to provide more services and accordingly, two potential areas were identified, based on other country's experience: **Linking 'Iqqub' with the formal sector** and **transforming it into village bank**. This potential of 'Iqqub', if utilized effectively, can solve the existing problem of 'Iqqub' and makes it more attractive, however further research in this areas must be made

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

A **Rotating Savings and Credit Association** or **ROSCA** is a group of individuals who agree to meet for a defined period of time in order to save and borrow together. ROSCAs are the poor man's bank, where money is not idle for long but changes hands rapidly, satisfying both consumption and production needs.

(http://en.wikipedia.org/wiki/Rotating_Savings_and_Credit_Association)

Bezabh et.al (2005) in their paper entitled **informal finance in Ethiopia** noted that In Africa the predominant form of indigenous financial institution is saving and credit associations (RoSCAs).RoSCAs were pervasive in some African countries. These are known variously as '*Iqqub*' in Ethiopia, *Susu* in Ghana, *Esusu* or *Ato* in Nigeria, *Chilemba* or *Chiperegani* in Malawi, *Upatu* or *Mchezo* in Tanzania, and *Tontiniers* in francophone countries. Here, indigenous financial institutions are used to finance household consumption or investment or very small-scale business enterprises.

As noted by Dejene (1993), '*Iqqub*' has perhaps evolved over centuries out of ancient customary institutions (e.g. community level labor exchange arrangements). Moreover, it is possible that the '*Iqqub*' pre-dates the emergence of the modern banking system in the country. The '*Iqqub*' consists of homogenous groups: people from the same work place, ethnic background, trade, schooling background or neighborhood. The '*Iqqub*' is not

limited in urban areas; it is also common in rural areas though perhaps practiced to a lesser degree.

Further, to the importance of 'Iqqub' in the Ethiopian society, Mauri (1987) indicates that the annual contribution of 95 'Iqqub's amounted to **Birr 139million**, which is 15.2 percent of total household savings deposited in the Commercial Bank of Ethiopia in 1986. Following his estimate, Dejene (2004) has estimated for the rural areas of three major regional states that the size of savings generated through 'Iqqub' to be approximately **Birr 396.5 million** per year. Saving through rural 'Iqqub' amounted to an equivalent of 30 percent of outstanding loans to the agricultural sector by the banking system.

1.2 Statement of the problem

'Iqqubs' are traditional instruments for financing households for social or investment purposes and are very common among Ethiopian community. However, since there are no returns (except the amount invested) from 'Iqqubs', it remains a puzzle why people engage in an 'Iqqub' where there are no additional benefits. Perhaps individuals could have enjoyed some interest by putting the periodical payment in a saving account in a bank instead of in an 'Iqqub'. Nevertheless, recent and modernized 'Iqqubs' are currently introducing a new variety of 'Iqqub' that introduced some interest on 'Iqqubs'.

In a period of non-negligible inflation and default risk, putting money without a premium for such factors is unsystematic and unwise. However, as Ethiopia moves into a market oriented economy and as financial markets are developed through out the country, more investment opportunities will be created and the use of traditional 'Iqqub's may diminish

and eventually might disappear. Hence, it might be necessary to restructure these financial vehicles to attractive financial assets to preserve their legacy.

Moreover, though there are many researches on formal finance like banks, insurance companies and micro finance institutions, the informal sector has been neglected among academicians and regulatory bodies. Bringing to light the role of these informal ‘capital markets’ might suggest policy adjustment for both regulators and other stakeholders.

This paper specifically tries to answer the following questions:

- What is the role of ‘Iqqubs’ in encouraging investment?
- Which types of businesses are currently being financed by ‘Iqqubs’?
- Why do people choose the informal sector rather than the formal sector for financing and saving needs?
- Is it possible to turn ‘Iqqubs’ to better financial assets without jeopardizing their attractiveness?
- As a financial asset, what are the features of Iqqub?

1.3 Objective of the study

The purpose of this paper is to assess the very role that ‘Iqqub’ plays among the Ethiopian community. The study also tries to identify potential that ‘Iqqub’s generally have and to see whether it is possible to restructure these traditional and legendary Ethiopian financial ideas, into a more systematic financial asset, which has return, liquidity, security and other features.

Moreover, the paper emphasizes on analyzing why people choose informal finance to formal finance and how these 'Iqqubs' operate.

1.4 Scope of the study

The scope of this paper is limited to 'Iqqubs' that operate in Addis Ababa only, specifically four large and two small 'Iqqub's. However, the suggestions and recommendations might apply to 'Iqqubs' operating in other rural and urban areas provided the homogeneity of iqqubs' operation. Also, the formal financial sector is not part of the analysis of the paper, though some comparison might be made with the formal sector as deemed necessary.

Moreover, this paper emphasized on those 'Iqqubs' which operate continually and have developed their own rules and regulations. So literally, this paper will focus on those 'Iqqubs' that are adequately organized and are perpetual. However, some comparison may be made with small scale Iqqubs, for highlighting emerging trends.

1.5 Limitation of the study

This paper is limited by information constraint. As it deals with Informal sector, which neither is registered nor regulated, even to get samples for study was only through personal contacts. This definitely affected the quality of data gathered.

Moreover, some respondents were not willing to cooperate for the study, since they consider the time leisure time and do not want to waste it for what they consider nothing. Even more, in most instances, the researcher tried to get 'Iqqub' members on the day they came for payment, however since most members send another person like their sons and

daughters, getting them to fill questionnaire was also another limitation. Though questionnaires were sent to them through their proxies, the response rate was very low.

More to the problem is ,’Iqqub’ members often are accessible only once in a week when they come for payment, which minimizes the data collection period to only one day per week, thereby also creating time shortage for data gathering.

As stated in the scope, this paper only analyzed the practice of only six ‘Iqqub’s in Addis Ababa, which are selected randomly based on personal contacts. Hence, the sample taken does not represent all ‘Iqqub’s in Addis Ababa, therefore the conclusions as well findings of this paper may not be conclusive for all.

1.6 Significance of the study

As this paper tries to revolve around the informal financial sector specifically on ‘Iqqubs’, which are neglected and forgotten, it is supposed to create some awareness about their role and importance among academicians, regulators and different other stakeholders.

Regulators should consider the possibility of safeguarding the interests of those involving in ‘Iqqubs’ and should strive for avoiding failure in these small ‘capital markets’. However, before that they need to acknowledge the existence of such small informal financial markets and need to understand their operations and their volume, which this paper is unraveling.

Government might incorporate these financial instruments in its policy, to alleviate the problem noted in access to finance by households and other small enterprises. Perhaps

‘Iqqubs’ may be used to alleviate such problems and it is worth considering. Generally, the paper tries to establish a ground for advanced researches on such areas.

1.7 Research Methodology

1.7.1 Data Collection

Since there are no formal records about ‘Iqqubs’ and since they are not registered, finding samples was the most difficult task. The surveyed ‘Iqqubs’ were selected systematically by identifying existing organized ‘Iqqubs’ through personal contacts. Specifically the research was conducted on six ‘Iqqubs’. Taken the existing immense number of ‘Iqqub’s, this number is not sample representative. However, given the homogeneity of the operation of ‘Iqqub’, the findings may apply to all ‘Iqqub’s. Despite, this paper analyzed emerging trends with regard to these informal financial markets, which at least can serve as an indicator of emerging trends.

Data was primarily collected through personal interview with ‘Iqqub’ organizers, on how they manage and allocate the funds collected. The existing ‘Iqqub’ practice was explored through personal interview.

In addition, data was also collected through questionnaires. A self administered Questionnaire was prepared and distributed to 50 members of which only 31 were returned. Finally, secondary data sources such as other country’s experience were also explored to gain some experience on the informal sector.

1.7.2 Data Analysis and presentation

Data was analyzed by using the SPSS software. Appropriate percentage and average figures were used to interpret and present the data as required. Moreover, graphs and tables are also used as appropriate to clearly show the analysis and findings.

1.8 Organization of the Paper

This paper is organized into four chapters. Chapter one discusses about introduction, statement of the problem, Objective of the study, scope of the study, limitation of the study and research methodology. Chapter two is about review of related literature that discusses about what informal sector is, pros and cons of being informal, informal sector in Asia and review of informal sector in Ethiopia. As well, formal RoSCAs in other country are also reviewed. In chapter three, data collected from survey was analyzed and presented. Chapter four dealt with the conclusion and recommendation of the paper.

CHAPTER TWO

REVIEW OF THE RELATED LITERATURE

2.1 Definition

RoSCAs (Rotating Savings and Credit Associations) are **informal**, indigenous savings and credit institutions, which are prevalent in both developing and developed economies around the world. A typical RoSCA works in the following manner. A group of individuals meet together on a regular basis (say once a month or once a week) and contribute some fixed amount of money, decided either mutually or by the leader of the RoSCA, into a 'pot' every time they meet. At the end of each meeting, one member of the group is selected to receive the pot. This can be done either randomly (hence the name - random RoSCA) or by bidding (which results in a bidding RoSCA). This process continues till every member of the group receives the pot of money once. Obviously, those members who have already received the pot earlier cannot receive the pot again, though they still have to contribute to the pot. When every member of the group has received the pot of money once, the group is disbanded, or can be started again with different members, different contributions and a possibly different duration between subsequent meetings. (Varadharajan)

Meetings can be regular or tied to seasonal cash flow cycles in rural communities. Each member contributes the same amount at each meeting, and one member takes the whole sum once. As a result, each member is able to access a larger sum of money during the life of the ROSCA, and use it for whatever purpose she or he wishes. This method of

saving is a popular alternative to the risks of saving at home, where family and relatives may demand access to savings.

Every member sees every transaction during the meetings. Since no money has to be retained inside the group, no records have to be kept. These characteristics make the system a model of transparency and simplicity that is well adapted to communities with low levels of literacy and weak systems for protecting collective property rights.

(http://en.wikipedia.org/wiki/Rotating_Savings_and_Credit_Association#Structure)

According to Besley, Coate and Loury (1994) RoSCAs come in two main forms. The first type allocates funds randomly. In a *random RoSCA*, members commit to putting a fixed sum of money into a "pot" for each period of the RoSCA's life. Lots are drawn and the pot is randomly allocated to one of the members. In the next period, the process repeats itself, with each previous winner excluded from the draw. The process continues until each RoSCA member has received the pot once. At this point, the RoSCA is either disbanded or begins over again. Individuals may also form a *bidding RoSCA* in which the pot is allocated via a bidding procedure. The individual who receives the pot in the present period does so by bidding the most in the form of a pledge of higher future contributions to the RoSCA or one-time side payments to other RoSCA members. In a bidding RoSCA, individuals may still only receive the pot once-the bidding process merely establishes priority.

2.2 What is the informal sector?

The term IS was first introduced by Keith Hart (1973). The informality of firms has since been described in relation to interrelated aspects: compliance with government

regulations (viz. registration, payment of tax and adherence to labor regulations); size of the firm; firm-level resource endowment and applied technology (labor or capital intensive), location, the physical place of operation and the characteristics of workforce and ownership. Tokman (2001) defines the IS as comprising firms with limited ownership (i.e. self-employed) that utilize unpaid family members, domestic servants, less educated employees, and have less than five workers (including the owner). Loayza (1997) views the sector as a set of economic units that do not comply totally or partially with government regulations.

The definition of the IS with regards adherence to government regulations however, seems difficult to conceptualize. Since informality in developing countries cuts across all size categories, some scholars (e.g. Morrisson, 1995) prefer to use the term 'Micro-enterprises' instead of informal enterprises, while others (e.g. Mlinga and Wells, 2002) avoid the definition of informal enterprises as far as compliance with government regulations and particularly labor regulations is concerned.

Recent studies on the IS emphasize the consideration of IS heterogeneity instead of conceptualizing informality in a dichotomous way (i.e. formal or informal) which gives little insight into the sector.

2.3 Why Informal?

While some informal firms operate informally because they cannot meet the costs of formalization, others (modern and transitional informal firms) operate partially or totally informally despite being able to meet some of the formal requirements (Mlinga and Wells, 2002). Modern and transitional informal firms appear to make a choice between

formality and informality after having compared the costs and benefits of formalization (Loayza, 1997; Djankov, et al., 2002). When the costs of being formal are higher than the benefits, firms are more likely to operate informally and vice versa. Such firms also seem to choose the degree of participation and types of societal institutions based on the benefits they accrue from them (Djankov, et al., 2002; Levenson and Maloney, 1998).

De Soto (1992), Loayza (1997) categorizes the costs of formalizing an enterprise into **Formal entry and operating costs.**

2.3.1 Entry costs

When a firm decides to become formal, it has to be registered as a company and pay a license fee. During the registration process the firm may undergo several procedures (viz., screening, health and safety certificates, registration with statistical offices, local authorities and respective ministries) in order to meet the official requirements. The number of procedures and the level of efficiency among the offices involved in the registration process differ from country to country. In East African countries the registration process entails 11 to 17 procedures, takes about 35 to 61 days, and costs between US\$ 194 and 339. In some Latin American countries the process involves 9 to 18 procedures, takes about 67 to 100 days and costs from US\$ 510 to 1499. In transition economies the screening process involves 7 to 20 procedures and takes between 22 and 105 business days. The average number of procedures in the world is 6.26 (Djankov, et al., 2002). In some developed countries, the registration of a new business can be accomplished without involving many procedures and requiring only a small number of resources. In New York and Florida it takes approximately four and three-and-half hours

respectively (Loayza, 1997). Inefficiency and corruption are part of the explanation for why less developed countries, despite their fewer resources, have more procedures - which are uncoordinated, more time consuming and require more resources - for registering a business. Besides this, high entry costs are among the reasons why less developed countries have a relatively large IS.

2.3.2 Operating formal cost

Operating in the formal sector denotes the involvement of a firm in different societal institutions that entail the following operating formal costs.

Time consuming. In Peru an employee in the administration department of a small, formal firm has to spend about 40 percent of his/her working hours filling out government forms (De Soto 1992).

Burdensome and complex taxes. Tokman (2001) reports that in Brazil micro-entrepreneurs have to pay at least ten different taxes and social insurance contributions, in Columbia seven, and eight in Peru. De Soto (1992) indicates that including tax, labor regulations, bureaucratic requirements and public utility rates it costs small manufacturing firms in Peru approximately 348 percent of after tax profit to operate in the formal sector.

Unaffordable labor regulations. Meeting labor regulations involves cash outflows. In Peru full compliance with the labor regulations may result in a decrease of profit of over 50 percent. This deduction can affect 75 percent of formal firms which employ up to ten people (Tokman, 2001). In some countries labor regulations appear to be restrictive and costly. In India for example, when a woman who has been married for less than 12

months quits her job she has the right to receive a severance payment based on her years of service. It also costs the equivalent of 112 weeks salary to make a worker redundant. The majority of micro-enterprises interviewed by Morrisson (1995) in seven developing countries reported that the legal minimum wage is very high, the drawback being that it is fixed; with fluctuating returns, enterprises tend to avoid it.

Cumbersome property registration and formal loan application. Loan application requires the submission of registered assets as collateral and certified financial statements which necessitate the utilization and payment of accounting consultancy fees. Property registration in the majority of developing countries is time consuming and costly involving 21 procedures in Abuja compared to only 3 procedures in Helsinki (IBRD/WB, 2005). Its complications and charges are, among other reasons, inflated by the domination of the informal exchange of properties as formal exchange is expensive. The process of acquiring communal land and an official building permit for residential or business premises takes almost seven years in Peru.

Yet the ownership of land or premises does not give the owner the right to use them as collateral or sell them (De Soto 1992). The complicated and high costs involved in property registration are partly responsible for the accumulation of “dead capital” which is inefficiently used to generate income. In Egypt dead capital (i.e. the value of investment in real estate) amounts to around US\$ 240 billion (De Soto, 2001).

Inefficient contract enforcement mechanism. Access to security and judicial services for contract enforcement is inefficient (Loayza, 1997), entails paperwork, a close follow-up and advice from lawyers; all of which call for cash payments. In developing countries the

contract enforcement procedure is complex and sometimes involves corrupt government officials. In Jakarta it costs 126 percent of the debt value to enforce a contract, while in Seoul it is only 5.4 percent (IBRD/World Bank, 2003). In Guatemala it can take four years to resolve a commercial dispute in court and the outcome is uncertain.

2.4 Cost of informality

Operating within the IS is not without cost since actors in government institutions and the formal sector regard the IS as unofficial. The costs of operating in the IS are as follows:

2.4.1 Penalties and corruption

In most cases the detection of informal enterprises is accompanied by corruption, harassment and the confiscation by government officials of the enterprise's properties (products and assets). For the most part enterprises operate without assurance and have to budget for bribery. In Peru around 10 to 15 percent of an enterprises gross income goes towards bribes, while formal firms pay about one percent (De Soto 1992). In transition economies informal firms can incur bribes of up to 20 percent of their revenue (Djankov, et al., 2002). When government officials benefit from the formalization process of informal enterprises (for example, by receiving bribes), they may in fact retard the formalization process (Loayza, 1997).

2.4.2 Informality opportunity costs

The opportunity costs of operating in the IS are as follows:

Limited access to public services. On account of their unofficial status, informal enterprises do not have full access to public services. They are poorly protected by the

national security system and thus subject to many crimes (Loayza, 1997) and high transaction costs related to high opportunism from business partners; a situation that may force enterprises to trade with people they know, hence limited market and growth potential.

Avoid profitable expansion. The majority of informal enterprises do not expand or invest in modern equipment for they wish to minimize their visibility and avoid attention from government institutions. Remaining small may be the right decision if an enterprise operates in a cluster and manages to specialize in specific activities. However, the consequences of staying small include: the inability to enjoy economies of scale or increase efficiency and competitiveness. Additionally, invisibility implies avoiding profitable markets that can be accessed through public advertisements.

Limited access to financial and BDS. Informal enterprises face difficulties in accessing BDS and financial services whose provision requires legalized transactions (Loayza, 1997). Besides this, financial institutions view MSEs as costly and risky. Credit and business promotion programs co-ordinated by government institutions also crowd out informal enterprise and as a result, these enterprises are forced to depend on informal sources of external financing which are sometimes expensive and of a short-term nature. Loayza (1997) reports that in 1988 Bangladeshi noninstitutional sources of finance charged an annual interest rate of around 40 to 100 percent while commercial banks only charged about 12 percent.

Limited possibilities to cooperate with formal enterprises. The participation of informal firms in bilateral vertical linkages with formal ones depends on their degree of formality.

Indeed, partial formality (e.g. registration by the local authority) seems to increase subcontracting arrangements (Milinga and Wells, 2002). A high degree of informality however may increase informality opportunity costs, such as lost benefits (viz., a reliable market, financial support, technology transfer training and supervision of production operations) from bilateral vertical linkages.

2.5 Is formalization a solution?

Given the current business/economic and regulatory environment in developing countries, the opportunity costs of informality seem to be much lower than the cost of operating formally. This is based on the premise that even small and medium enterprises (SMEs) with a higher degree of formality still face the same obstacles as those with a higher level of informality. On the other hand, the cost of operating formally is very high for formal, medium firms (Weder, 2003). This discourages MSEs to grow and increase their degree of formality.

Furthermore, formal firms (particularly small ones) have neither continuous access to the economic infrastructural services (e.g. water, electricity, sanitation, telephone services, transport system), nor do they receive government investment incentives accessible to the large firms. The inefficient provision of public and financial services leads to high transaction costs. Due to inefficient and poor property right enforcement coupled with corruption, most transactions among formal enterprises are coordinated by informal networks. Irrespective of their formality, SMEs and large manufacturing firms have limited access to long-term loans.

Based on this discussion, total formality may mean closing up the business unless the business environment within which firms operate is improved. Measures for encouraging the formalization of informal enterprises need to address: the factors hindering their growth, the increasing costs of formalization, and discourage their participation in formal societal institutions. However, in order to accelerate formalization of informal institutions, the following should first be considered:

a) Reformation of regulatory framework: Morrisson (1995) emphasizes the need for the reform of regulatory frameworks in accelerating the formalization of informal enterprises. Starting with the registration process, he recommends that it should take at most two hours, require the minimum number of documents, and cost less than US\$ 2. Some scholars (e.g. Tokman, 2001) propose the need to have a one stop-shop which integrates all the procedures required for business registration in order to cut down entry cost, to avoid overlapping and contradictory regulations, and to facilitate the provision of information.

b) Improving access to productive resources and the market to informal enterprises: Another way to increase the participation of informal enterprises in the formal sector is the reduction in the magnitude of factors that limit their growth (Tokman, 2001; Morrisson, 1995). Proposals include the improvement of access for the IS to BDS and financial services.

c) Promotion of informal-formal sector forward and multilateral linkages: When firms in the IS participate in bilateral vertical linkages with firms in the formal sector,

they may benefit from a reliable market, financial support, technology transfer and training and supervision

2.6 Informal finance in Asian countries

The informal financial sector embraces a wide group of individuals and institutions whose financial transactions are generally not subject to direct control by the country's key monetary and financial policy instruments. The informal institutions do take different forms and perform different functions in different parts of the world. In Asia, indigenous financial institutions such as the *curb* market in Korea, the finance companies and *chit* funds in India and Thailand tend to engage in considerable volume of business and trade finance or large-scale enterprises (Seibel, 1989)

In Asia informal finance is less visible than the formal one due to the mechanisms of its operation, the relatively smaller loan size and the purpose of loan disbursed (Ghate et al., 1992). The informal lenders do not disclose their operations for business, social, religious, or legal reasons. Moreover, the borrowers also tend to keep the information secret. Informal credit could be extended between entities or within entities or group finance. Intermittent lenders or regular lenders provide informal credit for individuals or entities.

Hate et al. (1992) classified informal finance in Asia into four categories.

- 1) Intermittent lenders such as friends and relatives account for a considerable share of informal finance in most Asian developing countries. Intermittent lending also takes place between firms.

- 2) Professional moneylenders; pawnbrokers, indigenous bankers and finance companies that make unsecured loans.
- 3) Tied credit such as trade credit. Property owners who lend to their tenants can also be included in this category.
- 4) Group finance: Where individuals pool their savings for distribution among the group members.

As noted by Moll (1989), the main service provided by informal operations is the supply of short-term credit. Such credit is provided either in kind (e.g. the provision of consumer goods or farm inputs) or in cash. The restriction to short-term credit and the provision of credit for purposes other than productive purposes are often the main points of criticism on the functioning of the informal sector. Rotating credit associations, called chit funds in India and Thailand, are also common throughout Asia. The role of the informal financial sector in the mobilization of savings, especially savings in small sums, is believed to be small. However, research has brought forward several cases. A description of indigenous institutions concludes that they are remarkably responsive to the needs of small sav-ings. He gives an interesting example of collecting small savings. He describes the pigmy deposit scheme of the syndicate bank (public sector bank) in India that combines formal with informal aspects. This bank operates through full-time agents, working on commission basis, who go from customer to customer collecting small sums of money daily or weekly. The number of accounts handled per bank employee is 287. But per employee, there are several agents, which bring the number of clients per agent to around 100. This description suggests that the collection of small savings is a specialization that

cannot easily be undertaken by those operators who are also engaged trade, agriculture or other enterprises. The studies of rural communities on the Lombok of Indonesia, found out more than 20 types of associations involved in the collection of savings to be spent on the specific purposes.

Informal professional operators usually operate in a restricted geographic area, or in a specific section of the market. Close proximity of operation and client is an essential feature of the business, because it facilitates the adjustment of terms and conditions to specific requirements and because it results in a continuous stream of information about borrowers and their occupations. However, it also limits the amounts of clients an operator can serve. The average number of 500-1000 clients per pawnbroker in Srilanka mentioned by Bouman and Houtman (1988) is exceptional, and such a large clientele is only possible because in this case, loans provided bear comparatively little risk and it is not necessary to collect information. Other evidence suggests that the number of clients is normally between 2 and 50. The limited area in which most informal professional lenders operates is a restriction for optimal use of funds. Available investment opportunities may be relatively unattractive, and this limits the return on own capital and savings.

Evidence from other sources indicates that the role of formal financial institutions is considerable in Asia. The study conducted in Vietnam indicates for example, that 80 percent of the source of household finance is attributed to formal sector. Relatives and money lenders are still active in the informal market providing 20 percent of the services. Overall, the share and strength of informal financial service varied among countries and

the role of the informal financial sector may decline as the services of the formal sector increases.

Dekle and Hammada (2000) described about an important RoSCA in Japan- **The mujin**. The *mujin* have survived until the post-World War II period. That they have survived from the pre modern period suggests that these institutions may serve an economically useful purpose. As shown in their study, although small, the *mujin* have traditionally provided funds to small- and medium-sized firms in the local sectors of the Japanese economy. In 1915, the Japanese Ministry of Finance (MOF) passed the first laws to regulate the *mujin*. Soon after World WarII, the government reorganized the *mujin* as mutual (*sogo*) banks, and the banks started to accept deposits. Only a few years ago, these mutual banks were reorganized into so-called second-tier regional banks. In the early 1990s, these regional banks were especially hard hit by the bad loan problems when Japan's asset price bubble burst. The postwar *mujin* played an important role in providing finance for small- and medium-sized enterprises. However, as the Japanese economy developed, some of the provisions of the postwar *Mujin* Finance Law became too restrictive. For example, lending was usually limited to within a prefecture, and there were strict limits placed on where excess funds could be invested.

The National *Mujin* Association therefore asked the government to draft a new law that would make the *mujin* companies more like small-scale banks. Small- and medium-sized enterprises were also dissatisfied with the loan behavior of the large banks and needed banks that dealt more exclusively with small- and medium-sized firms. To appease the GHQ, the name *sogo ginko* (mutual banks) was chosen to refer to the transformed *mujin*.

The *Sogo Ginko Ho* (Mutual Bank Act) passed the Diet in May 1951. Most *mujin* were converted to *sogo* banks in 1956.

However, small, informal *mujin* continued to operate in Japan. These informal *mujin* with 10-30 members meet regularly and serve an important social and networking function. For example, even in the late 1990s, over several hundred informal *mujin* operated in the Aizu region. The purpose of the Mutual Bank Act was to provide smooth financing to the (common) people and to promote the savings of the (common) people (article 1). The activities of the mutual banks included, among others, (i) accepting premiums or contributions with a contract to pay during or at the end of the contract (the essence of the traditional *mujin* business), (ii) accepting deposits or term deposits, and (iii) extending loans and discounting bills. Items ii and iii were activities that previously had only been partially allowed. However, there were still size and geographic restrictions on loans.

2.7 Linking RoSCAs with Formal institutions – The case of Argentina

According to Scrheiner (1999), as in most parts of the world, Argentina has informal RoSCAs in which Members know each other well and see each other every day. Unlike in most parts of the world, Argentina also has some formal RoSCAs run by car dealers and banks. The members do not know each other and never meet. In the absence of social capital among the members of the group, the government of Argentina regulates formal RoSCAs to protect the deposits of net savers. With 20 to 100 members, formal RoSCAs are much bigger than informal RoSCAs. The size of informal RoSCAs is constrained by the fact that social capital weakens as size increases. Few informal RoSCAs last longer than a year, but formal RoSCAs in Argentina can last ten to eighty-four months. The

length of informal RoSCAs is constrained by the fact that, without constant maintenance, social capital weakens as time passes. Formal RoSCAs can have bigger pots since the bank bears default risk and since the bank has the net worth and diversification to accept more risk. The size of the typical monthly payment suggests that while members of formal RoSCAs in Argentina do not have access to bank loans, they are not among the poorest of the poor.

As in informal RoSCAs, formal RoSCAs do not charge explicit interest on loans. Unlike informal RoSCAs, the typical formal RoSCA charges \$600 in fees and insurance and pays some interest to net savers. Members make payments at a bank branch during the first week of each month. The bank deducts its fee and sends the rest to a firm specialized in the management of formal RoSCAs. On the tenth day of the month, the manager draws one winner by lot. The second winner is based on a bidding process that is not described here to save space. At the end of the month, the manager sends money for two pots back to the bank. Car dealers award new cars instead of cash.

Before they can collect the pot, winners must make a standard loan application and offer guarantees to the satisfaction of the bank. Since the bank bears default risk, it has the right to reject any application. A winner whose application is rejected must wait to be picked again at a point when the net loan is small enough for the bank to accept the risk. The funds from the unused pot are carried over to the next month. At the end of the cycle, members who were never approved for a loan collect their accumulated savings. The interest from the 20-day float between collection and assignment each month is shared according to the average net deposit of each member.

Formal RoSCAs work for car dealers since the car serves as collateral against the debt to the RoSCA. Argentina has effective pledge registries for cars, and repossession is simple and quick. Furthermore, for all but the first few pots, the loan-to value ratio is low; members with big equity stakes have strong incentives to repay as promised. Thus the expected costs of default are low. Formal RoSCAs work for banks since the bank can refuse to give the pot to winners judged as bad risks. The savings aspect also reduces risk since members, before they get the pot, show the bank that they can make the same monthly payments as they will need to make after they get the pot. Furthermore, a bank runs many RoSCAs at once, and this diversifies its risk. Losses can be predicted from experience. Government regulation helps formal RoSCAs to work for members. Regulation reduces risk for net savers since the RoSCA must, by law, return the deposits of all those who have yet to get the pot by the end of the cycle. In informal RoSCAs, one or two defaults can prompt all net borrowers to stop repayment since they fear all others will default, and this leaves net savers in the lurch. Formal RoSCAs are immune to this domino effect since they are regulated, since the bank has a cash reserve from non-RoSCA business, and since members do not know each other. Regulation also requires RoSCAs to fix the number of members and the length of the cycle. This prevents pyramid schemes in which pots to old members (who may then default) are funded by growth in the number of new members.

2.8 Review of informal Finance in Ethiopia

The institutions that constitute the formal financial sector in Ethiopia consist of the central bank, commercial banks, insurance companies, development bank, and

microfinance institutions. It also excludes number of semi- formal financial institutions such as business organizations that are subject to nominal regulation and control even though their businesses are formally registered under the provisions of appropriate statute/law. Compared with the formal financial institutions, informal lending is, by far, the most important source of finance to rural and urban population (Solomon, 1996). Recently, the indigenous financial sector has continued to assume increased attention due to the excessive rules and regulations of the formal ones. The mechanism of the informal sector drives their rules and regulations from the country's culture and customs. Informal sector transactions are conducted based on trust and intimate relationship of participants.

The common cultural background and mutual obligations and fervent bonds of family and kinship, all operate to promote the trust, accountability, and moral responsibility that is lacking in the official banking system. Moreover, informal lenders have easy access to local information mostly at reasonable cost on their borrowers with whom they have social relations. This permits credit contracts to play a more direct role in enforcing repayment. In addition, the fact that collateral is rarely used in the informal sector and that the sector is almost very free from central bank and government controls enables it to flexibly satisfy financial needs that can not be met by the formal financial institutions. The great majority of the Ethiopia population makes little or no use of the formal savings and lending institutions (Dejene, 1993). In a country where more than 80 percent of the population lives in rural areas, few banks and credit associations that are presently operational are limited to urban areas. Moreover, these banks and formal financial

institutions are little used even by the urban population; poor infrastructure development and inaccessibility to banks have also contributed to less use of the service.

Dejene (1993) indicate that the formal institutions, which are transplanted from developed countries, seem largely inappropriate to the Ethiopian realities. High costs per transaction complex bureaucratic lending procedures, elaborate paper work, high collateral requirements and delays are some of the factors which militate against effective utilization of the existing banking facilities. Moreover, the low interest rate offered to the savers does not provide an incentive to the public. On the other hand, households may be reluctant to use the formal sector due to lack of confidence in the banking system, lack of information, and age- old social norms. In a study of informal rotating saving club, Comhaire (1966) indicates that members usually explain that they resent the intricacies of the process where by money is obtained from a bank, especially awkward questions on their financial background. Less consciously, they reveal a preference for loans secured on a mutual basis, which satisfy their self- respect, rather than a one- way process, which hurts their pride.

On the other hand, the informal financial sector, as brought by studies undertaken in developing countries (Bouman and Houtman, 1988: Dejene ,1993), has certain advantages over the formals sector .The average scale of operations and the cost of lending and recovery is small: there is freedom of entry and exist and freedom from de jure and de facto central baking control: information gathering is kept to the minimum while trust and first hand knowledge of a participant are important the purpose of credit is for both consumption and investment .

Types and Roles of informal Finance in Ethiopia

There are various types of informal organizations in Ethiopia (Worku, 2000). These include private sector rotating saving and credit groups such as Iddir and Iqqub that are initiated and organized by the people themselves, under the premise of financial relations based on reciprocity. In Ethiopia Iddir and Iqqub are the two most important informal organizations, based on the pre-established social ties.

Iddir is a type of traditional organization whose aim is to provide assistance at times of mourning. As noted by Dejene (1993), iddir as an informal financial and social institution that is almost ubiquitous throughout Ethiopia. Iddir is also defined by Mauri (1987) as an association made up by a group of persons united by ties of family and friendship, by living in the same district, by jobs, or by belonging to the same ethnic group, and as an object of providing mutual aid and financial assistance in certain circumstances. In practice, the Iddir is a sort of insurance program run by a community or a group to meet emergencies. According to Salole (1986), the original purpose of Iddir was the burial of the dead. Today, the Iddir provides a much wider range of services including financial and material assistance and consolation to a member in the event of difficulties as well as entertainment as the case may be. The expansion of Iddir to urban areas is perhaps associated with growing social insecurity. Salole (1986) for example, noted recourse to iddirs and Iqqubs as one of the most significant survival strategies or coping mechanisms adopted by the Ethiopia urban populations.

Iddir is considered as an excellent vehicle for the state to gain direct access to the urban population (Salole, 1986) . However, attempts to effectively mobilize through Iddir for

community development have not yet succeeded (Hamer, 1976: Cohen and Koehn,1980) , although such attempts were initiated as early as in 1972 when the first seminar was convened for this purpose by the then Ministry of community Development and social Affairs (Mekuria, 1973). Similar attempts by the Ethiopia insurance corporation to integrate both Iddir and 'Iqqub' with the formal sector have not yet succeeded. It has been observed that despite the abundance and vitality of these institutions, the development agencies appear to have overlooked them as partners or tools in their work (salole 1986). Dejene (1993) suggests that the Iddir, unlike the insurance system, is very popular among the people .It is attractive because it is culturally appropriate flexible easily accessible, and cost- effective. Unlike the insurance system, it is basically a non-profit making institution based upon solidarity, friendship, and mutual assistance among members. People from all types of socio- economic backgrounds participate in the Iddir. The insurance system, on the other hand, is limited to high income households seeking insurance policies for a definite purpose .On the other hand; Iddirs invariably have a strong linkage with the banking system. Iddirs keep the bulk of their financial assets in banks. Only small amount of cash is kept at hand to meet emergency requirements.

In the literature ,'**Iqqub**' is conceived as traditional social organization in which members come together for the purpose of savings in cash or in kind. The normal practice is that members contribute money or materials on a regular period of time and lots are drawn so that the one who wins the chance gets the total sum. This process continues at a regular period until the last member receives his/ her share , or what he/ she has been saving through the months and the whole process starts anew. As noted by Dejne (1993), Iqqub has perhaps evolved over centuries out of ancient customary institutions (e.g.

community level labor exchange arrangements) although some writers (e.g Pankhurst and Endreas, 1958; Comhaire, 1966) attempted to trace its origins to the period of Italian occupation, i.e. 1936-41. Moreover, it is possible that the 'Iqqub' pre-dates the emergence of the modern banking system in the country. The Iqqub consists of homogenous groups: people from the same work place, ethnic background trade schooling background or neighborhood. The 'Iqqub' is not limited in urban areas: it is also common in rural areas though perhaps practiced to a lesser degree.

According to Mauri (1987), people prefer 'Iqqub' to the formal financial sector because the intimate integration between the financial service offered by the 'Iqqub' and the strengthening of the solidarity and friendship in the group : the forced savings of a contractual nature : the provision of credit services particularly suited to the needs of the participants and the flexibility and adaptability of 'Iqqub' to various situations and needs : low risks of default the low or practically non-existent costs of administration and transactions : the absence of minimum investment threshold: probable tendency to gamble on the part of members and the consequent attraction which the lottery holds for them : and secrecy which surrounds the 'Iqqub' and the member's involvement in it.

Further, to the importance of 'Iqqub' in the Ethiopia society, Mauri (1987) indicates that the annual contribution of 95 Iqqubs amounted to Birr 139 million, which is 15.2 percent of total household savings deposited in the commercial Bank of Ethiopia in 1986. Following his estimate, Dejene (2004) has estimated for the rural areas of three major regional states that the size of savings generated through 'Iqqub' to be approximately Birr

396.5 million per year. Saving through rural Iqqub amounted to an equivalent of 30 percent of outstanding loans to the agricultural sector by the banking system.

There are distinct types of Iqqub in Ethiopia each has its own specific features. The big “traders Iqqub”, for example is different from other types of Iqqub in that the big “traders” ‘Iqqub’ has a stronger linkage with banks: it is business – oriented. It has developed sophisticated mechanisms for compensating those members with longer waiting time for collecting the pool its transaction costs are considerable and its operations are quite complex, participation in the ‘Iqqub’ is affected by household characteristics . For example, poorer households have access to ‘Iqqub’ and not to banks. Better off households use the banking system more than poorer ones. People from different age groups and levels of education participate in ‘Iqqub’s .

In Ethiopia and most other places in the world moneylenders, traders, friends and relatives, pawnbrokers and money – keepers are representative of privately owned informal group (Worku 2000: Moll, 1989). The term informal refers to the provision of service which is not generally or partly regulated by law but which relies on self-regulating mechanisms. Moneylenders and pawnbrokers may be required to register, and in that case, they operate to some extent under formal legislatures. Informal operators are a worldwide phenomenon: this demonstrates the universal need of the population, particularly the rural, of financial services and the ability of the professional operators to provide some of these services under different circumstances as a financially viable occupation. The variety of financial transactions reflects the variety of circumstances, and additional conditions such as the delivery of products the provision of labor or the

exchange of pledges such as gold and jewelers may be part of the transaction. Despite the variety of operators and transactions, the informal professional operators have various main features in common which justify their classification in one group.

The informal sector accounts for most of the rural financial services provided to the rural areas in Ethiopia .In his study of micro- finance development in Ethiopia, Worku (2000) describes the different informal professional financial services operated in Ethiopia. The major types of lending are as follows.

Moneylenders: Loans from moneylenders are typically short – term and are extended to clients of long standing business relationships usually exploit the poor through interest and unfair seizure of collateral. The money lender (known as arata- abadari) has been active in Ethiopia for centuries and until the beginning of the twentieth century represented the only source of loan (Mauri, 1987). He also notes that in towns , reduced lending by the financial institutions has created a potential for the development of informal lending because even persons who in the past were familiar with bank credit turned to moneylenders to replace bank loans .Before 1974 , moneylenders were often rich landowners, but following the nationalization of land, landlords disappeared as a social class and their roles as moneylenders were replaced by rich traders (Dejene, 1993) .The financial operations of moneylenders are simple , cost effective , and flexible compared to that of the banking system. Interest rates, which are never stated in the agreement made with the borrower are influenced by the extent of personal relations, degree of risk involved , availability of funds in the community, length of the maturity period and extent of competition from the formal financial market (Mauri ,1987). When



a potential borrower approaches a moneylender for a loan it is impossible to determine the risk involved in offering him/ her loan contract.

The lender would not sign a loan contract for every one that comes along, because this could easily increase the risky ness of the loan portfolio that the lender would find unacceptable. Higher interest rates that moneylenders charge are in part due to the higher costs and risks associated with informal loans. The risks of long- tem lending are also greater, because informal lenders and their customers are small and isolated groups. There is no adequate information on the size of the interest rate. According to a survey undertaken some years back, it ranged from 24-900 percent per year (Mauri ,1987) The bank's lending interest rate varied from 4.5 -9.5 percent per year depending upon the type of project and the borrower . Market vendors and other small business often turn to moneylenders for short- term credit needs. The so- called profit – sharing arrangements prevail in some parts of the country under which the borrower receives say Birr 100 and repays the principal and half of the profit earned, in the business to the lender. The more the profit is earned, the more the lender gets and this seems to be extremely usurious.

In some cases, the credit market is interlinked with product market. According to widespread custom in certain agricultural districts of Ethiopia for example, in the coffee-producing districts around Jimma and Gore, the merchant – lenders pay the cultivators a sum of money, which represents both a loan and an advance payment for the purchase of a given quantity of coffee to be produced after the next harvest. The unit price is established by the merchant – lender in the advance payment based on the price of the

previous harvest or of the estimated price of the next one duly discounted (Mauri 1987).

This also happened in other crop producing areas of the country

Friends and relatives : in Ethiopia where there is a strong tradition of mutual assistance and reciprocity , individuals who need funds call on the friends and relatives for help , however, obligates the borrower to reciprocate by providing non financial services or by supplying funds in turn when the lender needs to borrow. Lending between friends and relatives often carries low interest rates or no explicit interest charge. An oral promise, confidence, trust and mutuality are frequently all that is needed as collateral or security.

Pawnbrokers: since they are involved in many kinds of pawning or exchanging cash of something like gold or land or any thing of value, which is the quickest way for people with a problem to get funds. Pawnbrokers are found everywhere. The lender has to know a lot about the item pledged, but does not have to know anything about the borrower. However, some pawnbrokers do want to know something about the borrower to avoid lending against stolen goods. A farmer in need of cash will allow the lender to occupy and make use of his land until at least a stipulated minimum of two or three years has elapsed. Although damaging for the farmer, this is considered as one of the few sources of credit for persons not having access to formal credit due to lack of other forms or acceptable collateral. Leasing contracts are not confined to land but extended to other productive assets such as milking cows. Borrowers who own marketable assets turn to pawnbrokers for short- term credit. Pawnbrokers take possession of assets for a fixed term and lend against them at an agreed rate of interest. If the term expires, the pawnbroker can sell the asset and keep the proceeds. Because the loan has collateral, the

pawnbroker needs no further information about risk. The risk involved is also lower as the loan size is smaller than the estimated value of the collateral.

Money – keepers: Generally, money keepers are parents, elders, or religious leaders. They are persons generally acknowledged to be trustworthy in a locality with which individuals and groups feel comfortable entrusting them to safely keep their cash. Money – keepers are known to fulfill a strong demand for safekeeping and depository services. They are also recognized as lenders, able to lend short- term loans at their own risk but sharing the interest earned with depositors.

Tradesmen: Credit is an important component of marketing transaction between traders and farmers. Contractual linkage is prevalent in many forms. This includes pledging of standing crops as collateral, committing all or part of a crop or crops at harvest time, the forward sale of future crops etc. This kind of credit is mostly extended as a short- term loan for consumption goods and farm inputs. Loan repayments are made at the end of the cropping season. A local market vendor obtains fresh produce such as potato, fruits etc. from a wholesaler in the same market. If the consignment is valued say at Birr 50.00 and repayment of birr 60.00 is expected after a week, the simple interest rate is 20 percent per week. There is another class of transactions involving transfer of right to use a standing crop or to land for varying length of time, which is a different form transaction in which land is leased out. The transactions involve the borrower transferring the asset (standing crop) to the lender, who leases it. The transfer of a standing crop in return for cash is a forward sale of produce. A very common example is in coffee growing areas, where about a third of the anticipated value during harvest is advanced. In this case, loan

collection is in kind, and those who make advance are often coffee traders. There are cases where a merchant might provide a farmer with one sack of wheat in return for two sacks at harvest time two or three months later. Apparently, the monthly rate can be 20 percent or more.

CHAPTER THREE

DATA ANALYSIS AND FINDINGS

3.1 Respondents' Background

Though data was mainly gathered for the analysis through interview, questionnaires were also distributed to 31 respondents from six 'Iqqub's. The following paragraphs discuss on the background of survey respondents.

Summary of respondents' age and sex distribution is provided in the chart below.

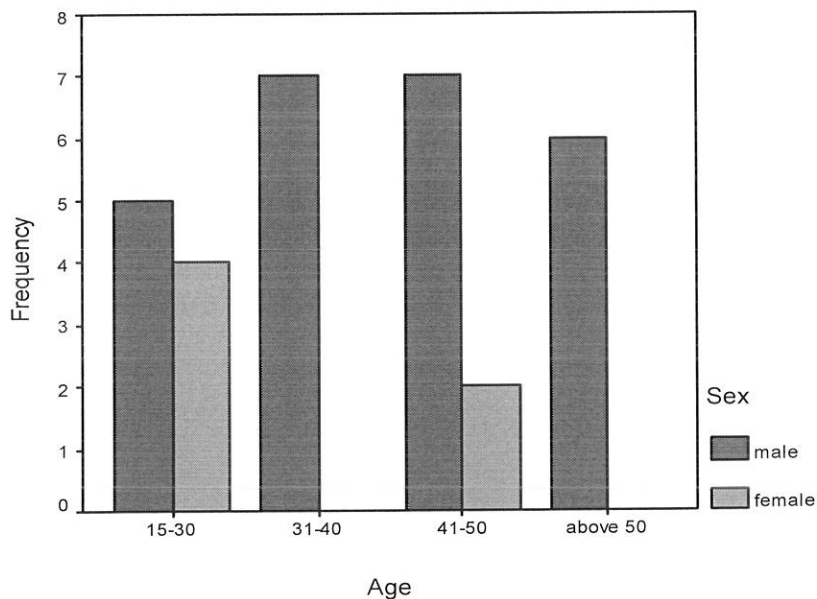


Figure 1: Age and Sex summary of respondents

As can be deduced from the graph, more males than females were addressed on the survey. Moreover, more respondents lie with in an age category of 31 to 40 and 41 to 50. From the respondents, about 54.8% are engaged in trade, 16.1% are private enterprise employees, 9.7% are NGO employees, 9.7% are government employees, 6.5% are self-

employed and 6.5% derive their income from other sources like subsidy from relatives. Some of them derive their income from more than one source.

Respondents also have diversity in their academic backgrounds, as shown here below in the chart, strengthening the idea that people from different academic backgrounds participate in 'Iqqub' (Dejene; 2004)

Respondent's Academic background

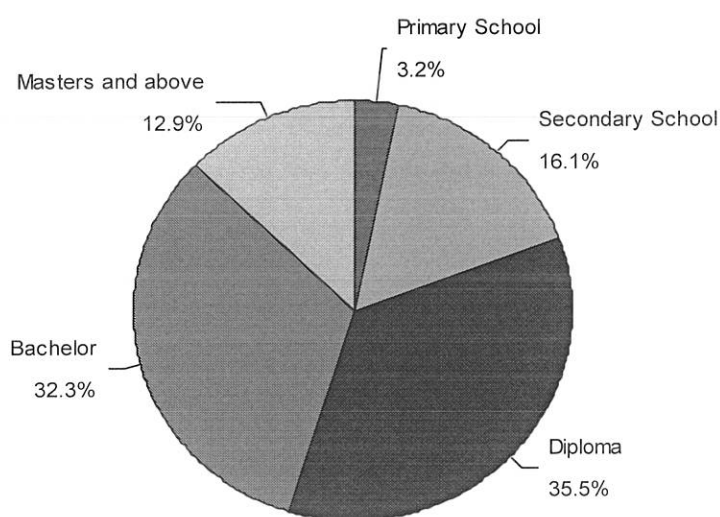


Figure 2: Academic background of respondents

While analyzing the correlation between income and monthly 'Iqqub' contribution, Pearson correlation coefficient (r) was found to be 0.41. Therefore, among the respondents, Income is not the major factor that determines periodical 'Iqqub' contribution or the most plausible explanation is respondents do not simply increase their periodical 'Iqqub' contribution proportional to their income increment. However, 96.8%

of the respondents agreed with the idea that ‘Iqqub’ benefits. The rest disagree with the idea that ‘Iqqub’ is beneficial and they participate in ‘Iqqub’ only to help others, typically the ‘Iqqub’ organizer.

	Average monthly income	Monthly contribution
Average monthly income Pearson Correlation	1	.409
Sig. (2-tailed)	.	.022
N	31	31
Monthly contribution Pearson Correlation	.409	1
Sig. (2-tailed)	.022	.
N	31	31

* Correlation is significant at the 0.05 level (2-tailed).

Table 1: Correlation between average monthly income and periodical ‘Iqqub’ contribution (Source: Own survey)

3.2 Background of Surveyed ‘Iqqubs’

The saying goes in Ethiopia ‘Iqqub’ made a man himself” to appreciate the benefit of ‘Iqqub’. ‘Iqqub’ nowadays is playing a pivotal role among the community and along with sophisticated and advanced huge ‘Iqqub’s are emerging. A survey conducted on six ‘Iqqub’s indicated that two different types of ‘Iqqub’ models are in existence.

Name of The 'Iqqub'	Year Established	Number of Members	Annual Turnover	Membership Distribution
Ameya Yebetseb 'Iqqub'	1999 G.C	550	Br. 20,384,000	A.A, Nazreth, Awassa, Debre damo, Dessie, B\Dar, Nekemit, Ambo ,Guder, Djibouti, Dubai, S.Africa, Italy, London and America
Grand Yebeteseb 'Iqqub'	1999 G.C	90	Br. 18,720,000	Addis Ababa, Gondar, Nazreth, Gondar
Tezera Shenkute 'Iqqub'	1993 G.C	250 to 300	Br. 3,752,000	A.A, Debre zeit, Jeru, Europe
AG Restaurant 'Iqqub'	2000 G.C	180	Br. 18,720,000	A.A, Nazreth, Arisi negele
Addis 'Iqqub'	New	6	Br.20,000	St. Mary's University college staffs
WVE Employees 'Iqqub'	2007 G.C	5	Br. 7,500	Employees

Table 2: Year of establishment and Annual turnover (own Survey)

Though traditionally the maximum number of 'Iquub' members per 'Iqqub' varied from 40 to 50, the currently emerging 'Iqqub's have a huge member base. That is not the only

difference observed, but even in operation these emerging 'Iqqub's are different from the others. Based on this assertion, two categories of 'Iqqub's can be made: The Traditional and Emerging 'Iqqub'.

Traditional 'Iqqub': Observed features of such 'Iqqub' include:

- ◇ Lesser member base as compared with emerging 'Iqqub'
- ◇ Less annual turnover
- ◇ Usually dissolve at the end of the 'Iqqub' cycle
- ◇ Organized around people in the same area like by employees of an organization, friends, relatives and so on.
- ◇ Strong Social bonds and lesser or no transaction costs.
- ◇ Lesser collateral requirements and frequently funds are allotted to members based on member agreement and urgency of member needs.
- ◇ No Written by laws and no formal records are maintained.

The last Two can be categorized under this category.

Emerging 'Iqqub's: Observed and distinctive features of such 'Iqqub' include

- ◇ Larger member base
- ◇ Higher financial turnover since membership base is larger.
- ◇ They operate continually. As one 'Iqqub' cycle winds up, another 'Iqqub' cycle starts over again

- ◇ Dispersed members and thus members who are far away usually pay through proxy. Heterogeneity among members is increasing as the dispersion is also increasing.
- ◇ Relatively higher transaction costs and loose social ties.
- ◇ Strong collateral requirements and funds are allotted to members through different mechanisms, discussed later in this chapter.
- ◇ Maintain formal records and there are usually written bylaws. They also have institutional frameworks, under which they operate.
- ◇ Operates in a sophisticated manner and considers time value of money. Members taking money at later periods are considered at disadvantage and are compensated.

Typically, the first four come under this classification.

Though the study tried to compare emerging 'Iqqub's with traditional 'Iqqub's, still the main emphasis of this paper is on the emerging 'Iqqub's, which have interesting features.

3.2.1 'Iqqub' Fund Allotment Mechanisms:

Though traditionally the 'Iqqub' has allotted 'Iqqub' lot to members on a lottery basis, it seems this trend has been a little bit mixed up currently. However, the lottery still did not lose its importance as fund allotment mechanism; even though it has been complemented through other means. Other methods of fund allotment mechanisms include sale, judgmental sale and special rights. Each one is discussed hereunder:

1. **Lottery:** Is a means of allotting funds to members by randomly casting a lot on one fixed day. Usually, in order to make the process transparent, at least set minimum amounts of members are required to attend the drawing process. The lottery is drawn by excluding members who already have won the lottery previously or have taken their lot through other means.
2. **Sale:** is other means of allotting funds to members. Typically, the emerging 'Iqqub's sale 'Iqqub' lots to their members. There are usually rules of when to sell the 'Iqqub'. Customarily, if 'Iqqub' money for instance is collected weekly, then the 'Iqqub' organizers will set the rules of which week's lump sum to cast lots, which one's to sell and which one's to sell for special and critical cases. For instance at one of the 'Iqqub's surveyed, 'Iqqub' funds are allotted according to the following schedule:

- i. **First week:** Lottery
- ii. **Second week:** Sale
- iii. **Third week:** Lottery
- iv. **Fourth week:** For right holders and Judgmental sale.

Sale of 'Iqqub' is of two types based on the seller of the Lot:

- i. **Sale by the 'Iqqub':** The 'Iqqub' charges an interest rate on lots sold which is accumulated and later distributed to members as 'dividends' according to their contribution. The interest rate generally varies from one 'Iqqub' to other; however, such Interest rate varies from 1% to 10%. The interest rate in most surveyed 'Iqqub's is calculated only on the unpaid sum. It seems logical and

rational to charge the interest on only the unpaid amount, since the buyer should not pay interest on its own money. The buyer takes discounted lump sum money i.e.net of interest charged and other related charges. However, still in other 'Iqqub's interest is charged on the whole amount, which makes the cost of financing for the buyer somehow higher. Here the buyer pays an interest on his own money contributed. The interest rate charged by the 'Iqqub' typically varies during different periods of the 'Iqqub' cycle. The interest rate charged at the beginning of the period will be somehow higher and decreases as it gets down to the end of the cycle.

- ii. **Sale by members:** In certain instances members sale their own lots. From the respondents, only 9.7% of them have sold previously their 'Iqqub' lot. All of them sold the 'Iqqub' because they did not want the money at the time. "Lucky" Members can generate additional income by selling their lots to others. Usually, members sell their lot at a rate higher than or equal to the rate charged by the 'Iqqub', though, the 'Iqqub' regulates the rates, in order to avoid usurious practices and exorbitant rates. The 'Iqqub' necessarily facilitates Sale by members.
3. **Judgmental Sale:** this allotment mechanism typically reflects the social aspect of an 'Iqqub'. Usually, since there is lack of fund in an 'Iqqub', there are several members on a waiting list to buy 'Iqqub' lot. These members will be served according to their order of application. However, in certain instances members may face very difficult and demanding situation that requires money to resolve.

Such instances may include for example bank notices to sell a member's property held as collateral, expropriation of property by the government due to unpaid taxes in arrears, Loss of member's property due to damage such as vehicle overturning and so on. In such critical cases, members are required to present hard evidence to the 'Iqqub' officials, which upon their judgment decide to **sell** to that specific member. This feature of an 'Iqqub' has made it very attractive to many members.

4. **Special Rights:** from the 'Iqqub's surveyed, this is typical to 'Ameya Yebetseb 'Iqqub'. An 'Iqqub' lot is distributed to different members based on various rights. Some of these rights are discussed in brief here:
 - a. **Rights for bringing in new members:** in order to increase the number of members and hence the amount collected, rights are given to members to motivate them to bring in new customers. A member who has brought in more than set number of new members will be awarded funds during the first periods of the cycle directly without casting lot or buying.
 - b. **Rights for late Payees:** Members who received their lot late during the last cycle of the 'Iqqub' are given the right to take earlier their lot in the new cycle. This right compensates members disadvantaged on the last cycle and hence encourages members to continue participating in the 'Iqqub' and ensures the continuity of the 'Iqqub'. Hence, People taking their lot at latter periods are regarded at disadvantage and compensated for it.

- c. **Advance payer's Rights:** this right gives members who have paid in advance the periodical contribution for some set period, to take lots at earlier periods. However, usually there are fixed quota, say for example two and if six members applied for such rights, they are screened by drawing a lottery for the two from among the six. The rest will be paid according to their order of registration. Such rights motivate the 'Iqqub' members to pay in advance and for the 'Iqqub', avoid the inconvenience created due to late payment by members, of their periodical contributions. The money collected in advance is used to lend to other members in case of urgency and is also used as a buffer for late payment. That is if there are late payers, the 'Iqqub' covers shortages from such advance collections and awards the winner of the lot immediately and later will cover the short position when the late payer pays.
- d. **Careful Payer's Right:** The 'Iqqub' also screens careful payers, who pay their periodic contribution timely. One problem in 'Iqqub' is that members may not contribute in time, which is supposed to be collected and awarded to the lot winner. Hence, the 'Iqqub' may lack the funds to pay to lot winners. To avoid such problems, usually members are motivated to pay timely by providing such incentives. The right entitles members to take their lot at earlier periods.
- e. **Rights to old members:** Here also to induce members to continue in an 'Iqqub', old members are encouraged through such rights.

- f. **Rights for married couples:** as part of societal responsibility, the ‘Iqqub’ also encourages people to get married. In other words, couples may postpone or avoid their marriage due to lack of money. Such finance problems on behalf of couples are solved by the ‘Iqqub’, since it provides a right to take lots earlier, provided there is written evidence as to their marriage and both are members.
- g. **Rights to encourage young members to be engaged in constructive investment activities:** If members have licenses from government offices and are organized to work in-group on an approved project work, then these members, with special rights can take ‘Iqqub’ lot to be used as working capital and startup financing.

Other rights include rights for members constructing houses as an association, rights for officials of the ‘Iqqub’, rights for members who participate in different lots.

3.3 The Role of ‘Iqqub’

‘Iqqub’ plays an important role in providing financial services for those who cannot be addressed through the formal sector. One of the school of thoughts on origin of informal finance is, the financial repression school, which originated from the seminal work of McKinnon (1973) and Shaw (1973). They argue that informal financial agents start operations because of excessive regulation of the formal financial sector, represented by the use of policies of directed credit, interest-rate ceilings, and preferential credit allocation to government and its parastatals. Liberalization of the formal sector, therefore,

will widen competition and lead to financial deepening and improved efficiency, and thus wipe out the informal sector, which is less efficient. Though this argument seems logical and reasonable, this was not what is empirically observed in Ethiopia. With the growth and liberalization of even the formal financial sector, the informal sector has also recorded a high growth rate. This still may be attributed to the bureaucracy within the formal sector which prevented it to address all aspects of the society.

This view can further be attacked on the ground that RoSCAs exist even in developed countries where there are efficient and large formal financial sector. The existence of informal sector in a well developed financial sector might imply that the informal sector exists for more than pure economic reasons.

With the following paragraphs, this study tries to comprehend the major reasons for people to participate in 'Iqqub'.

1. Enforced saving: all respondents admitted that they participate in 'Iqqub' to save.

The major reason for people to participate in an 'Iqqub' is, it enforces people to save. People may be reluctant to save or deposit money at bank, risking it for consumption. However, the social pressure in 'Iqqub' enforces people to save, regardless of whatever case they might face. Hence, 'Iqqub' disciplines the members to program their money usage and highly discourages consumption. When members receive their lot, usually they do not waste it or consume it, rather mostly use it for capital items or investment. The following table provides respondents view with what they did when they receive their lot. Note that the total will not amount to 100%, since members may have used their lot for more than one purpose.

Used 'Iqqub' lot for	% age
Working capital	34.5%
Purchasing Inventory	20.7%
Covering weeding expenses	6.9%
Purchasing capital item (Vehicle, House etc)	32.3%
Repayment of loan	13.8%
Purchasing house appliances	20.7%
Establishing business	13.8%
Paying Taxes	6.9%
Other	28.6%

Table 3: Utilization by members of 'Iqqub' lots (Source: Own survey)

Traders mostly invest the money they receive in their businesses to run day to day activities. Other traders buy and hold Inventories with it. In certain instances; members even buy 'Iqqub' lots to take advantage of opportunities like for example when they obtain Inventories at discounted prices. As an investor, they usually weigh their returns and costs from their decisions and act rationally. Members also benefit from 'Iqqub' by using the lump sum they receive to leverage the capital they have to establish their own businesses. According to some respondents, they used the 'Iqqub' lot to buy vehicles, typically dump trucks or small cars. Hence, here it is vividly shown that 'Iqqub' plays an important role in converting small amount of periodical contribution that would have been consumed, to an investment project.

- 2. Sharing ideas with others:** 93.5% of the respondents also agree that their decision to participate in 'Iqqub' is affected by the fact that they share ideas with others. Important business ideas and Information are shared among members, when they came together to pay their periodic contribution. An interview made with 'Iqqub' organizers, also revealed that they also act as advisors and consultants to their members, on some specific instances.
- 3. Lesser bureaucracy:** The other reason for members to participate in 'Iqqub' is the lesser bureaucracy in the informal sectors as compared with the formal sector. Many agree on the fact that 'Iqqub' is fast in addressing their financial problems. Typically, when members are threatened due to loss of property, or are in distress due to other debts, by presenting their critical problems to 'Iqqub' officials (committee consisting 'Iqqub' organizer, secretary and assistant secretary) of the 'Iqqub', they are allowed to take their lots earlier. This social aspect of 'Iqqub' is the most important reason for the growing number of 'Iqqub's. Beyond the economic aspect, the underlying concept of 'Iqqub' is helping members in their times of difficulty, and hence members develop a sense of belongingness.
- 4. Providing loan at lesser interest rate:** only 54.8% of the respondents admit that their reason for involvement in an 'Iqqub' is, since they get loan at lower interest rates. In a RoSCA, usually members who have taken their lots are debtors while the others waiting their turns are creditors. Therefore, whenever an 'Iqqub' lot is sold, the buyer is borrowing. The following table summarizes the interest rate charged by the emerging 'Iqqub's:

Name of The 'Iqqub'	'Iqqub' Cycle	Interest Rates charged on sale
Ameya Yebetseb 'Iqqub'	112 Weeks	3 -10% on unpaid amount
Grand Yebeteseb 'Iqqub'	90 Weeks	Max. 5% on unpaid amount
Tezera Shenkute 'Iqqub'	121 Weeks	4 – 6% on the whole amount
AG Restaurant 'Iqqub'	180 Weeks	1 – 7% on unpaid amount

Table 4: Interest rates charged by surveyed 'Iqqub' (source: Own survey)

As can be seen and deduced from the table, the rates are comparable and even less than the rate charged by banks and microfinance institutions. Even more interesting is the rate declines as the 'Iqqub' period cycle approaches to the end. Moreover, given the 'Iqqub' cycle is greater than one year, the annualized interest rate even decreases. To illustrate, if for example a member has bought the 25th lot, the 'Iqqub' cycle being 90 weeks, the member will pay an interest only for the 65 periodical contribution, for which he has not yet paid (except in the case of Tezera shenkute). Assuming the weekly contribution is 4,000 birr, and interest rate for such period is 8%, interest is calculated as follows:

$$\text{Total lot} = 90 * 4,000 = 360,000$$

$$\text{Unpaid amount} = (90-25) * 4,000 = 260,000$$

$$\text{Interest} = 8\% * 260,000 = 20,800$$

$$\text{Net proceeds to buyer} = 360,000 - 20,800 = \underline{\underline{339,200}}$$

The 8% interest rate is charged for 65 weeks, obviously greater than one year. Hence the annualized interest rate will be:

$$8\% \times 52/65 = \underline{6.4\%}$$

So for a close observer, the interest charged on the bought lot is some how lesser for early takers, but the thing is this annualized interest rate increases as the 'Iqqub' is sold in latter periods, which will put the buyer at disadvantage. However, even this problem is tackled by reducing the interest rate charged on 'Iqqub' lot sold at later periods.

5. **Creating social cohesion:** respondents also emphasized the social aspect of 'Iqqub'. According to 96.8 % of respondents, the social aspect is another factor that motivates them to participate in 'Iqqub'. 'Iqqub' brings together on a fixed date members, many of which are people having strong relations like friends and relatives. Members value the social gathering, chatting, sharing different business and personal information, eating and drinking together on these days. Members can spend the best leisure time, after a week full of hustle and bustle.
6. **Providing 'additional Income':** Respondents also agreed with the idea that their participation in an 'Iqqub' is also driven by the 'additional income' they get from an 'Iqqub'. An important feature of the emerging 'Iqqub' is that they tend to distribute sort of 'dividends' to their members, which has been collected from members on different occasions, usually at the end of the 'Iqqub' cycle. Besides, 'lucky members' who got a lottery at the early cycle of the 'Iqqub' can sell their lot thereby making additional income. Often, the 'Iqqub' organizes a celebration party, at the beginning

and end of the ‘Iqqub’, for which the costs are covered from the “profit” of the ‘Iqqub’, hence the actual return is greater than the amount presented here. The following table depicts distribution of to members during the last cycle.

Name of The ‘Iqqub’	‘Iqqub’ Cycle	Distribution to members
Ameya Yebetseb ‘Iqqub’	112 Weeks	70 % of one weekly contribution
Grand Yebeteseb ‘Iqqub’	90 Weeks	100% of one weekly contribution
Tezera Shenkute ‘Iqqub’	121 Weeks	30% of one weekly contribution
AG Restaurant ‘Iqqub’	180 Weeks	Not Available

Table 5: Distribution to members of ‘Iqqub’ profit (Source: own survey)

However, a closer look at what they call ‘additional income’ reveals that the service charges from the ‘Iqqub’ organizer, often wash such additional incomes away, bringing it down to negative return,.

- 7. Financing small and medium enterprises:** The most important economic role of ‘Iqqub’ is that it finances sectors that have been over looked by the formal sector. The formal sectors often do not serve Small enterprises, due to unavailability of collaterals that small enterprises can borrow against. However, members of ‘Iqqub’ who would like to start small businesses can present other members as guarantee and can take a lump sum of money. Therefore, ‘Iqqub’ plays a very basic role in financing small and medium scale projects, which are often discriminated by the formal sector due to

complex collateral requirements. Effectively, participation in an ‘Iqqub’ provides for startup financing.

3.4 Features of Surveyed ‘Iqqub’s

3.1 Default Risk

The default risk was observed to be very much less. This is partly attributable to the ‘Iqqub’s member screening means. Not anyone can be a member of ‘Iqqub’, as per the interviewees. Usually a person must be known and trustworthy to be part of an ‘Iqqub’. Commonly, acceptance to an existing ‘Iqqub’ for new members is through recommendation from Existing members. Existing members fulfill their responsibility by recommending only creditworthy new members. Moreover, the strong social ties with in among the group will even force people not to default, fearing risk of being social outcast if defaulted. The default cases in the surveyed ‘Iqqub’s are depicted here below

Name of The ‘Iqqub’	Year Established	Number of default cases
Ameya Yebetseb ‘Iqqub’	1999 G.C	1
Grand Yebeteseb ‘Iqqub’	1999 G.C	-
Tezera Shenkute ‘Iqqub’	1993 G.C	1
AG Restaurant ‘Iqqub’	2000 G.C	-

Table 6: Number of Default cases (Source: own survey)

Besides screening new entrants, the surveyed ‘Iqqub’s also take collaterals while awarding funds to their members for the unpaid amount. Often, a loan contract is also

signed, stipulating the terms of the fund and the collaterals held. The collaterals take different forms as discussed below:

- I. **Property collaterals:** Include properties such as houses and vehicles. If a house is presented, plan of the house along with the recent tax paid on it are required to be presented. On the other hand, if the property presented as collateral is vehicle, the vehicle must be physically presented and must be insured. The ownership deed paper of the vehicle will be kept with in the ‘Iqqub’. At the end of the cycle, these paper documents are returned to their owners.
- II. **Individuals:** In certain ‘Iqqub’s, only individuals are required to be presented as collateral, usually unpaid members of the ‘Iqqub’. This helps to avoid additional tasks of inspecting and maintaining records of collaterals taken, thereby decreasing the burden on the ‘Iqqub’ organizer and other ‘Iqqub’ officials. Normally, members who have not yet taken their lots can only be presented as individual guarantors.
- III. **Open Check:** Though not common, in certain instances an open check signed and with no date and amount is presented as collateral. The significance of the check is if in case there is a default by the member, the check can be withdrawn automatically from the bank and if there is no balance in the account, the member will be forged as criminal.
- IV. **Deposit:** In two of the four big ‘Iqqub’s surveyed, members contribute additional cash as a deposit, which at the end of the ‘Iqqub’ is disbursed to

each member. According to the interviewees, this has two advantages .The first one is that it encourages saving while the other advantage is it serves as collateral against ‘Iqqub’ Lots taken. However, since the contribution for deposit is minimal, usually by itself it cannot be held as collateral, it only complements other collaterals.

3.2 Return

These emerging ‘Iqqub’s make ‘profit’ from different sources, which later are distributed to members of the ‘Iqqub’. The sources include:

- I. **Interest earned on sale of ‘Iqqub’:** The main source of “profit” in ‘Iqqub’ is the interest earned from selling an ‘Iqqub’ lot to members. As described in earlier paragraphs, a fixed lot during the lifecycle of the ‘Iqqub’ is allotted to be sold upon specific request of members.
- II. **Interest earned on bank balances:** These large and emerging ‘Iqqub’s usually also maintain bank accounts. Traditionally, since the funds collected are automatically awarded to members, no cash is maintained on hand and hence there is no need for bank balances. Nevertheless, the case is different with these emerging ‘Iqqub’s in that they maintain cash balances at bank. The cash maintained at bank comes from the interest charged on ‘Iqqub’ sale (since the member takes discounted amount i.e. net of interest), additional cash contribution for deposit, other processing fees charged on members and Interest on loans.
- III. **Interest earned on loans:** In one of the ‘Iqqub’s surveyed, loan service is also provided. When buying an ‘Iqqub’ lot is impossible for members for different

reasons, an unpaid member in this typical 'Iqqub' can borrow money from the 'Iqqub' in the amount of only one third of the amount he/she has contributed. The interest charged on such loan is high (around 2% per month) and is usually short term.

IV. **Penalties:** Another source of Income for an 'Iqqub' is the penalty charged on member. Members are penalized specially for late payments.

These sources altogether are called common profit (to distinguish it from the profit of the 'Iqqub' organizer and other 'Iqqub' officials) and are usually distributed to members net of related expenses (for anniversary parties and stationary expenses) at the end of the 'Iqqub' cycle. However, as shown below 'Iqqub' does not yield a positive return as the costs of 'Iqqub' typically service charges are exorbitant.

3.3 Cost of 'Iqqub' participation

Transacting in an 'Iqqub' has its own cost. These costs can be classified as implicit and explicit costs. An Implicit cost includes opportunity cost while explicit costs include service charges, transaction costs and cost of buying 'Iqqub' lot.

I. **Opportunity cost:** - is Cost of the fund being idle and tied up in an 'Iqqub' which would have yielded a positive return, had it been deposited somewhere in banks. However, this assertion can be attacked on the ground that the major advantage of 'Iqqub' is that it provides an enforced saving mechanism that avoids the risk of consumption, which is inherent in depositing at banks. Perhaps the individual could not have got any return in depositing the money at bank, since he would have consumed the money.

- II. **Service charges:** -is a charge by the 'Iqqub' organizer for the services provided. In effect, this is a reward for the organizer since he\she shoulders risk of default by members and for the service it provides in maintaining accounts for each member and processing collaterals. Traditionally, whenever an individual is in financial trouble he will organize members and form an 'Iqqub', then as a reward for organizing the 'Iqqub' he will take the first lot which is his benefit. With in this emerging 'Iqqub's, the organizer gains an economic advantage by charging members a service charge. In some of the 'Iqqub's surveyed, this service charge takes the form of additional one period contribution solely by members for the organizer and committees and in others, the organizer will charge and collect 1.2 to 1.5% on the total amount of the lot from each member, whenever funds are awarded to members.
- III. **Transaction Processing Fee:** minor costs typically for processing documents like for instance for preparing legal contracts.
- IV. **Enforced expenditures:** As the 'Iqqub' provides for enforced saving mechanisms, it also has an enforced expenditure. That is, members are forced to buy soft drinks and beverages. In the 'Iqqub's surveyed, such amount varies from 6 birr to 50 birr per member per period. It is a compulsory payment and members cannot deny it. However, the organizer provides drinks for the members. All the large 'Iqqub's surveyed are collected or organized by hotel or restaurant owners. These owners allocate a portion of the space in their hotel for collecting the 'Iqqub' and entertaining the members, there by forgoing some sales. Hence, the

enforced purchase of beverages and soft drinks is in effect for sales forgone by the organizer.

- V. **Cost of Buying an 'Iqqub'**: As described above, a person may buy an 'Iqqub' lot from the 'Iqqub' itself or from other members. In any way, if a person pays interest on the whole lot amount purchased, including the amount he\she has contributed, the person is buying his\her own money, which is an additional cost.

Case 1: Economic benefit of 'Iqqub'

Below here presented is a real case based scenario to compare the economic benefit and cost of Iqqub, on one of the Iqqubs surveyed. Simply the person is represented as A.

'A' contributes weekly 2,530 birr of which the 2,500 is for Iqqub, 15 birr for deposit and 15 birr for different drinks. The Iqqub runs for 112 weeks. At the end of the cycle, "A" was paid a profit distribution of Br.1, 750. 'A' received its lot in the 22nd week. The service charge is 1.25%, Transaction processing fee is br.50.

Hence a will receive:

Total Lot (112 *2500)	= 280,000Birr
Less service charge (1.25% of 280,000)	= (3,500)
Processing Fee	= (50)
<u>Net Proceeds</u>	<u>276,450</u>

So here, the profit that "A" obtained is 1750 while cost incurred is 3,550 and deposit paid at end of period(15*112): Return (R)= $\frac{(276450+1680+1750-3550)-283360}{(2530*112)}$ = -2.48%

$$(2530*112)$$

If the same money was deposited at bank at an interest rate of 3% per annum, compounded monthly (for 28 months), the yield could have been:

$$\begin{aligned} \text{Average monthly deposit} &= (112*2530)/(112/4) = \text{Br.10, 120} \\ &= \frac{10120((1.0025)^{28}-1)}{0.0025} \\ &= \mathbf{293,133.88} \end{aligned}$$

$$\begin{aligned} \text{Interest Earned} &= \mathbf{293,133.88} - (2530*112) = \mathbf{Br.9773.88} \\ &= 9773.88/283,360 = 3.45\% \end{aligned}$$

$$\text{Total return} = -2.48\% - 3.45\% = -5.93\%$$

So the opportunity cost for "A" is Br.9, 773.88. Here it seems Participating in an Iqqub is economically disadvantageous, as the opportunity cost is high.

Further Assuming "A"'s cost of capital to be 8%, per annum, which is very low, then we can see that, "A" will earn a return of Br. 27,214 by investing the fund. Hence

$$R = \frac{(276450+27,214+1750+1680-3550)-283360}{283360} = 7.12\%$$

Therefore, it is not conclusive to say Iqqub has a negative return. Early receivers of lot will have positive returns, but late receivers will be at disadvantage.

3.4 Liquidity of 'Iqqub'

Fundamentally, in an 'Iqqub', money is collected from members and awarded to one member as per an agreed upon fund allotment mechanism, and hence no cash will be maintained making it illiquid. The currently emerging 'Iqqub's try to avoid such illiquidity by maintaining cash as discussed above. Even in those instances, a member borrows his own money at high interest rate. The empirical evidence from the surveyed 'Iqqub's shows that, once a member has started an 'Iqqub', liquidating position before the 'Iqqub' liquidates is not possible. Usually, a member who has already taken his lot is not allowed to discontinue, as he\she has become debtor now. A member who has not yet taken his lot is allowed to discontinue, however the money that the he\she has contributed will only be paid back at the end of the 'Iqqub' cycle.

As per the response of respondent's, 66.7% of them responded that they couldn't get loan from 'Iqqub' as required the other 33.3% responded that they can get loan when ever they wanted from their 'Iqqub'. From the 66.7% respondents who responded that they can get loan from the 'Iqqub', 60% of them were from *Ameya Yebetseb 'Iqqub'*. This 'Iqqub' has special features when compared with other 'Iqqub's. One of such features is its ability to provide loan to its members, though the amount is small and exorbitant interest rates are charged. Members, if due to different reasons are unable to buy lots; they can borrow 1/3 of their contribution at 2% interest rate per month. However, one can clearly understand that this 'Iqqub' is slowly turning to 'Village bank'.

			<i>Name of 'Iqqub'</i>						<i>Total</i>
			<i>Ameya</i>	<i>Grand</i>	<i>Tezera Shenkute</i>	<i>Ag Restaurant</i>	<i>Addis</i>	<i>WVE</i>	
Can you get loan from the 'Iqqub' whenever needed?	Yes	Count	6		2		1	1	10
		%	60.0%		20.0%		50.0%	50.0%	33.3%
	No	Count	4	3	8	3	1	1	20
		%	40.0%	100.0%	80.0%	100.0%	50.0%	50.0%	66.7%
<i>Total</i>		<i>Count</i>	<i>10</i>	<i>3</i>	<i>10</i>	<i>3</i>	<i>2</i>	<i>2</i>	<i>30</i>
		<i>%</i>	<i>100.0%</i>	<i>100.0%</i>	<i>100.0%</i>	<i>100.0%</i>	<i>100.0%</i>	<i>100.0%</i>	<i>100.0%</i>

Table7: Respondent's response on their 'Iqqub' ability to accommodate loan request (Source: own survey)

Given, its lengthy operational cycle, inability to maintain liquidity reduces the attractiveness of an 'Iqqub'. More over it puts the person receiving the last pot at big disadvantage. Noticing seen the current inflationary trend in Ethiopia, the last members to take the lot will be at the extreme disadvantage.

3.5 Divisibility in 'Iqqub'

Traditionally, 'Iqqub' has maintained its divisibility. Members may share one lot. Hence, everyone can participate in 'Iqqub' according to his ability. This attractive feature of 'Iqqub' assures accommodation of every part of the society; the poor as well as the rich can contribute as per their capacity.

3.6 Safety of 'Iqqub'

As an informal sector, 'Iqqub' is not subject to government regulation. These informal credit markets are totally overlooked and neglected and as such, there is no one who stood for the benefit of the creditors and depositors in 'Iqqub'. The government acknowledges and appreciates the effectiveness of these informal financial sectors. However, it fears that its intervention in day to day activities of these credit markets may hamper their effectiveness, and hence wants to stay out of their business according to Prime Minister Meles Zenawi (Addis Zemen, 2007). As a result, the safety of 'Iqqub' totally depends on one important social asset: **TRUST**. Members trust the 'Iqqub' organizer and the system it establishes to safeguard their safety and the organizer works to their fullest satisfaction. In fact, according to the respondents on the question forwarded to them on safety of their money, 76.7% of them agreed they are safe because there is collateral, 55.6% said it is because the insurance they were given by the 'Iqqub' organizer and only 13.3% of them responded it is because they believe the members. In fact, the last response will not be feasible for the emerging 'Iqqub's, since members rarely know each other as such closely. However, in case of default, the 'Iqqub' can sue defaulters to get its money back and there is no problem in presenting the case to courts. However, given the inefficient court system in Ethiopia, obviously if not avoiding the default, presenting such cases to the court would not be a plausible solution. According to Prime Minister Meles Zenawi, government's intervention may increase moral hazard and hence court cases, which however, given the small and inefficient courts in Ethiopia, leave alone the existing, even if their number of courts is increased by three and four folds will not give solutions. Such matters are better if they are handled by the

community themselves instead of presenting to court (Addis Zemen, 2007). Hence the safety of 'Iqqub' depends on the member's discipline, the 'Iqqub' organizer's collateral management system and its ability to absorb losses due to default by members, if there is any. Mostly, 'Iqqub' collections are made at restaurants where they wait in an open place their members till they pay and often collection is on cash basis, since processing check payment would create additional cost. Moreover, the organizer, at his home or restaurant, keeps records of important collateral documents. If it was not for the Ethiopian community that it is ethical and organized crimes are not as such common, these practices are very risky and unsafe.

3.5 Noted problems of surveyed 'Iqqub's

Even though, 'Iqqub' has been common among the Ethiopian community, it has its own unique problems, some emanating from members others from the very basic nature of 'Iqqub' itself. These include

1. **Members may not pay in time:** The most noted problem in 'Iqqub' is members do not pay in time, especially those who have already taken the lot. As rotating saving and credit association, in order to pay to awardees, members must pay promptly. Most members do not like to be told to wait until somebody pays, instead if they are winners they need their cash instantly. The strength and attractiveness of an 'Iqqub' nowadays is being measured by its ability to handle such matters effectively. The different motivation schemes provided (by Ameya yebetseb 'Iqqub', for example right for careful payers) and buffer cash held for such cases really indicate evolving good management practices in this informal

financial institutions. Avoiding such problems will attract more members to 'Iqqub's.

2. **Inability to provide long-term loans:** Though 'Iqqub' is an informal sector for financing households; its ability to work effectively is limited by its inability to provide long-term financing. Financing attractive projects with long payback period is impossible currently with 'Iqqub' funds.
3. **Inability to provide large loans:** The other basic problem of 'Iqqub' is its inability to provide large loans. Usually, 'Iqqub' provides the money collected from its members, and hence the 'Iqqub's' financial capacity is determined or limited by the number of members it has and each member's contribution. This has badly limited 'Iqqub's' ability to only finance SMEs.
4. **Liquidity and Return problems:** as noted in the above paragraphs, 'Iqqub' has liquidity problems. Some members usually have to wait until the end of the period to receive their own contribution, while others receive an 'Iqqub' lot earlier and can take advantage of it. So in 'Iqqub', some one is made better off while the other goes worse off. Allotting funds through lottery has a gambling feature and usually 'unlucky ones' will lose at the end of the day, though they still think they have benefited from forced saving.
5. **Maintaining organized books of accounts:** 88% of the respondents stated that in their 'Iqqub', the 'Iqqub's' system of maintaining records must be improved. Normally, the 'Iqqub's' maintain records of cash received from members and cash paid to members. However, often the 'Iqqub' organizer who also collects deposits

and withdraws the cash maintains the records. There is no record maintained on bank deposits and withdrawals, which according to some respondents is advantageous to the 'Iqqub' organizer. Specially, some observers noted that often the organizer to finance its own operations uses such money at bank. Still other observers said, money deposited at bank is lent to other people, from which the interest will be solely used for the organizer's benefit. Vividly as stated, there is violation of segregation of duty principle of internal control. Often it will not be in the best interest of the 'Iqqub' organizer to pass these responsibilities to others.

6. **Periodical Fixed contribution:** Though 'Iqqub' encourages saving by forcing members, it is also arguable that members through out the period accumulate money to pay only for the periodical contribution and spend the remaining. In simple words, since an 'Iqqub' as earned by members does not collect money, members may spend small amounts earned daily that otherwise could have been accumulated to finance investment projects.

3.6 Noted strengths of 'Iqqub'

1. **Low default rate:** As explained above, the surveyed 'Iqqub's have low default rates. This is partly due to the strong social bonds that the members have. Since members who participate in 'Iqqub' are usually known and trust worthy the default rate is less. Moreover, since the members are well known about their jobs and the businesses they own, these 'Iqqub's have an advantage of getting information about creditworthiness of members at lesser costs. This effectively reduces transaction costs.

2. **Low moral Hazard:** Generally respondents' feeling about these 'Iqqub's shows they have developed sense of belongingness to these 'Iqqub's. They cautiously follow the activities of the 'Iqqub' and control them. This in effect reduces the moral hazard that is available in the formal sectors.
3. **Low corruption and fraud practices:** *'Iqqub' organizer* manages the overall operation of the 'Iqqub'. 'Iqqub' organizers are mostly old people, trusted, respected, valued and well-known members of the society. Hence, their status quo and accountability for their members have kept corruption and fraud practices at low level, not to dare to say it has been avoided. Moreover, agency problems with in these informal institutions are avoided.
4. **Good experience in collateral management and loan screening:** the collateral system established by these institutions, along with their strong social relationship has contributed to low default rate in these informal credit markets. Despite the fact that, nowadays members of 'Iqqub' are becoming diverse, still most members live around the 'Iqqub' organizer. Even those who are far away should come to pay their periodic contribution or send their proxies. As a result, the 'Iqqub' organizer is near to information about members, who at some period will become debtors. This information about members assists the 'Iqqub' in screening loans and maintains flexibility in collateral requirement over different debtors.
5. **Simplicity and Flexibility:** - Generally speaking, the operations of 'Iqqub's are simple as compared with the operations of the other formal and semiformal sectors. In the surveyed 'Iqqub's, a person who has received his lot takes his

money within 1 – 3 days, after presenting his collateral. Collateral screening mechanisms are simple and as such not complex but effective. That is, approving collateral is made within less than 2 hours. Fund allotment mechanisms are as well flexible; especially its ability to respond immediately to social as well as financial problems of its members makes it unique from other formal sectors.

6. **Minimize usurious practices:** The 'Iqqub's surveyed, as described in the above paragraphs, allot funds in different mechanisms. Under this mechanism however, the 'Iqqub' fixes the interest rate and members do not bid for interest rate, which would have been usurious, given the high demand for credit. Rather, applicants to buy an 'Iqqub' lot are served on a first come first serve basis. Bidding RoSCAs are common in other countries, where members collectively bid to get funds. The highest bidder (who quoted high interest rate) wins the funds and will be given a discounted amount. In Malaysia, these types of RoSCAs are common and the interest rate may vary from 10 to 40% (Shanmugam, 1991). Moreover, the existence of RoSCAs in communities relieves members who urgently need cash, from usurious moneylenders.
7. **Filling Gaps:** In the above paragraphs, the role of 'Iqqub' in financing SMEs is described. The formal sector prefers large-scale businesses and established businesspersons, leaving out the small and medium scale as well under establishment enterprises. This left out segment is often served by the informal sector. 'Iqqub' as an informal sector has filled the gap that is created between formal sectors and small-scale borrowers.

3.7 Potential of ‘Iqqub’

With the following paragraphs, this paper tries to discuss models that can be developed for ‘Iqqub’ in order to avoid the existing problems and increase its significance.

3.7.1 Creating linkage with the formal sector

Creating linkage with the formal sector has a mutual benefit. Ethiopian Banks suffer from excess liquidity at one continuum, at the other continuum ‘Iqqub’s suffer from shortage of loanable funds. Rationally, linking these two together would help both. Bank’s Liquidity status is presented here below over six-year period:

	June 30,2002	June 30,2003	June 30,2004	June 30,2005	June 30,2006	August 31,2007
Net current deposit	22,173.00	25,258.00	29,759.00	34,948.00	40,331.00	42,152.00
Actual Liquidity requirements (15%)	3,326.00	3,789.00	4,464.00	5,242.00	6,050.00	6,323.00
Actual Liquid assets	9,575.00	16,461.00	20,264.00	22,417.00	24,129.00	25,862.00
Excess Liquidity	6,249.00	12,672.00	15,800.00	17,175.00	18,079.00	19,539.00
Actual Liquidity ratio	43.2%	65.2%	68.1%	64.1%	59.8%	61.4%

Table 8: Bank’s Liquidity Status in millions (Source: National Bank of Ethiopia)

Provided below is graphical presentation for easy comparison.

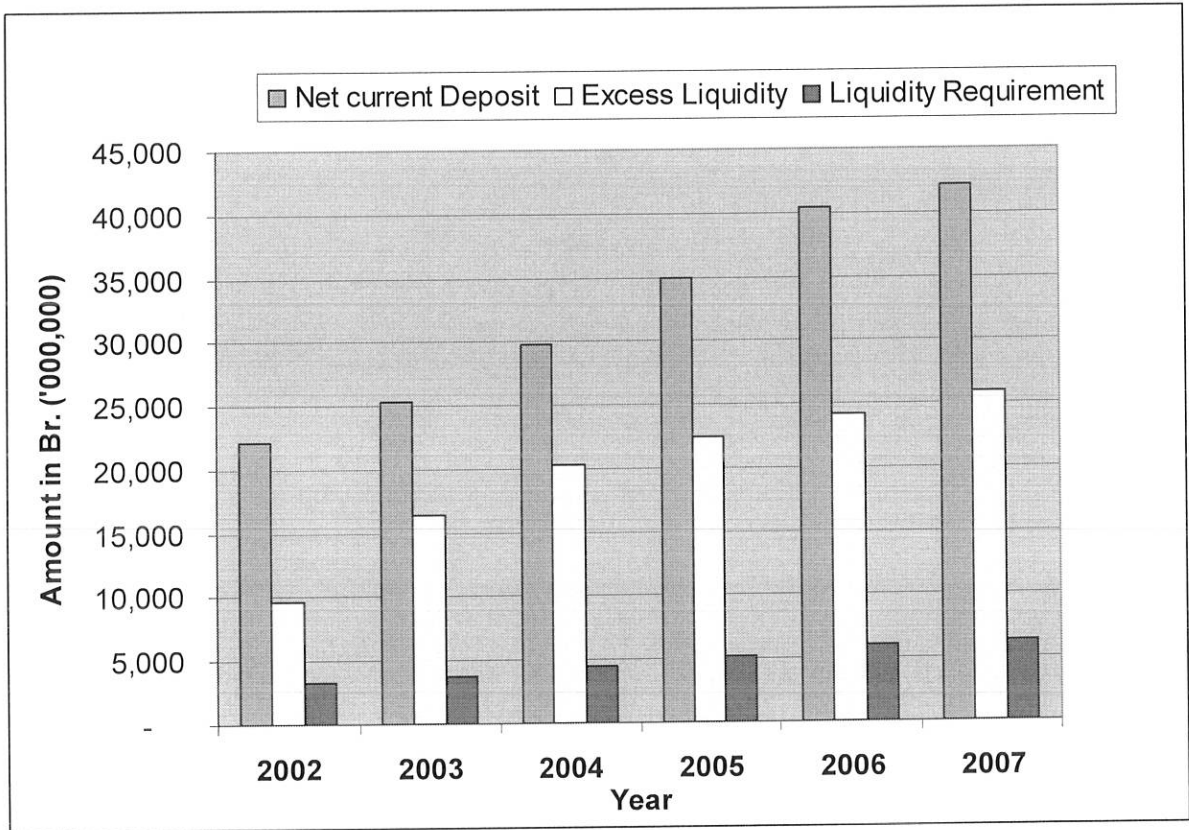


Figure 3: Commercial banks Liquidity Status (in millions)

The excess liquidity is not because the demand for money has been satisfied. As a growing economy, the country is still in need of capital. However, the excess liquidity was a result of the huge collateral requirements of banks and stringent borrowing policies, which has prevented the public from having access to financial services. These formal sectors, if linked with such community-based institutions can address even the poor households and reach out every corner of the community.

Surprisingly, considering only the four ‘Iqqub’s surveyed their annual turnover constitutes about **0.15%** of the net current deposit maintained as of August 31, 2007 by commercial banks altogether. In simple terms, a bank by opening four “‘Iqqub’ branches”

is able to mobilize 0.15% of the net deposit maintained by commercial banks. Amazingly, this amount is huge amount.

Taking the experience of The Argentina case (explained in the literature review), model can be developed to fit Ethiopian context. The advantage of linking 'Iqqub' accrues benefit to both the formal sector and the 'Iqqub'. **Benefits to the bank include:**

- I. **Credit Information:** The information provided by each 'Iqqub' organizer about each creditor is an important input to the loan screening process. As the 'Iqqub' organizer can get information about each member, the information typically, credit information and status of members can be quite useful. Hence, banks can use 'Iqqub's as information gateway.
- II. **Outreaching more customers:** loan demanders that cannot be addressed through the formal net can be effectively addressed, through such an approach. Hence, banks can mobilize part of their deposit through these informal sectors and alleviate their excess liquidity problem.
- III. **Low default rate:** The strong social ties in 'Iqqub' can be levered to reduce the default rate and non-performing loans. Besides, defaulters can be managed through the already established societal ways, before going to the court, which again decreases the bank's costs.
- IV. **Tapping into good management practices:**-some existing 'Iqqub's have already become professionals in screening and verifying collaterals. This experience of the 'Iqqub's can be used by the bank, at least as a preliminary survey of collaterals.

V. **Established relationship with potential customers:** ‘Iqqub’ serves as a stepping-stone for the bank to get introduced to ‘Iqqub’ members, which in the future can become potential customers.

Benefits to the ‘Iqqub’:

- I. **Increased Membership:** Banks through their various branches can solicit different people, in general those who cannot be served through the formal sector to become members of ‘Iqqub’ to be benefited.
- II. **Risk Diversification:** still the existing homogeneity in ‘Iqqub’ will make it vulnerable to unsystematic risk, which other wise could easily be avoided through diversification. Since banks have an already established several branches, by increasing the number and diversity of members, they can easily diversify the unsystematic risks associated. Moreover, the default risk can be borne by the bank since it is a large-scale enterprise that has huge capital, which otherwise should be borne by the ‘Iqqub’ organizer.
- III. **Increased capital:** As per the survey made, one major problem in ‘Iqqub’ is there is only less capital to loan to others. This capital constraint of ‘Iqqub’ can be solved through cash injection from banks.
- IV. **Better management:** Bank is a well-organized entity with full of professionals. As a result, the ‘Iqqub’ can have access to some knowledge embedded in these professionals. Moreover, since the bank has trained professionals in managing books of account, the problem in ‘Iqqub’ associated with maintaining formal books of accounts can be resolved since the bank can manage such matters and

hence the 'Iqqub' officials can spend their time in some constructive activities like gathering information about members. The banks can also provide other services that they are expertise at like managing collaterals, clearing check payments and keeping important collateral documents in safe deposits.

V. **Return:** Perhaps the most sensible and essential feature of this model is that more borrowing can be made since there is more capital employed, which results in high interests earned which can later be distributed to members. Even long awaiting members can be rewarded since there will be a return earned and as well other members that need borrowing can also be served since there will be large capital base.

VI. **Bank rights:** Banks in Ethiopia are allowed to foreclose any property held as collateral, if a borrower defaults. On the other hand, an 'Iqqub' has to go to court in order to foreclose collateral, which takes longer period under the current context of Ethiopian courts. The bank rights can be used to effectively foreclose property held as collaterals by the 'Iqqub'.

VII. **Liquidity:** members of an 'Iqqub' face liquidity problems, as their funds will be tied up, if they do not receive 'Iqqub' lot at the earlier possible time. Moreover, discontinuing an 'Iqqub' is impossible if a member has already taken funds. Even in cases where a member has not taken an 'Iqqub' lot, he has to wait until the end of the 'Iqqub' to get his own contribution. This Illiquidity problem can be solved by establishing a mechanism with the bank such as discounting the 'Iqqub' at the bank. Banks can develop a model to discount the 'Iqqub' as any other receivables

are discounted and can take the position of the discontinuing member. This will alleviate illiquidity problem of 'Iqqub'.

However even this model is not without problems and challenges. One challenge for this to work is that, banks may not want to work with this informal credit markets, as they consider them inefficient. According to one interviewee, the banks in the past even tried to persuade the government to close such informal sector, hence becoming partners with them may be difficult. The Other challenge is, there is no institutional or legal framework that facilitates such linkage with informal sector in Ethiopia. A major problem associated with this model is, the question of ownership and management. If the bank takes, the ownership of the 'Iqqub', 'Iqqub' officials would be employees of the bank in which case problems such as moral hazard may be created. Additionally, the formal sector's bureaucracy might be transferred to this informal sector, there by reducing its attractiveness. Further, the 'Iqqub' organizer and other 'Iqqub' officials will not be happy to forge such relationship, since they will be forgoing some benefit that personally accrue to them. In such cases, these 'Iqqub' officials may spread wrong information about such relationships to discourage members from becoming part of it. In addition, the 'Iqqub' organizer, since he will not bear the risk may not be as such motivated to work to the full satisfaction of members and the bank. On the other hand, the bank will not be willing to pass the management to others, since the bank will be putting its capital in the hands of nonprofessionals, which the bank most probably will not do it.

3.7.2 Turning 'Iqqub' to village bank

History tells of Nepalese RoSCA called Dhikuti, which later turned to a formal finance company - Himalaya savings and finance company. Due to the observed problem in the dhikuti, it was replaced by another RoSCA. In 1989, a new financial Technology was introduced: Employing a **deposit collector**, which provided daily doorstep collection services to the amount of Rs 10 (appr. US\$0.16 at the 4/1998 exchange rate of US\$1 = Rp63) each. As confidence grew, word spread, and within a year, in 1990, the number of groups had risen to 200, comprising 5,000 participants. At a rate of Rs 10 per day, the daily collection amounted to Rs 50,000, corresponding to about Rs 18 million annually (Seibel & Schrader, 1999).

As can be understood from the Nepalese experience, it is possible to turn this important indigenous credit institution to a better village bank. In Ethiopia, even in the formal sectors agents are common, typically in insurance. Clients are brought to the insurance through agents, for which commission is paid. The 'Iqqub' also can be organized in such a way to provide deposit services. Given the already started deposit services, expanding such a service requires a little effort. By employing 'Iqqub' agents, who can provide deposit collection services, the 'Iqqub' can collect deposit from its members more frequently than currently. The deposit will provide for the 'Iqqub' to have a strong financial base from which it can extend loan to its members.

Perhaps, it may also be possible to provide huge term loans. Then; slowly it can develop an institutional framework from which it can sprint to be formal institution. Adopting

such practices will change the 'Iqqub' to an important village bank, where the discriminated will be served efficiently.

The push factors for this are the existing noted problems in 'Iqqub', while the pull factors are already established customs and practices, large member base and members attitude towards saving. The major problem here is how to guarantee the interest of depositors, if these informal financial sectors remain unregulated. For its success, guaranteeing depositors will be important. The government, Non-governmental organizations and other stakeholders, without intervening in their operations may provide guarantee over depositor's interest.

The government may establish one new institution that capacitates and gives guarantees over these informal sectors. The established institution will guarantee the interests of depositors as well oversee the operations of the informal sector and the links they create with formal institutions. In order to avoid fund constraints, the guarantee institution may also provide insurance to the formal sector induce them to extend huge loans to these informal sectors, since 'Iqqubs's may not have as such strong collateral to borrow against. The loan can then be retailed by the 'Iqqub' to credit constrained households.

However, still the government's involvement may create moral hazard, leading to failure of the informal credit markets.

CHAPTER FOUR

CONCLUSIONS AND RECOMMENDATIONS

4.1 Conclusions

This paper has tried to analyze the role of 'Iqqub' in the community and the potential that it has. 'Iqqub' currently is playing a very important role in the economy specially in addressing the financial needs of the poor and discriminated.

The currently emerging 'Iqqub's mobilize a large amount of fund and have devised sophisticated means of awarding lot's to their members. In addition, it was observed that the time value of money concept has emerged with in these informal financial markets.

Generally, 'Iqqub' plays an imperative role in financing SMEs, which are considered development facilitators. Other roles of 'Iqqub' include creating social harmony, providing financing to members flexibly in a way that meets their urgent finance needs, allowing members to share ideas among each other and most importantly forces members to save.

Emerging 'Iqqub's make 'profit' from sale of 'Iqqub' lots and other penalties and miscellaneous charges. These 'profits' are shared among members at the end of the 'Iqqub' cycle. However, economically speaking much of the benefit from 'Iqqub' accrues to 'Iqqub' officials and early takers of funds, at the expense of those who take their fund at later periods. Often, members pay service charges to the 'Iqqub' organizer, which shares it along with the other 'Iqqub' officials. Hence, these would leave members with negative return if returns from 'Iqqub' alone were considered.

Given the negative returns, the secrecy that surrounds 'Iqqub' participation is its flexibility, less bureaucratic in awarding funds, low default rate, the social cohesion it creates and gambling features where members draw lottery to get 'Iqqub' lots.

Despite the above facts, these informal institutions are not getting any support from other stakeholders, though their commonality in the community is high and mobilize huge amount of money. The government has preferred to stay away from them, with an assertion that its involvement may flood away members' confidence. Therefore, control of these informal markets is left to the 'Iqqub' and its members itself.

As a result, the 'Iqqub' remains constrained only to the amount of money that it collects from its members. However, demands for credit in these surveyed 'Iqqub's are high.

From other country's experience, there are formal RoSCAs as in the case of Argentina where RoSCAs work in harmony with banks and car dealers. The paradox of the formal sector being excessively liquid and this informal financial institutions being illiquid and capital constrained tells that the two can join hands in a mutual benefit. This implies, there is a potential for 'Iqqub' to be linked with the formal sector .At the other extreme 'Iqqub' also has the potential to become village bank where it can accept deposits as well disburse loans, as was the case in Nepal. This duly avoids the existing 'Iqqub' problems.

4.2 Recommendations

In light of the above findings and conclusions, the following recommendations are forwarded:

- ❖ The government and other stakeholders have neglected the importance of ‘Iqqub’s which may otherwise could have policy implications for development and poverty alleviation. Attention by the government must be given to these sectors.
- ❖ Government and other stakeholders, if not directly involve in the operations of ‘Iqqub’, they must at least register and license the operations of ‘Iqqub’s. Moreover, capacity building programs should be addressed to ‘Iqqub’ officials on different aspects including on how to maintain books of accounts and establishing good governance.
- ❖ Academicians also must see deep into the importance of ‘Iqqub’ and its economic benefit, so that potential benefit from ‘Iqqub’ can be reaped. Moreover, the emerging ‘Iqqub’s nowadays maintain books of accounts, indicating modern management practices. However, still the attention given from academicians in Ethiopia to this sector is insignificant. So the academic society in the future should be involved to enhance the effectiveness of these societal indigenous institutions.
- ❖ Based on other country’s experience, it seems a synergy can be created by integrating vertically the formal sector with ‘Iqqub’. However, further researches should be made on such areas, as they may have some policy and regulatory implications.

- ❖ Further researches should be made on such issues as to how to enhance the benefit that accrues from 'Iqqub' participation to members, particularly in order to increase the returns that accumulate to those members with longer awaiting periods. 'Iqqub''s potential to make profit that can be distributed to members as returns indicates it is possible to turn 'Iqqub' to an attractive financial asset, however still further researches on these areas must be made before concluding in its entirety.

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6 Appendices

Appendix 1: questionnaire for Iqqub members (English) **Questionnaire**

This questionnaire is to be filled out by selected Iqqub members.

Dear Respondent

This questionnaire is designed to analyze the role and potential of Iqqub and its objective is as partial fulfillment for the Masters degree offered by the Addis Ababa University.

The research is funded by the Addis Ababa University and all the responses that you provide here are strictly confidential and will not be disclosed to any one unless specifically authorized to do so by you - the respondent.

Your true and honest and true cooperation is a key to the success of this study. An cooperation extended by you is valuable. Please feel free to fill the questionnaire and Thank you in advance for our cooperation. Please put \surd mark to provide your response as appropriate.

1. Personal Information

1.1. Your age category

Below 15 15-30 30-40 40-50 Above 50

1.2. Sex

Male Female

1.3. Total Family Size _____

1.4. Educational Level

Read and Write Primary School Secondary School

Diploma Degree Masters and above

Others please specify _____

1.5. Marital Status

Single Married Divorced Widowed

1.6. Income Source of the household head (Multiple answer is possible)

- Government Employee Private Employee Rent
 NGO Employee Trade Self Employed
 Others (Please Specify) _____

1.7. If our response to the above question is Trade or self employed, please specify the type of trade or self employment.

1.8. Average Monthly Income of the overall household: _____

1.9. Your Sub city (location of residence) _____

1.10. The name of the Iqqub that you are member: _____

2. About Iqqub

2.1. For how many years have you been a participant in Iqqub?

- Below 1 Year 1 to 3 Years 3 to 7 years
 7 to 10 years Above 10 Year

2.2. Do you think Iqqub is beneficial?

- Yes No

2.3. If your answer to the above question is **yes**, how? Please explain?

2.4. Do you prefer Iqqubs than formal financial institutions (like banks and micro finance institutions) for saving (borrowing) services?

- Yes No

2.5. Why do you participate in Iqqub?



		Strongly Agree	Agree	Disagree	Strongly Disagree
1	Obtaining credit without interest				
2	Obtaining credit at lower interest				
3	Due to the social factors (meeting with others, eating and drinking etc)				
4	Less Bureaucracy (easy access to				

	credit or loan)				
5	Sharing ideas with others				
6	Because they provide an enforced saving mechanism				
7	Additional income from Iqqubs				
8	Others, Please Specify				

2.6. How much money do you contribute to an Iqqub

Per month _____ Birr or

Per week _____ Birr

2.7. Do you pay extra money for membership, food, drinks and such other?

Yes

No

2.8. If your answer is Yes for the above question, How much (per month) and specifically for what purpose?

Per Month _____ Birr for _____

Or Per week _____ Birr for _____

Or Per Year _____ Birr for _____

2.9. Did you ever receive an additional (more than you contributed) money from Iqqub?

Yes

No

2.10. If yes, Please specify the amount received per annum on your recent experience. (specify the amount you contributed totally, the amount you received totally and the length of time the Iqqub was running)

2.11. Have you ever lost your money due to default by another member?

Yes

No

2.12. If your answer to the above is yes, how much was the loss? _____ Birr

2.13. How could you be so sure that you will receive your money and you will not lose due to default by others?

		Strongly Agree	Agree	Disagree	Strongly Disagree
1	I Trust the members of the Iqqub				

2	Because collateral is required when taking lots				
3	Because previously there is no default record				
4	Other, Please Specify				

2.14. Can you get loan from the Iqqub any time you want?

Yes

No

2.15. If your answer is no to the above question, In case of urgent cash need, from where do you borrow money?

		Strongly Agree	Agree	Disagree	Strongly Disagree
1	Banks				
2	Micro Finance				
3	Relatives\Friends				
4	Credit Associations				
5	Usurers				
5	Others, please specify				

2.16. Do you think it is possible to organize Iqqubs , so that they can provide loans whenever requested?

Yes

No

I don't Know

2.17. If your answer to the above question is Yes, How so Please describe?

2.18. Your relation with other members of the Iqqub (multiple response is possible):

		Strongly Agree	Agree	Disagree	Strongly Disagree
1	Relatives				
2	Family Members				
3	Same ethnic groups				

4	Friends				
5	Neighbors				
6	Followers of same religion				
7	No relation				
8	Others please specify				

2.19. How are funds awarded to members of Iqqub?

		Strongly Agree	Agree	Disagree	Strongly Disagree
1	Lottery				
2	Sale				
3	Based on special rights				
4	Based on urgent needs of members				
5	Other, Please specify				

2.20. Have you ever bought an Iqqub lot from other person?

Yes No

2.21. If our response to the above is yes, how much percent per annum did you pay?

2.22. Have you ever sold an Iqqub lot to other person?

Yes No

2.23. If your answer to the above is yes, How much percent per annum did you receive? _____

2.24. If your answer to Q.No.2.22 is Yes, Why did you sell the lot?

		Strongly Agree	Agree	Disagree	Strongly Disagree
1	I did not want the money then				
2	Fearing consumption(Expenditure)				

3	Because the buyer wanted the money so badly				
4	Other (Please specify)				

2.25. Have you ever been required to present collateral to take an Iqqub fund?

Yes

No

2.26. If your answer is yes to the above question, what kind of collateral did you present?

House

Friends

Relatives

Land

Other Individuals

Vehicle

Other collateral (Please specify)

2.27. What did you do in the past when you receive the Iqqub lot at lump sum?

		Strongly Agree	Agree	Disagree	Strongly Disagree
1	Used is as workin capital				
2	Paid other debt				
3	Bought merchandise inventory				
4	Bought Household appliances				
5	Covered my weeding expenses				
6	Covered my ofsprin' weeding expense				
7	Established Trade				
8	Bought Capital assets(Vehicle, house etc)				
9	Paid Taxes				
10	Other, please specify				

2.28. Is it possible to liquidate your position in the Iqqub, before the Iqqub liquidates?

- Yes it is possible without any penalty payment
- Yes, it is possible but a penalty of _____ birr or _____ % is paid
- Yes, it is possible if there is an appropriate successor
- No, it is not possible
- I don't know
- Other Please specify

2.29. Do you think Iqqubs can benefit if they are linked with formal financial institutions like banks?

- Yes No I don't Know

2.30. If your answer to the above question is yes or No, why ?please describe

2.31. Which one do you think is advantageous:

	Strongly Agree	Agree	Disagree	Strongly Disagree
Taking Iqqub at earlier period				
Taking Iqqub at later period				
Taking Iqqub whenever needed				

2.32. Do you think the existing operation of Iqqub should be improved?

- Yes No

2.33. If your answer to the above is yes, Which areas should be improved?

	Strongly Agree	Agree	Disagree	Strongly Disagree
1 Iqqub Collection				
2 Iqqub Allotment				
3 Maintaining books of accounts				
4 Bylaws of the Iqqub				
5 Others, Please specify				

2.34. For how many periods will the existing Iqqub runs?

For _____ month or _____ week

2.35. Iqqub most of all benefits

		Strongly Agree	Agree	Disagree	Strongly Disagree
1	Iqqub Organizer				
2	Iqqub Members				

2.36. Do you think Institutionalizing Iqqub will benefit? Why?

Appendix 2: questionnaire for Iqqub members (Amharic)

ውድ አንባቢ

ይህ መጠይቅ የተዘጋጀው የዕቁቦች ሚና እና ዕምቅ ችሎታ በሚል ርዕስ ጥናት ለማካሄድ ሲሆን አላማውም በአዲስ አበባ ዩኒቨርሲቲ ለሚሰጠው የሁለተኛ ዲግሪ (ማስተርስ ዲግሪ) ማሟያ ነው።

ጥናቱ የሚካሄደው በአዲስ አበባ ዩኒቨርሲቲ እገዛ ሲሆን እዚህ መጠይቅ ላይ የሚሞሉ ማንኛውም መልሶች አግባብ ባለው ሁኔታ ለጥናቱ ብቻ የሚውሉ ሲሆን በተረፈ ግን መጠይቁ ላይ የሚሞላው መልስ በሚስጥር የሚጠበቅ እና ለሌላ ለምንም ዓላማ እንደማይው ላረጋግጥ እወዳለሁ። በአስፈላጊው ቦታ ✓ በማድረግ መልሶችን ይስጡ።

የእርሶ እውነተኛ እና ቀና ትብብር ለጥናቱ ዓላማ ግብአት ሲሆን የሚያደርጉልኝ ትብብር ሁሉ ትክክለኛ የሆነ የጥናት ውጤት ላይ እንዲደርስ የሚረዳኝ ይሆናል። ነፃ ሆነው ይህንን መጠይቅ እንዲሞሉልልኝ ስጠይቅ ለሚያደርጉልኝ ቀና ትብብር ሁሉ ከወዲሁ የላቀ እና ልባዊ ምስጋናዬን አቀርባለሁ።

1. የግል መረጃ

1.1 ዕድሜ

- 1. ከ11 ዓመት በታች
- 2. ከ15-30
- 3. ከ30-40
- 4. ከ40-50
- 5. ከ50 ዓመት በላይ

1.2 ፆታ

- 1. ወንድ
- 2. ሴት

1.3 የቤተሰብ ብዛት _____

1.4 የትምህርት ሁኔታ

- 1. ማንበብ እና መጻፍ
- 2. አንደኛ ደረጃ ትምህርት
- 3. ሁለተኛ ደረጃ ት/ት
- 4. ዲፕሎማ
- 5. ዲግሪ
- 6. ማስትራት እና ከዛ በላይ
- 7. ሌላ ካለ _____

1.5 የጋብቻ ሁኔታ

- 1. ያላገባ
- 2. ያገባ
- 3. ከትዳር አጋር የተፋታ(የተፋታች)
- 4. የትዳር አጋሩ የሞተበት (ባት)

1.6 የገቢ ምንጭ (ከአንድ በላይ መልስ መስጠት ይቻላል)

- 1. የመንግስት ተቀጣሪ
- 2. የግለሰብ ድርጅት ተቀጣሪ
- 3. ንግድ
- 4. የግል ስራ

3. ኪራይ

4. መንግስታዊ ያልሆነ ድርጅት ተቀጣሪ

7. ሌላ (እባክዎን ይጥቀሱ) _____

1.7 ከዚህ በላይ ላለው ጥያቄ መልሶት ንግድ ወይም የግል ስራ ከሆነ የተሰማሩበትን የንግድ ወይም የግል ስራ ዘርፍ እባክዎን ይጥቀሱ _____

1.8 በአማካይ በወር የቤተሰብዎ ገቢ _____

1.9 የሚኖሩበት ክፍለ ከተማ (አገር) _____

1.10 አሁን አባል የሆኑበት እቁብ ስም _____

2. ስለ እቁብ

2.1. በእቁብ ውስጥ በአጠቃላይ ለምን ያህል ዓመት ተሳትፈዋል?

- 1. ከ1 ዓመት በታች 2. ከ1-3 ዓመት 3. ከ3-7 ዓመት
- 4. ከ7-10 ዓመት 5. ከ10 ዓመት በላይ

2.2. እቁብ ጠቃሚ ነው ብለው ያስባሉ?

- 1. አዎን 2. አይደለም

2.3. ከላይ ለተጠቀሰው ጥያቄ መልሶት አዎን ከሆነ ክፍብ እንዴት እንደተጠቀሙ ወይም በምን ዐይነት ሁኔታ ዕቁብ እንደጠቀሙት አንዱን ሁኔታ ቢገልጹልኝ

2.4. እቁቦችን ከሌሎች ዋና የገንዘብ ምንጮች (ከባንኮች እና ከአነስተኛ ብድር አቅራቢዎ) ይመርጣሉ?

- 1. አዎን 2. አልመርጥም

2.5. በዕቁብ ለምን ይሳተፋሉ?

		1 በጣም እስማማለሁ	2 እስማማለሁ	3 አልስማማም	4 በጣም አልስማማም
1	ብድር ያለምንም ወለድ ስለማገኘኝ				
2	ብድር በአነስተኛ ወለድ ስለማገኘኝ				
3	ማህበረሰባዊ ጉዳዮች (ከሌሎች ጋር መገናኘት፣ መብላትላ መጠጣት)				
4	አነስተኛ ቢሮክራሲ (በቀላሉ ብድር ማግኘት)				

	ት ስለሚቻል)				
5	ከሌሎች ጋር ተገናኝቶ ሀሳብ ለመለዋወጥ				
6	ከዕቅድ ተጨማሪ ገቢ ስለማገኝ				
7	ገንዘብ እንደቆጥብ ስለሚገፋፋኝ				
8	በምራልግበት ጊዜ እቁብ መግዛት ስለምችል				
9	ሌላ ከሆነ እባክዎን ይጥቀሱ				

2.6. በአጠቃላይ ምን ያህል ገንዘብ ዕቁብ ይጥላሉ?

በወር _____ ብር ወይም

በሳምንት _____ ብር

2.7. ለምግብ፣ መጠጥ ወይም ለአባልነት መዋጮ ተጨማሪ ገንዘብ ይከፍላሉ?

1. አዎን

2. አልከፍልም

2.8. ከላይ ለተጠቀሰው ጥያቄ መልሶት አዎን ከሆነ የሚከፍሉት ተጨማሪ ገንዘብ ምን ያህል እንደሆነና ለምን እንደሆነ ቢጠቅሱ

በወር _____ ብር ለ _____

ወይም በሳምንት _____ ብር ለ _____

ወይም በዓመት _____ ብር ለ _____

2.9. በእቁብ ካወጡት ገንዘብ ተጨማሪ ገቢ(ከትርፍ ክፍፍል፣ከሽያጭ፣ ከመሳሰሉት) አግኝተው ያውቃሉ?

1. አዎን

2. ተጨማሪ ገንዘብ አግኝቼ አላውቅም

2.10. ከላይ ለተጠቀሰው ጥያቄ መልሶት አዎን ከሆነ ከቅርብ ልምዶች በመነሳት በአጠቃላይ ያዋጡትን ገንዘብ፣ ያገኙትን ተጨማሪ ገንዘብ እና እቁብ ለምን ያህል ጊዜ እንደቆየ ቢገልጹልኝ

1. ዕቁብ የጣልኩት _____ ብር በሳምንት

2. ያገኘሁት ተጨማሪ ገንዘብ _____ ብር

3. ዕቁብ የቆየበት ጊዜ _____

2.11. ሌሎች እቁብተኞች ቃላቸውን በማጠፋቸው ምክንያት እርስዎ ገንዘብ አጥተው (ኪሳራ ደርሶበት) ያውቃል?

1. አዎን

2. በፍጹም

2.12. ከላይ ላለው ጥያቄ መልሶት አዎን ከሆነ የደረሰባትን ኪሳራ በገንዘብ ምን ያህል እንደሆነ ቢገልጹልኝ፡፡ _____ ብር

2.13. ለእቁብ የጣሉት ገንዘብ ሌሎች ቃላቸውን በማጠፋቸው ወይም በሌላ ምክንያት ገንዘብዎ ቀልጦ እንደማይቀር እንዴት እርግጠኛ ሊሆኑ ይችላሉ? (ከአንድ በላይ መልስ ይፈቀዳል፡፡)

		1 በጣም እስማማለሁ	2 እስማማለሁ	3 አልስማማም	4 በጣም አልስማማም
1	እቁብተኞችን ስለማምናቸው				
2	እቁብ ሲወሰድ መያዣ ስላለ				
3	ከዚህ በፊት ቃሉን ያጠፈ ስለሌለ				
4	ሌላ ከሆነ እባክዎን ይጥቀሱ				

2.14. ከእቁብ ብድር በፈለጉት ጊዜ ማግኘት (መውሰድ) ይችላሉ?

1. አዎን

2. አልችልም

2.15. ከላይ ላለው ጥያቄ መልሶት አልችልም ከሆነ በድንገት ገንዘብ በሚፈልጉበት ጊዜ ገንዘብ ከየት ይበደራሉ?

		1 በጣም እስማማለሁ	2 እስማማለሁ	3 አልስማማም	4 በጣም አልስማማም
1	ከባንክ				
2	ከአነስተኛ ገንዘብ አቅራቢዎች/Micro finance/				
3	ከዘመድ/ጓደኛ				
4	ከብድር እና ቁጠባ ማህበራት /Credit and Saving Association/				
5	ከአራጣ አበዳሪ				
6	ሌላ (እባክዎን ይጥቀሱ)				

2.16. በእርስዎ አስተያየት እቁቦች በደንብ በማደራጀት በተፈለገው ጊዜ ብድር እንዲሰጡ ማድረግ ይችላል?

1. አዎን

2. አይቻልም

3. አላውቅም

2.17. ከላይ ለተጠቀሰው ጥያቄ መልሶት አዎን ከሆነ እንዴት /እባክዎን ትንሽ ቢገልጹልኝ/

2.18. ከሌሎች እቁብተኞች ጋር ያለዎት ግንኙነት /ከአንድ በላይ መልስ ይቻላል/

		1 በጣም እስማማለሁ	2 እስማማለሁ	3 አልስማማም	4 በጣም አልስማማም
1	ዘመድ				
2	የቤተሰብ አባል				
3	የአንድ አገር ሰዎች				
4	ጓደኛ				
5	ጎረቤት				
6	አንድ እምነት ተከታዮች				
7	ምንም ግንኙነት የለንም				
8	ሌላ /እባክዎን ይጥቀሱ/				

2.19. ለእቁብተኞች የዕቁብ ገንዘብ የሚሰጠው እንዴት ነው?

		1 በጣም እስማማለሁ	2 እስማማለሁ	3 አልስማማም	4 በጣም አልስማማም
1	በዕጣ				
2	በሽያጭ				
3	በመብት				
4	በእቁብተኞች አስቸኳይ ፍላጎት መሰረት				
5	ሌላ /እባክዎን ይጥቀሱ/				

2.20 ከሌላ ሰው እቁብ ገዝተው ያውቃሉ?

1. አዎን

2. አላውቅም

2.21. ከላይ ለተጠቀሰው ጥያቄ መልሶት አዎን ከሆነ ምን ያህል ፐርሰንት ከፈለጉ?

2.22 ለሌላ ሰው የእርስዎን የእቅብ እጣ ሸጠው ያውቃሉ?

1. አዎን
2. አላውቅም

2.23. ከላይ ለተጠቀሰው ጥያቄ መልሶት አዎ ከሆነ በምን ያህል ፐርሰንት ሸጡት?

2.24 በ2.22 ለተጠየቀው ጥያቄ መልሶች አዎን ከሆነ ለምን ነበር የሸጡት?

		1 በጣም እስማማለሁ	2 እስማማለሁ	3 አልስማማም	4 በጣም አልስማማም
1	ገንዘቡን በጊዜው ስላልፈለግኩት				
2	እንዳላጠፋው በመፍራት				
3	ገዥው ከእኔ በላይ ገንዘቡን በጣም ይፈልገው ስለነበር				
4	ሌላ (እባክዎን ይጥቀሱ)				

2.25. የዕቅብ ዕጣ ሲወስዱ ማስያዣ ተጠይቀው ያውቃሉ?

1. አዎን
2. አላውቅም

2.26. ከላይ ለተጠቀሰው ጥያቄ መልስዎ አዎን ከሆነ ምን ዓይነት ማስያዣ አቀረቡ?

1. የቤት ካርታ/ቤት
2. መሬት
3. መኪና
4. ጓደኛ
5. ዘመድ
6. ሌሎች ግለሰቦች
7. ሌላ ካለ /እባክዎትን ይጥቀሱ

2.27. ከዚህ በፊት የዕቅብ ሲደርስዎት ገንዘቡን ምን አደረጉት?

		1 በጣም እስማማለሁ	2 እስማማለሁ	3 አልስማማም	4 በጣም አልስማማም
1	ለስራ ማስኬጃ አዋልኩት				
2	ሌላ ብድር ከፈልኩበት				
3	በጣም አስፈላጊ ሸቀጥ ገዛሁበት				

4	የቤት እቃ አሟላህብት				
5	የራሴን የሰርግ ወጪ ሸፈንኩብት				
6	የልጄን የሰርግ ወጪ ሸፈንኩብት				
7	የንግድ ስራ አቋቋምኩብት				
8	ቋሚ ንብረት /መኪና፣ ቤት የመሳሰሉት/ ገዛሁብት				
9	የመንግስት ግብር ከፈልኩብት				
10	ሌላ ከሆነ እባክዎን ይጥቀሱ				

2.28. እቁቡ ከማለቁ በፊት ከእቁቡ መውጣት ይቻላል?

1. ያለምንም ቅጣት ይቻላል
2. ይቻላል ግን _____ ብር ወይም _____ ፐርሰንት ቅጣት በ _____ ላይ ይከፈላል
3. የሚተካ ሰው ካለ ይቻላል
4. በፍፁም አይቻልም
5. አላውቅም
6. ሌላ /እባክዎን ይጥቀሱ/

2.29. እቁቦችን ከሌሎች የገንዘብ ተቋማት ጋር /ለምሳሌ እንደባንክ ካሉት ጋር/ ማገናኘት ወይም ማያያዝ ቢቻል ይጠቅማል ብለው ያስባሉ?

1. አዎን
2. አይጠቅምም
3. አላውቅም

2.30. ከላይ ለተጠቀሰው ጥያቄ መልሶት አዎን ወይም አይጠቅምም ከሆነ እንዴት ወይም ለምን አይጠቅምም የሚለውን ትንሽ በደብራሩልኝ::

2.31. በእርስዎ አስተሳሰብ ከዚህ በታች የተዘረዘሩት በጣም የሚጠቅመው የትኛው ነው?

	1	2	3	4
	በጣም እስማማለሁ	እስማማለሁ	አልስማማም	በጣም አልስማማም

1	እቁብ ቶሎ መውሰድ በጣም ጠቃሚ ነው				
2	እቁብን ዘግይቶ መውሰድ በጣም ጠቃሚ ነው				
3	እቁብ በፈለጉት ሰአት መውሰድ ጠቃሚ ነው				

2.32. አሁን ያለው የእቁብ ስራ ሂደት መሻሻል /መለወጥ/ አለበት ብለው ያምናሉ?

1. አዎን 2. አላምንም

2.33. መልስዎት አዎን ከሆነ የትኛው የዕቁብ ስራ ሂደት መሻሻል አለበት ይላሉ?

		1 በጣም እስማማለሁ	2 እስማማለሁ	3 አልስማማም	4 በጣም አልስማማም
1	እቁብ አሰባሰብ				
2	እቁብ አሰጣጥ				
3	የዕቁብ ሂሳብ በተደራጀ መልኩ መያዝ				
4	የዕቁቡ ህግጋቶች				
5	ሌሎች /ይጥቀሱ/				

2.34. አሁን ያሉበት እቁብ ለምን ያህል ጊዜ ይቆያል? /አንዱን ይሙሉ/

ለ _____ ወር ወይም

ለ _____ ሣምንት

2.35. እቁብ በጣም የሚጠቅመው

		1 በጣም እስማማለሁ	2 እስማማለሁ	3 አልስማማም	4 በጣም አልስማማም
1	እቁብ ሰብሳቢውን ነው				
2	እቁብተኛውን ነው				

2.36. ዕቁቦችን በድርጅት ደረጃ ማቋቋም ይጠቅማል ብለው ያስባሉ? ምክንያቱስ?

Appendix 3: Interview schedule with 'Iqqub' organizers

Interview with Iqqub Organizers.

1. Your Age please
2. Sex
3. Your current career
4. Name of the Iqqub and year of Establishment
5. Number of members and their dispersion by area.
6. How many lots are there? What is the contribution per each lot? What is the lump sum amount drawn under each lot?
7. Do members contribute additional money? If so for what purpose?
8. How do you allot funds to your members?
9. If somebody wants to drop out from the Iqqub, How do you manage it?
10. What is the advantage of Iqqub?
11. Have you ever encountered a problem with regard to Iqqub being not formal?
12. Do you take collaterals when awarding funds to members? If so, what type of collaterals? If not, how do you ensure returnability of the money provided?
13. What is the most preferred means of cash collection?(cash, check, CPO others)
14. Could you please describe for me the institutional framework of your Iqqub?
15. Do you maintain books of accounts for the Iqqub?
16. Generally, what do you do with the money you collected from Iqqub sale, penalty etc? If distributed to members, from recent experience how much percent did you distribute?
17. Do you provide any other extra services?(Like loan, deposit or consultation)
18. Was there ever default by members? If so, how did you handle it?
19. What is the maximum interest on Iqqub sale?
20. Does the Iqqub have bank account?
21. Do you have formal and written bylaws?
22. Do you award funds when members face urgent situations? How do you award the funds? What type of urgency do you consider?

23. Do you think it is possible to link Iqqubs with banks or Microfinance institutions, so that they can work together?
24. What do you think of institutionalizing and formalizing Iqqubs?

Declaration

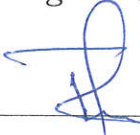
The project work is my original work, has not been presented for a degree in any other University and that all sources of material used for the project have been duly acknowledged.

Declared by:

Confirmed by:

Temesgen Teshome

Ato Abebe Yitayew (Asst. Professor)



January 31, 2008

January 31, 2008