

# V ENCONTRO DE PESQUISADORES LATINO-AMERICANOS DE COOPERATIVISMO

V ENCUENTRO DE INVESTIGADORES LATINOAMERICANOS DE COOPERATIVISMO

MOVIMENTO COOPERATIVO, TRANSNACIONALIZAÇÃO  
E IDENTIDADE COOPERATIVA NA AMÉRICA LATINA

MOVIMIENTO COOPERATIVO, TRANSNACIONALIZACIÓN E IDENTIDAD COOPERATIVA EN AMÉRICA LATINA

COMITÉ DE PESQUISA DA ALIANÇA COOPERATIVA INTERNACIONAL



## 096 - Strategies for Business Internationalisation of Credit Cooperatives in Ethiopia

### Internacionalização de negócios

*Govindaraj Veerakumaran,  
[gveeran@fastmail.fm](mailto:gveeran@fastmail.fm)*

*Department of Cooperatives, Mekelle University, Ethiopia*

### Abstract

As of 31<sup>st</sup> March 2007, Ethiopia recorded 19147 cooperatives with individual membership of 4617800 of which 4178 were Primary Saving and Credit Cooperatives (SACCO). The primaries have formed 21 secondary level Unions. The SACCOs' basic objective of fulfilling the productive credit requirement through savings of individual members could be achieved only by organising strong federations at national and international levels. Hence, this paper attempts to explore the strategies for Business Internationalisation of Credit Cooperatives in Ethiopia. The objectives of the research were to examine the status of credit cooperatives in Ethiopia and to frame the strategies for business internationalisation. The data for the purpose have been generated both from primary and secondary sources. Status in terms of number of primary credit cooperatives, district level credit union, individual members and capital is appreciable. Women's participation in the affairs of cooperatives was highly significant. The major problems identified were inadequate cooperative education, trained manpower and fund. The study postulates the strategies such as formation of federal organizations at all levels both for business and non business activities. The model evolved in the process envisages flow of credit from idle to needy individual members and cooperative enterprises.

## **Statement of the Problem**

A cooperative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise. The people of Ethiopia have got a very long social history of working together to fulfil their socio economic needs. Agriculture, Trade and Military operations were carried out through cooperative efforts. Many social events are still taking place in rural Ethiopia through collective effort. In Ethiopia there are three well known traditional cooperatives or self-help group viz., Edir Ekub and Debo/Wenfal /Lefenty, of which Ekub is a financial form of traditional cooperative formed voluntarily. It is a rotating saving and credit type association whose members make regular contribution to a revolving loan fund. However, the organized systematic cooperatives are the recent origin in Ethiopia. The federal government of Ethiopia has identified cooperative form of business organizations as an instrument of socio-economic change. Many Cooperatives have emerged in the recent past to serve the suspended and depressed community of Ethiopia. Due to encouragement given by the present government, as of 31<sup>st</sup> March 2007, Ethiopia recorded 19147 cooperatives with individual membership of 4617800 of which 4178 were Primary Saving and Credit Cooperatives (SACCO). The primaries have formed 21 secondary level Unions. The SACCOs' basic objective of fulfilling the productive credit requirement through savings of individual members could be achieved only by organizing strong federations a national and international levels. Hence, this paper attempts to explore the strategies for Business Internationalization of Credit Cooperatives in Ethiopia.

## **Objectives of the study**

The major objective of the research is to explore the strategies for Business Internationalisation of Credit Cooperatives in Ethiopia.

The specific objectives of the research are

1. to examine the status of credit cooperatives in Ethiopia and
2. to frame the strategies for business internationalisation.

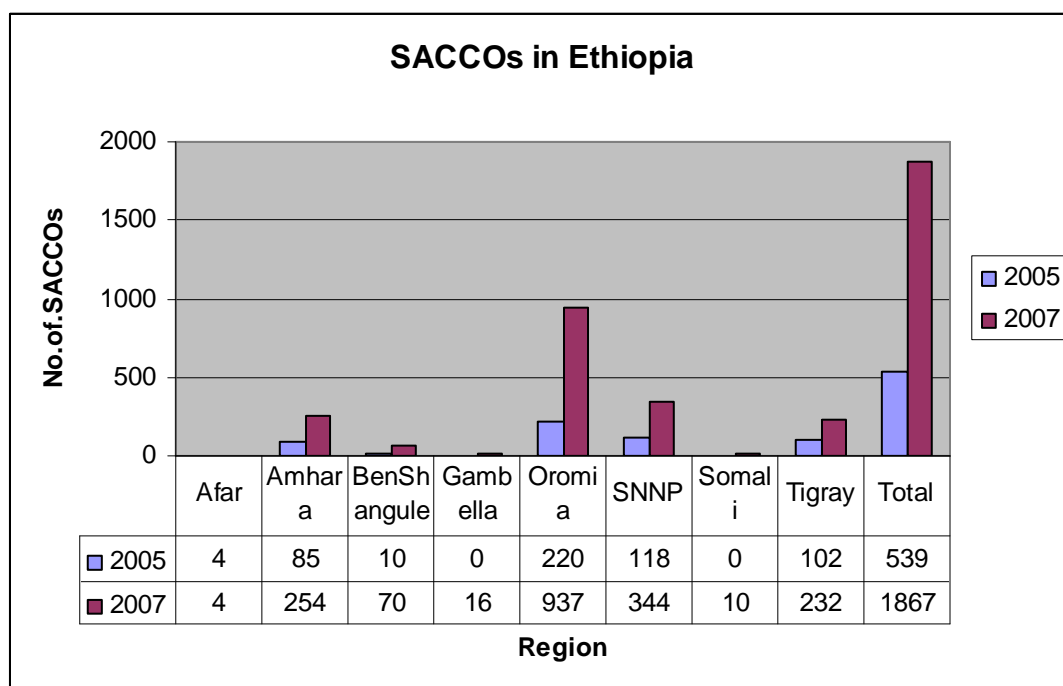
## **Materials and Methods**

The data for the purpose have been generated both from primary and secondary sources. The methodology adopted to justify the first objective is collection and compilation of secondary data particularly generated from the publications of the Federal Cooperative Agency of Ethiopia. Moreover a Questionnaire was administered to study the opinion of 21 SACCO Union Managers. However only 19 have responded and presented in this paper. The second objective was justified with a model evolved after reviewing the international cooperative credit system. The data presented in -the paper relates to 2005 and 2007. The Ethiopian year ended on the 7<sup>th</sup> July every year has been taken in to consideration. The amount of money referred in the paper is Ethiopian Birr. The major limitation of the study is non-availability of macro level data in Ethiopia

## Findings of the study

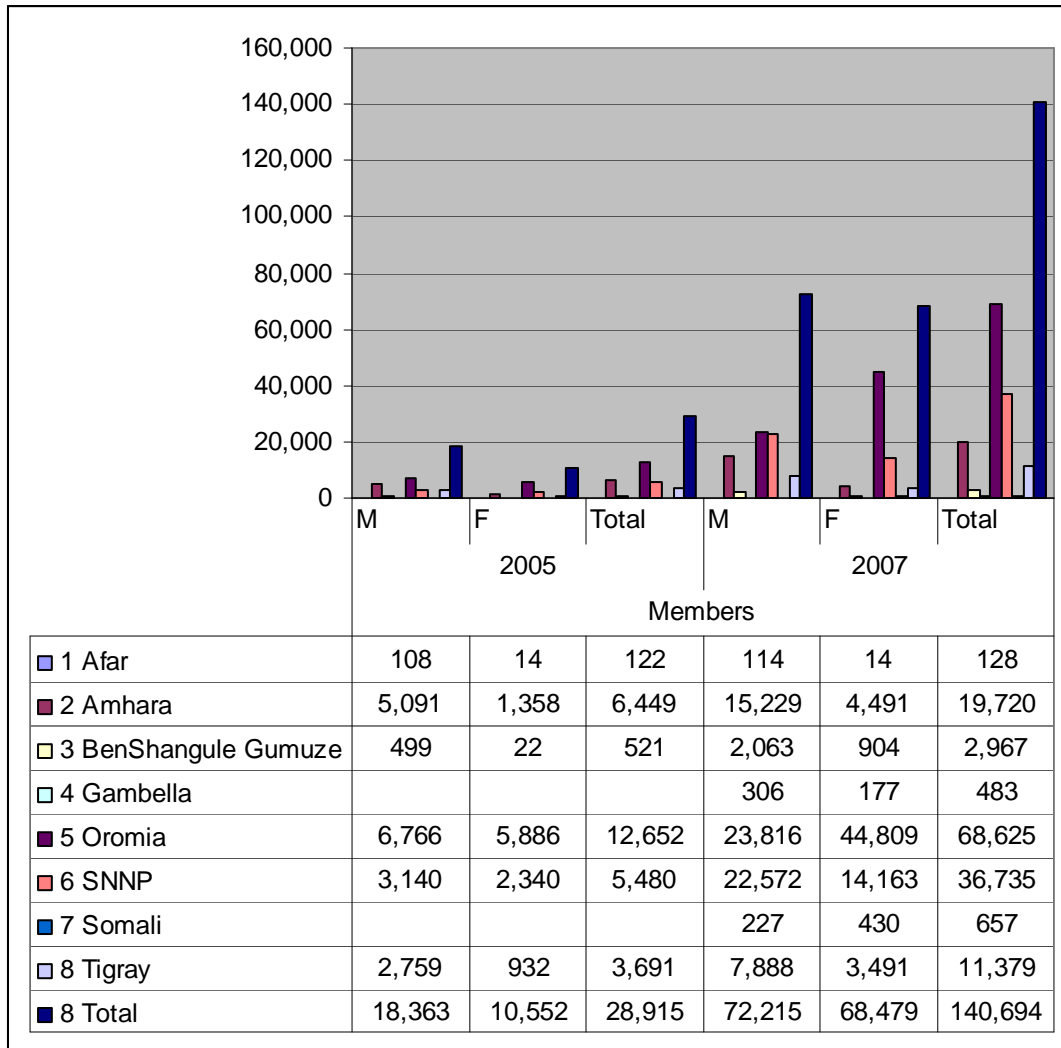
Ethiopia is divided into nine regions composed of specific ethnic groups. The regions, which have a significant degree of autonomy, are Tigray; Afar; Amhara; Oromia; Somalia; Benshangul-Gumaz; Gambela; Harar; and the Southern Nations, Nationalities and Peoples, which comprises about 41 ethnic groups. Except in one region in all other regions saving and Credit Cooperatives have been established. The chart I presented below reveals that there is significant growth in number of SACCOS established in Ethiopia. The Rural Financial Intermediation Programme implemented by the Federal Cooperative Agency of Ethiopia is the main reason for the developmet.

**Chart 1: Status of Credit Cooperatives in Ethiopia**



The chart 2 presented below reveals that there is significant growth in number of members. Both male and female membership of the SACCOS has considerably increased over a period of three years' study period. The increase in membership is due the extension work carried out by the 'Experts' of the cooperative promotion bureau of both regional and federal governments. The female membership constitutes 49 percent of the total members in the SACCOS of Ethiopia, which is on par with the population proportion. This is an important indicator of development and women empowerment. Moreover, it is very interesting to note that there are SACCOS established specifically for the women folk. Though this phenomenon has gained opposition in many forums since it excludes men from the development process, no one can deny that the SACCOS organised and managed by the 'weaker sex' perform better.

**Chart 2: Membership Status of SACCOs in Ethiopia**

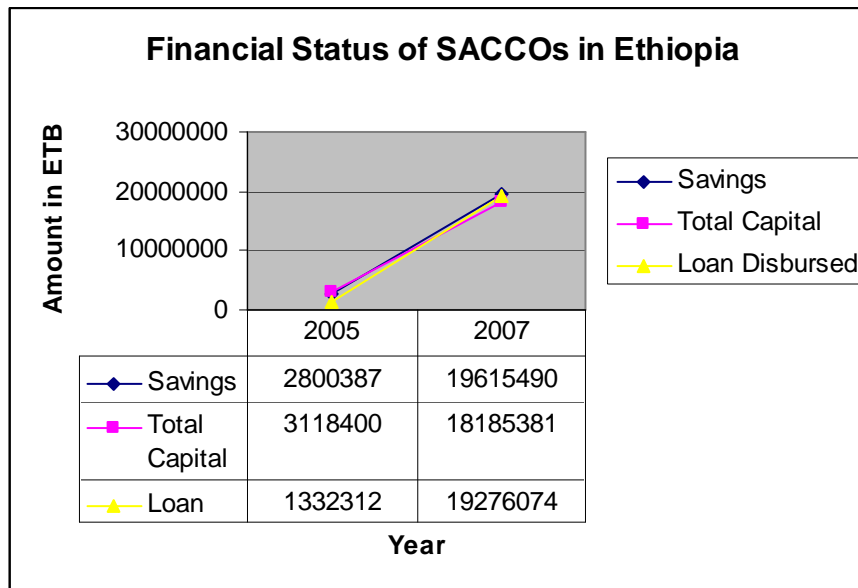


The chart 3 presented below reveals the financial condition of the SACCOs in Ethiopia. The SACCOs generate its capital from the following means:

- Paid up share capital
- Savings
- Reserves
- Borrowings
- Grants and aids

However, the author of this paper couldn't manage to source authentic data on elements. Only three variables viz., savings, total capital and loan disbursed have been taken in to consideration. It is very clear from the figures that there is significant growth in the financial condition of he SACCOs of Ethiopia. The lending policies and procedures are rudimentary and not encouraging the potential borrowers. Though there is incidence of non-repayment which leads to overdue/bad debts, it was reported that the condition has not worsened the sector, thanks to the role of women.

**Chart 3: Financial Position of SACCOs in Ethiopia**

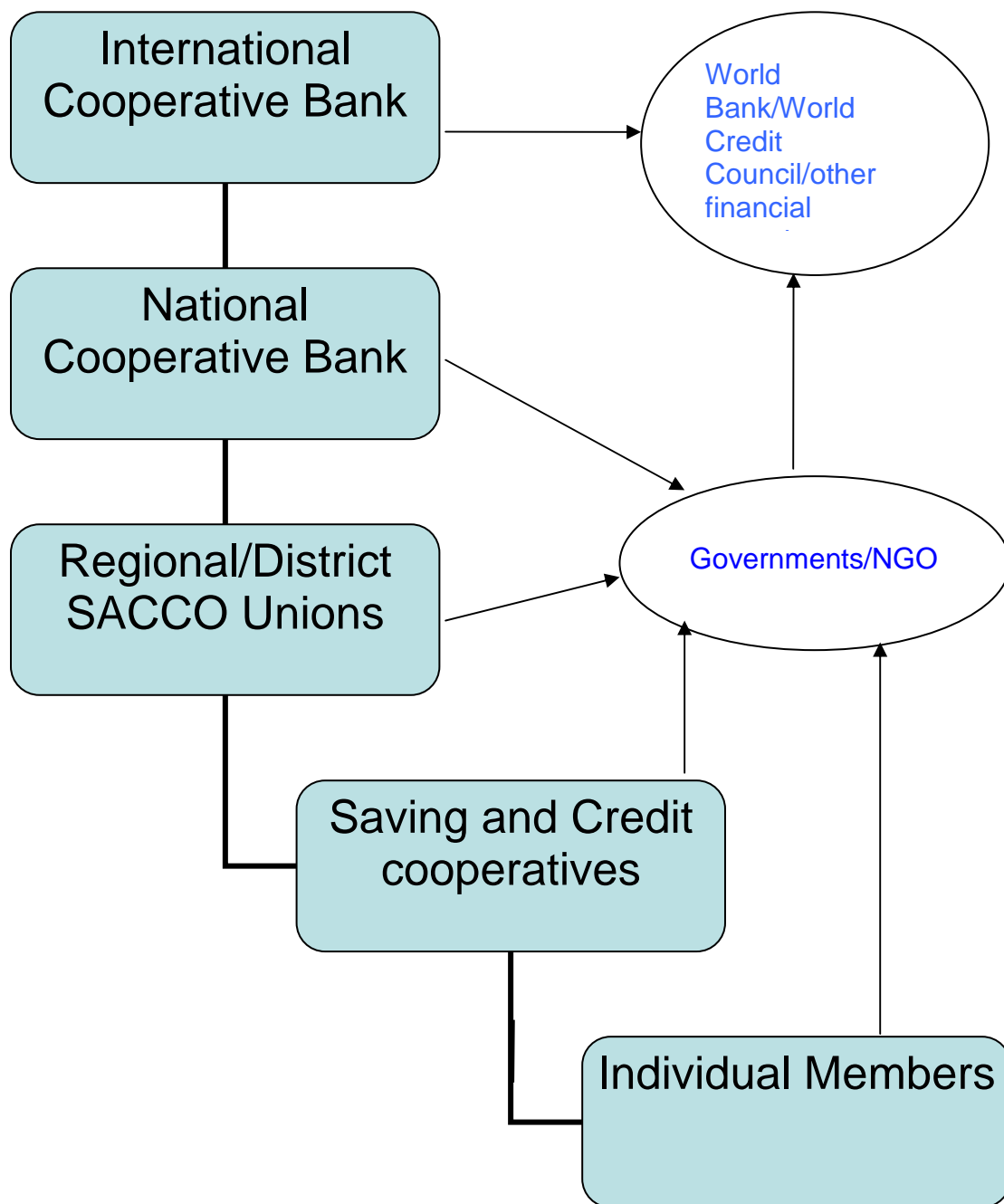


The survey conducted among the 19 Managers of the SACCO Unions could be summarised as follows. Out of 19 Managers only two were female. The average age of the respondents was 34 years. Out of 19 Managers, seven have Diploma, ten have first Degree and two have second Degree. In a under developing country like Ethiopia appointing Degree and second Degree holders in the managerial position is a welcome trend and symbolising the importance given to the cooperative credit movement. The problems of SACCOs as they mentioned could be listed as follows:

1. Lack of infrastructure like office buildings and equipments
2. Lack of awareness about SACCOs and its benefits among the 'potential members'
3. Lack of saving habit among the people
4. Cumbersome lending polices and procedures
5. Lack of trained manpower
6. Lack of external funding for the SACCOs
7. Limited audit facilities
8. Small size of membership
9. Lack of members' participation
10. limited support by the government
11. Loan overdue
12. Conflict of interest between SACCOs and its Unions
13. Poor account keeping

All the above mentioned problems could be solved through systematic planning and execution of cooperative education and training. The members, potential members, opinion leaders, elected leaders, paid employees and the government servants need to be given cooperative education and training. Moreover, for imparting education and training, local vernacular is always preferred and proved more efficient.

Figure 1: Model for Internationalisation of Cooperative Credit Business



The above mentioned model is the outcome of the review made by the author. Successful experiments on cooperative federalism in the field of credit and agricultural marketing world over serves as example for the underdeveloped countries like Ethiopia. However, the author stipulates the following assumption for the internationalisation of Cooperative Credit:

1. All cooperatives at all levels shall adhere to the 'Statement on Cooperative Identity'
2. The cooperatives shall abide their respective countries' Acts, rules and regulations with regard to money transfer.
3. International monetary transfer ethics shall be maintained. Money laundering is totally prohibited in this system.
4. Standardised rate of interest shall be charged.
5. Non-repayment, breach of contract, and violation of code of conduct shall be dealt in the International court of Justice.
6. Cooperative Education and training shall be part of duty of all stakeholders of Internationalising Cooperative credit.
7. Government and the NGOs will act as supporters of the movement
8. World Bank, WCC and other International financial agencies will act as the major lenders of the last resort for the cooperatives.

#### *Saving and Credit Cooperative Society (SACCO):*

Individuals are members of the primary saving and credit cooperatives. They save their money in the cooperative and avail loan from the cooperative. All active members form the general body (GB) and it elects the Board of Directors. The Board appoints its paid employees to run the cooperative. Inculcation of saving habit, finding better ways and means to establish small and micro enterprises so as to create employment and income for the members shall be the strategies of the primary cooperatives. The area of operation of the primary cooperative is normally a micro unit of the revenue administration for example in Ethiopia a Kebele.

#### *SACCO Union:*

All primary saving and credit cooperatives shall be the members of the SACCO Union. The jurisdiction of the Union shall be a district. Both urban and rural SACCOs shall be admitted with equal rights in the Union. However, number of representatives to the general assembly for each SACCO shall be decided on the basis of proportion to the number of members served at the primary level. The Union facilities fund transfer from the surplus areas to the needed regions. Based on the demand of the members, the Union shall provide all types of banking services. It acts as a bridge between primaries and the National Cooperative Bank.

#### *National Cooperative Bank(NCB):*

National Cooperative Bank shall act as a monetary leader of the cooperative movement in the country. All the Unions and Federations of all types shall be the members of the Bank. The members shall avail all types of banking services from the NCB. The NCB shall be the member of the International

Cooperative Bank (ICB). The NCB shall lend or borrow money to/from the ICB. The NCB shall act as a catalyst for the development of cooperative sector in the country. In some countries where federal system of political administration exist, there are some experiments at the regional state levels to form Regional Cooperative Banks. Though it consumes the interest spread, if its justified on the efficiency ground and members services, they shall also form part of the NCB network.

#### International Cooperative Bank (NCB):

This is a cooperative bank for the entire world operating on the principles approved by the ICA. All the national Cooperative Banks will be the members of ICB. The ICB will act as a bridge between a needy and the savers at the global level. The ICA, World Bank, and the World Credit Council (WCC) will provide support to the ICB in terms of financial and technical assistance. International cooperative banking business will certainly support the import and export of goods and services produced by the cooperative sector. These initiatives will certainly be a step ahead to coopeartivization of world economy.

#### Policy Implications:

The United Nations and the World Bank have already realized the importance of Cooperatives in the Development of the people. Hence, with the support which the cooperatives sector enjoys now, all the Nations should take the initiative to establish the Cooperative Credit Movement as strong as possible. The WCC has very strong capacity building programs for the purpose which may be utilized meticulously. The emergence of ICB is in the hands of ICA.

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