

A Review of the Current Status of SACCO Regulation in The Federal Democratic Republic Of Ethiopia

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Acronyms

AASCU	Addis Ababa saving and credit union
AEMFI	Association of Ethiopian Microfinance institutions
FCA	Federal Cooperative Agency
IT	Information Technology
MIS	Management Information Systems
NBE	National Bank of Ethiopia
SACCO	Saving and credit co-operative
TOT	Training of trainers
WISE	Women in small enterprise

1. Introduction

Cooperatives in Ethiopia have a long history. However, in the last decade a concentrated drive to grow the sector has been undertaken by the state. This has included all kinds of co-operative enterprise from marketing to multipurpose. One of the most important in the context of creating financial services for the poor are the Saving and Credit Cooperatives (commonly referred to as SACCOs).

At present it is estimated that there are over twenty thousand financial cooperatives or SACCOs in existence in the country as a whole.

The **International Fund for Agricultural Development** has taken a keen interest in the development of SACCOs as a means of assisting those who have no access to standard forms of credit, particularly among rural communities across the world.

It has funded a range of initiatives in the effort to establish sustainable SACCOs in Ethiopia as well as other African countries.

Among its many activities it is currently sponsoring a three country initiative called 'Improving Rural Financial Inclusion through Cooperatives' (IRFITCO). This programme addresses the strengthening or establishment of Leagues or Federations of SACCOs in Ethiopia, Malawi, and Tanzania.

As part of the process it wishes to promote advances in the standard of regulation and supervision in Ethiopia.

In the Federal Democratic Republic of Ethiopia a state body, the Federal Cooperative Agency (FCA), has been charged with the promotion and development of the cooperative movement including SACCOs. In addition each region of the country has its own dedicated cooperative promotion bureau which deals with SACCOs that are located within its own boundaries.

In the context of regulation the FCA has recently created a separate directorate to regulate and inspect the operations of cooperatives in the country. Each of the regional cooperative bureaus is separating, or already has separated the regulatory/inspection function, from the promotional aspect of their mandate.

The cooperative area has seen a great deal of change in the past eighteen months. This culminated in the passing of a new proclamation governing all cooperatives, including SACCOs. This proclamation, number 985/2016, provides, among other things, for the development of subsidiary legislation. This will take the form of a Council of Ministers Regulation along with the issuance of directives from the FCA which can, inter alia, deal with the specific needs of different types of cooperative enterprise. This includes SACCOs.

The director of the regulatory directorate of the FCA has been charged with the task of introducing up to date regulatory standards for the movement as a whole. In the case of SACCOs this is very new to the personnel in the agency as well as the regions and will be activated in stages.

The IFAD project envisages a number of actions in the process of introducing prudential regulation into the SACCO community.

In this context the first stage envisaged, among other matters, 'discussing with the regulator' the appropriate strategy and measures needed to enhance the safety and soundness of Ethiopian SACCOs.

As a consequence a team of Isabelle Kidney, and Liam Morrissey of the Irish League of Credit Unions Foundation along with a colleague, Carilus Ademba, held an initial meeting with the Director of the Federal Regulatory Directorate to establish his view of the challenges facing his office and to elicit how they might help him enhance his operations in the pursuit of his goals.

Having met with the new regulator, Ato Zeleke Yibeltale, it was decided, among other things, to undertake a review of the situation as it currently exists across the country.

This 'scoping' exercise involved face to face meetings with the regulatory officers in the Oromia Regional and Addis Ababa city cooperative promotion bodies. Meetings were also held with a number of activists in the voluntary sector to elicit their views on the need for and type of structures that might be put in place. In addition structured interviews were carried out by telephone with regulatory high officers in the regions of Amhara, Tigray, Benshangul Gumuz, and the Southern Nations Nationalities and Peoples Region.

There are nine regions in Ethiopia including Harare, which is quite small. In addition there are two chartered cities, Addis Ababa and Dire Dawa. As mentioned, the area chosen for our review covers five of the regions which account for the vast bulk of the country's SACCOs, along with Addis Ababa, one of the two chartered cities.

In addition an introductory training exercise took place for regulators in the most developed regions along with a number of leading supporters in the non- governmental sector. This took place in July in Addis Ababa. The survey findings were confirmed and added to in the course of the training.

Summarised descriptions of the contributions of the responsible groups are contained in section two, which follows.

The welcome and cooperation received from all parties was outstanding and enriched our knowledge of the movement's current status.

2. Lessons on the Current Status of the SACCO Movement in Ethiopia

2.1 Conversations with Non-Governmental Activists

As there is no Federation or League representing SACCOS generally it was deemed appropriate to address the issues surrounding regulation with a number of activists from the NGO sector.

The main purpose of these interviews was to establish their views on the system as it operates at present and what they felt about the challenges facing the movement and the inspectors/regulators at this time.

The personalities interviewed included:

1. Ato Abate Mitiku: Abate is director of the change management, planning and communications directorate of the National Bank of Ethiopia (NBE). He is also the Chairman of the Addis Ababa Savings and Credit Union (AASCU). Abate has been personally involved in the establishment of some ten primary SACCOS and has a detailed knowledge of the operations of the movement.
2. Ato Daniel Legesse, the manager of AASCU. This is the larger of two SACCO unions in Addis Ababa.

3. Ato Aga Fufa, is currently a freelance consultant. Aga has been employed in the cooperative section of the state promotional agency in the past. He is also a past manager of the WISE (women in small enterprise) SACCO union which is the second of the two unions based in the capital.
4. Ato Yibeltal Asmare, who has worked with the Association of Ethiopian Microfinance Institutions (AEMFI) and the World Council of Credit Unions in the past. He currently manages the SACCO development section of Self Help Africa an Irish NGO working among other things on the development of SACCOS in three different regions.

The interviewees expressed a great deal of agreement on the state of the regulatory process at present. The major challenges and comments that were articulated were:

1. **Auditing:** There was unanimous agreement that the provision of a timely and professional audit service was essential if confidence in the movement was to be upheld and strengthened. However an audit system which delivers a comprehensive and timely service does not exist at present. A number of factors were mentioned as to why such a state of affairs existed. These included the sheer number of SACCOS that had been created and the dearth of qualified people available. This, combined with a high rate of staff turnover in the audit sections of the state system meant that the capacity to carry out the law was compromised. It was also said that SACCOS were very small in many cases, and therefore other cooperatives took priority.
2. **The lack of a dedicated proclamation for SACCOS** was also repeatedly referred to. The law, and therefore practices related to supervision and inspection, were drawn up with all cooperatives, multipurpose and other, in mind. Thus the unique characteristics that make SACCOS different to other business forms was not adequately dealt with. These include the monitoring and maintenance of safety and soundness issues that are essential to the welfare of SACCOS.
3. **The huge volume of work compounded by staff shortages has led to a serious gap** in performance. In addition high staff turnover levels exacerbates the problem in both the inspection and audit functions.
4. **The lack of appropriate regulatory guidelines in respect of SACCOS** combined with a lack of understanding among staff relating to SACCO operations and appreciation of the need for prudential standards to assist in managing risk was also said to present a great challenge.

Other opinions that were expressed included:

1. Any system that is adopted must be a marriage of regional and federal oversight. The political and social framework of the country is founded on the regional system and any new initiative will function better if it is in harmony with this. In addition the great disparity in size and maturity of SACCOS must be recognised and some form of tiered system introduced if it was to be effective.
2. The new policy of encouraging mergers and other solutions to the large volume of units involved must be accelerated.
3. Effective and tailored regulation and inspection were both vital and should be resourced.

4. A proposal to allow federations to audit smaller SACCOS was debated. It was felt that this was less than ideal but that some oversight was better than the present system.
5. A set of formal specific standards for SACCOS should be put in place and enforced for both new and existing SACCOS.

2.2 Interviews with Federal and Regional Representatives

These discussions took place in Addis Ababa at the commencement of the project. The parties interviewed were Ato Zeleke Yibeltale the newly appointed FCA regulator, Ato Nmemosa the regulatory process officer for the Oromia Region Cooperative promotion Bureau along with W/ro Kidist, the deputy director of Addis Ababa regulatory and supervisory directorate for cooperatives.

The FCA and the regional promotional bodies act in the role of co-operative promoters on a regional and national basis at present. In many ways they fulfil some roles that are usually managed by SACCO leagues or federations in other jurisdictions.

The interviews were aimed at determining the systems in place and the challenges facing the federal regulator and his colleagues at regional level from the state's perspective.

2.2.1 Federal Cooperative Agency Regulatory Directorate Director

Ato Zeleke Yibeltal is the director of the regulatory directorate of the FCA. Ato Kassa Aynalem is the senior inspector in the directorate. The team of Isabelle Kidney, Carilus Ademba and Liam Morrissey met with them for the first time at the end of March 2018.

Ato Zeleke expressed his willingness to work with the group on the matter of developing the regulatory practice in Ethiopia and outlined the areas where we could be of help.

He informed us that there was a great deal of development and change happening at this time in the cooperative area.

The new proclamation had introduced changes into the legal duties of cooperatives. These, acting in tandem with a national financial inclusion five year plan, took decisions that impacted on the place of the inspection/regulatory function in the system. These changes were in process at present. The most significant in the context of regulation was the separation of the regulatory/ inspection function from the promotional function.

General Information was given under a number of specific headings.

Organisation: In the FCA there are several directorates. These include, Promotion, Planning, Regulation, and Audit among others. There are two departments under the Regulatory directorate, law and inspection.

Staff numbers and skills base: There are seven experts under Ato Kassa Aynalum M.B.A. in the inspection department and four in the legal department. These have a mix of qualifications including accountancy, cooperative business studies, and rural development. One has a number of years' experience in auditing. All have a cooperative background.

Powers: Article number 52 of proclamation 985/2016 provides the appropriate authority with the power to inspect cooperative societies' books and records and to issue a directive on operational standards. Article 10.9 supplies the power to suspend societies that operate outside the provisions of the proclamation.

Ato Zeleke informed us that when the Council of Ministers' regulation validating the operation is enacted the authorities will have adequate powers to investigate, and sanction where necessary, those whose operations fail to meet the required standards.

Regulatory Practice: There is no desk audit system in place. The inspectors follow up on returns that are received in the office. They are limited in the number of direct inspections that they carry out because of their relatively low staff complement.

In general, because of limited numbers, the inspectors 'strengthen the performance of regional staff by overseeing their work'. They also prepare guidelines and checklists and develop manuals as well as carrying out training. In addition they promote experience sharing among regions. To quote Ato Zeleke 'They operate like a small engine that rotates a large engine'.

They have been harmonising the inspection manuals as well as checking on the regional inspectors' inspection reports. They set criteria and measure against these.

Main Challenges: The main challenges facing his directorate were budget constraints, as well as the need for improved technology which would facilitate improved methods. A shortage of skilled people and a lack of understanding of SACCOs among the inspectorate added to his problems. He was also concerned that the system for the most part lacked the capacity to follow up on those cases where SACCOs received a negative result from an inspection.

Areas where Support would be welcomed: Ato Zeleke stated that, in general, he would like assistance with:

1. Training...most staff have a very limited knowledge of the prudential aspects of SACCO operations.
2. Help with drawing up manuals for the inspectors.
3. Examine the regulation for feedback and help with directives.
4. Expose staff to other situations.

Registers of SACCOs: We were informed that a national register of cooperatives is not kept on an up to date basis.

Communications: The office is in constant touch with the regions and regular returns are received from them.

Regulatory structures in the regions: The regions have similar structures and except for Amhara, where auditing is part of the promotion unit, they are undergoing change in the same way.

He noted that the 'special privilege' regions, namely, Afar, Somali, Gambella and Benshangul Gumuz, receive services directly from the federal officers.

2.2.2 Regulatory Process in Oromia Region

We interviewed Ato Nememosa, the senior member of the region's inspectorate.

Organisation: We were informed that the 'regulator's' office is organised on the same lines as the Federal Regulator's office.

Staff Numbers: Ten. (Five supervisory people.)

Staff skills base: The staff are qualified in a range of skills. These include accounting, cooperative management, economics etc.

MIS System: The regional team operates a manual system.

Standardisation: There is a standard financial system in place. Cooperatives make periodic returns to the regional office.

In this connection it should be noted that because of low staff numbers the officers supervise the work of the woreda inspectors as opposed to operating a full suite supervision service for all cooperatives in the region.

They also hold training programmes for them from time to time.

Office Organisation: This is undergoing change at the moment. The region follows the federal arrangements in any event. Consequently the organisation structure should be the same as the federal regulator's office.

SACCO registry: There is no up to date register of all the SACCOS at regional level. Those Cooperatives that fall under the direct remit of the region are registered of course.

Nature of inspections: The inspections are carried out under five headings or indicators. These are laid out in the FCA regulatory handbook which includes a scoring system laid out in a checklist format. Inspections are carried out on a spot check basis or when a notification is received from a concerned party that a SACCO may be operating outside the law or that it is in difficulty.

Inspection Process: When an inspection is finished a report is compiled, reported, and appropriate action is taken based on the findings.

2.2.3 Regulatory/Inspection Process in Addis Ababa City Administration

The deputy director of Addis Ababa city cooperative regulator's office, Kidist, met with Yibeltal Asmare and Liam Morrissey to share information on the city's inspection/regulatory operations.

Kidist and the head of inspection began by informing us that the city cooperative agency was in the midst of change. Supervision as a function was becoming an independent directorate instead of being a subsection of the promotion function. While the process was not completed the structure would follow the recommendations of the Federal Cooperative Agency.

They also said that proclamation 985/2016 which covers all cooperatives provided them with sufficient authority to carry out their mandate. They followed the remit given by the FCA. There were approximately 5,000 cooperatives in 119 woreda in the city. There were 9 city inspectors who oversaw the work of the woreda staff and provided traing programmes where required.

The audit service was separate from the inspectorate.

The staff were qualified in a range of skills.

Where information technology was concerned the largest SACCO union AASCU was linking up with the city authority to install a system which would provide appropriate financial and management information to the SACCO boards and supply the city with the information required to provide oversight.

The union and other staff were receiving training in its use at present.

No information was proffered in relation to the audit service as it operated separately.

Currently the inspection service worked in line with the manual supplied by the FCA which reviewed five areas of operation in cooperatives both general and financial.

The regulatory/inspection function in the city was actively changing. Its final shape was far from determined at the time of the interview. However the impression was given that the team in Addis were progressive and no serious barriers to their objectives were mentioned.

2.3 Telephone Interviews with Regional Inspectorates

2.3.1 General Background

A structured key informant interview was conducted by phone in four regions and the regional regulatory high officer from each region was interviewed. The purpose of the interviews was to establish where the regions stood in relation to the operation of a regulatory regime for their areas of responsibility.

Interviews were conducted with four regions based on a predetermined suite of questions. The four were Tigray, Amhara, SNNP region, and Benshangul Gumuz.

Benshangul Gumuz, as already noted, is a special privilege area and falls directly under the remit of the federal regulator's directorate.

The surveys revealed, among other things, that the regulatory/inspection process has become independent of the promotion directorate in all but one of the regions.

At the time of writing the inspection function remains under the promotion directorate in Amhara, while regulation and audit are grouped under the finance and audit section there.

Nevertheless, variations remain in how the management functions are classified in each region.

These differences are illustrated in the organisation structures for the four regional cooperative bureaus that follow. Benshangul -Gumuz region is atypical insofar as it is classified as a special privilege area the others are more representative of the standard regional authority.

Organograms for Regional Cooperative Promotion Bureaus

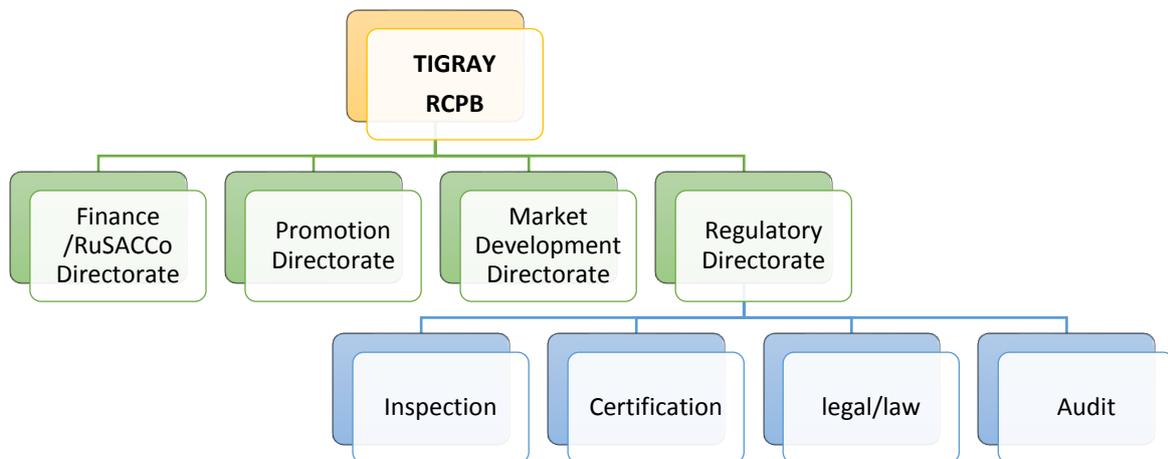


Figure 1 Tigray Regional Cooperative Promotion Bureau Organogram

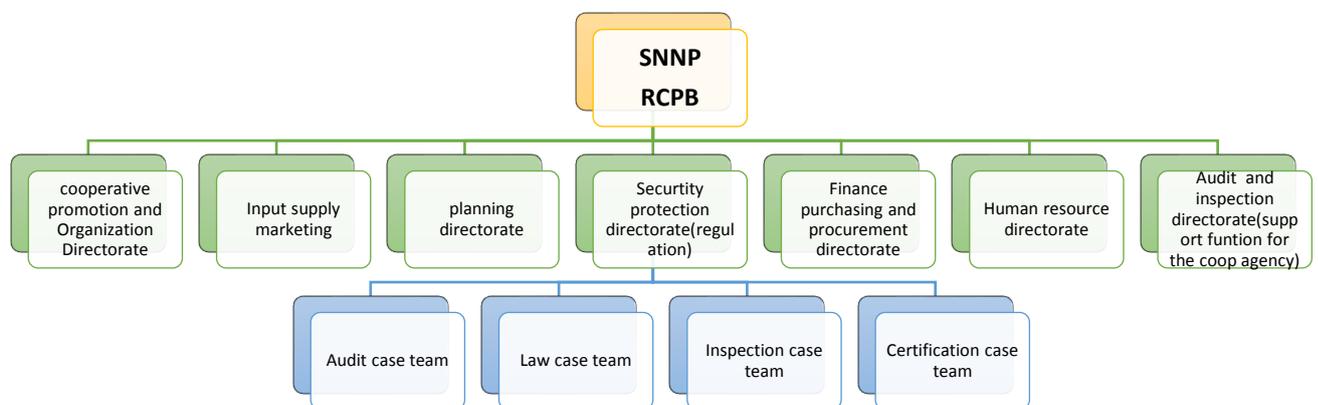


Figure 2 SNNPR Regional Cooperative Promotions Bureau Organogram

Figure 3 Benshangul Gumuz Regional Cooperative Promotions Bureau Organogram

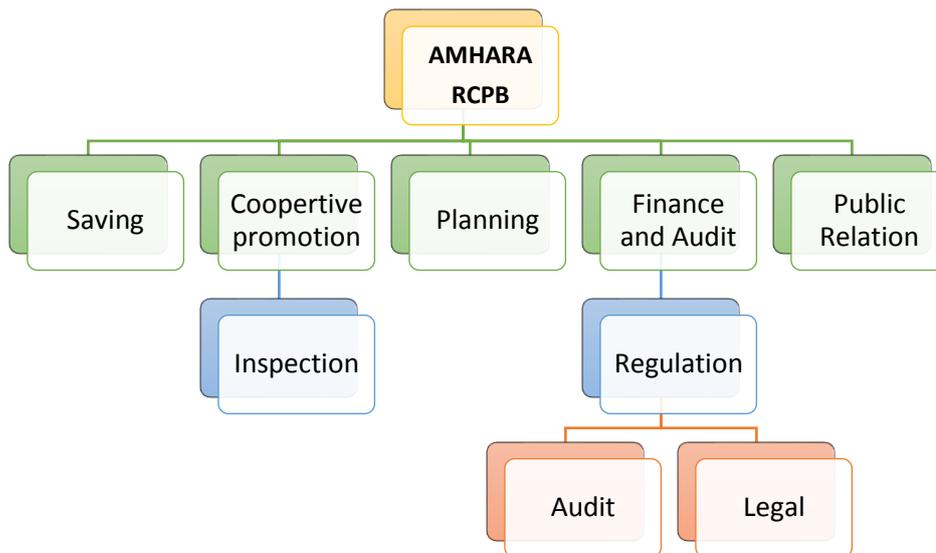
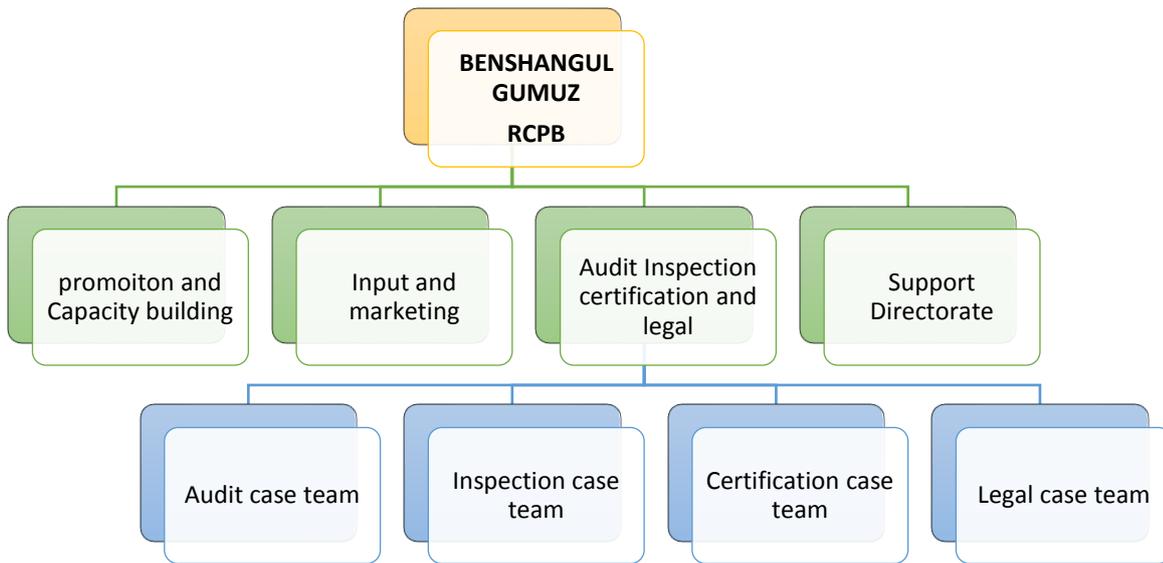


Figure 4 Amhara Regional Cooperative Promotion Bureau Organogram

Because of the variations in structures the reporting lines vary. However in general the inspection/regulatory function reports to the regional cooperative bureau head. In some cases the interviewees noted that reports are sent to their colleagues in parallel departments as well as to the FCA.

It is accepted that the retention of the regulatory function within the Federal Cooperative Agency and the Regional Cooperative Promotion Bureaus is not the optimum arrangement within the current financial culture. However it must be noted that the NBE is unwilling to undertake the

responsibility at this time. In addition there is no more appropriate body than the FCA suited to taking up the responsibility in Ethiopia at present.

In addition the exercise of the regulatory/inspection function by the state body or a SACCO league or federation is not without its precedent internationally.

The removal of the function from the remit of the cooperative promotion departments is a huge step in the right direction and is to be welcomed. It eliminates the potential for conflict between the promotional and the supervision aspects of the construction of a sustainable SACCO movement.

In addition it raises the status of the regulatory function and recognises its importance in beginning to monitor the safety and soundness of SACCOS.

2.3.2 Main Comments from Regions

Central Sacco Registry:

No region operates an up to date active registry of all the SACCOS in its area of responsibility according to the information proffered.

Woredas and regions have a record of the SACCOS that are registered under their remit but we were informed that they are not necessarily kept up to date. The same applies at national level.

Auditing:

In law the ‘appropriate authority’ shall audit or cause to be audited by an assigned person the accounts of every cooperative society, including SACCOS, at least once in every year.

This clearly does not happen.

It is vitally important that at the very least independently verified accounts are prepared on an annual basis.

Proclamation 985/2016 even specifies some of the issues that must be considered and reported on in such audit.

Information obtained from the regions interviewed revealed the following staff numbers in the audit function.

Staff Numbers in Auditing			
Region	Regional Staff	Zone and Woreda Staff	Additional Comments
Tigray	6	88	Staff turnover is too high at woreda level – staff have no incentive to remain in office. This situation exists in the other regions as well.
SNNPR	9	417	1,081 required
Benshangul Gumuz	3	9	84 required

Amhara	5	438	769 required
Oromia	13	849	1668 required

Table 1 Staff numbers in auditing function

Judging by the figures presented to us it is obvious that in terms of the staff complements alone that the audit rates will fall short of the number the needed for a thoroughly effective regulatory regime.

Inspection:

The Proclamation states that the appropriate authority may make an inspection of any co-operative society's status, operations etc. (s.52.1 of proclamation 9856/2009)

It also states in s.52.4 of the proclamation that the appropriate authority shall issue a directive on operational standards to measure the status of cooperative societies. At present the development of directives awaits the final issue of the council of ministers regulation for cooperatives. SACCOs are financial cooperatives and as such should be measured against accepted financial standards and norms rather than the general ones used at present. Any directive should take this issue into account when being drafted.

We received no evidence that this happening in a programmed manner currently.

In fact the current inspection manual which is drawn up by the Federal Regulator's office covers all forms of cooperative. However it does not directly deal with the unique factors which lead to success or failure in financial organisations to any degree.

It is used by all regions, with additions in some of them, according to the best of our information.

The table below illustrates the staff numbers given to us. The respondents expressed the opinion that the workload exceeded the staff resources in terms of quantity and, in some cases, quality.

Staff Numbers in Inspectorates				
Region	Regional Staff	Zone and Woreda Staff	No. of Co-Ops	Additional Comments
Tigray	Figures to be reconciled	Figures to be reconciled	977	Number of SACCOs in this case.
SNNPR	5	190	17,000	Obvious shortage
Benshangul Gumuz	2	3	N/A	'Great gap in resources'
Amhara	2	165	7,500	50% of plan executed but problem with competence and understanding financial co-ops.
Oromia	5	325	8,143	

Table 2 Staff numbers in inspectorates

The same situation appears to exist in every region according to reports. A severe shortage of personnel combined with a high level of staff turnover has led to a relatively low operational skills base at the woreda level. Of course it is here that the bulk of SACCOs are located.

Information Technology and M.I.S:

In general there is no formal universal IT in place.

However in Tigray the region is piloting a financial reporting software system which 'can maintain members' information, produce cash flow and calculate PEARLS ratios'. The system is being piloted with primaries and unions around Mekele city. The cost of rolling out the system is hampered by budgetary restraints however.

In Addis Ababa the City authority has joined with the Addis Ababa SACCO Union to pilot a suitable IT based MIS and accounting programme. This is intended to produce personal member data as well as financial controls and statements. It will also provide regular returns for the city administration.

In addition there are, of course, a number of unions and others using information technology for their own internal management purposes. These are located in many different areas.

However, from the information received, the use of IT resources in the pursuit of regulatory procedures at regional and federal level does not appear to exist.

3. Summary of Findings

All of the comments submitted supported the need for a functioning regulatory regime to monitor and protect SACCOs.

In addition the need for strong supporting functions that form part of the tapestry that must exist in an effective regulatory system were highlighted in the conversations.

The main findings can be summarised under the following headings.

1. Auditing

The audit function is being removed from the promotion unit in all regions at present. Unfortunately there is some debate on its new positioning in the directorates. In addition there was unanimity about the fact that it is understaffed and that there is little incentive for people to stay in the service.

There is a legal requirement that an annual audit of every cooperative should be carried out. Despite this the reality is very different. Estimates vary from as little as 30% to possibly 50% being completed annually. We could not be supplied with accurate figures as to the actual SACCO audits carried out on an annual basis. This was because they are grouped together with all forms of cooperative.

Timely professional audits are not carried out on an annual basis in every SACCO. This much is certain and is recognised by all as a serious threat to the safety and soundness of the movement and consequently to its reputation.

In addition we have been given to understand that there is some debate about the importance and role of audits in the eyes of the Co-operative Bureaus. **There should be no doubt as to their importance.**

2. Inspection/Regulation

We have been given to understand that the inspection departments, like auditing, are understaffed and in many cases the officers used are less than capable of evaluating SACCOs as opposed to general cooperatives.

Staff turnover is also very high. We are given to believe that this is due to a lack of adequate incentives. We were also given to understand that inexperienced staff and some with less than appropriate qualifications and experience are sent out when there are shortages of appropriately trained people available. If true, this must contribute to the perception that the function is not rated highly enough by the relevant authorities.

There is a standardised approach in each region and a common handbook is used. This is drawn up for co-operatives generally and is not sufficiently comprehensive to meet the specific needs of financial cooperatives. It is being developed at present.

Some comments questioned the capacity of the inspectors. This is not surprising if staff turnover is high, the rewards are very low, and there is no real incentive to improve.

While there is a form of inspection in place, albeit limited in operation, there is no evidence of any type of appropriate regulatory/prudential standards being applied to SACCOs. A specialised inspection handbook is in development at present by the FCA.

Generally accepted prudential standards for financial cooperatives have not been employed as a key measure on a nationwide basis as far as we can ascertain from our interviews.

3. Central Sacco Registry

SACCOs are certified by a dedicated unit of each woreda, zone or region. However no comprehensive and up to date SACCO registry is maintained at regional level of all the functioning SACCOs in its area.

Some interviewees mentioned that the actual number of active co-operatives under their remit was difficult to ascertain. A record of the co-ops certified by a woreda (or zone or region) existed in each of these institutions but little or no updating of the records existed. Consequently there is a serious lacuna in the knowledge needed to manage the movement. Indeed one regional officer reckoned that up to 30% of the registered societies might well have ceased operations. However the authorities would not know for certain unless the SACCOs that wound up returned their certificate /license to operate. This, apparently, does not always happen.

An active comprehensive SACCO registry does not exist either at regional or national level.

4. Legislative Requirements

Every practitioner highlighted the need for a proclamation dealing with SACCOs specifically. As mentioned, the current law does not differentiate between forms of cooperative.

A legal instrument dedicated to the development, management and monitoring of the unique requirements of these financial entities would enhance their performance and image in the opinion of all parties. However proclamation 985/2016 does provide the FCA with the power to issue directives. Such an instrument could be used as an interim measure as an interim measure to address the need for safety and soundness in SACCO operations.

5. Information Technology

There is no widespread Information Technology (IT) system in place for SACCO regulation purposes.

Some SACCOs and unions use technology for the production of their own reports and accounts. However the vast majority of rural SACCOs do not have access to computer hardware and software.

There is no established SACCO IT related system in place for the transmission of data from primaries to unions and more importantly to a central regulator's office at present.

We were made aware of two projects which are working on the installation of appropriate IT systems which will link with the Cooperative Promotion Bureaus in their areas. One is in Addis Ababa where a joint initiative has been undertaken between the city authorities and AASCU, one of the unions in the city.

The other is in Tigray but we are informed that its roll out has been postponed because of budgetary limitations.

6. Staff Capacity

From the information received it would appear that there is a problem with the availability of trained and competent staff. At present the regions and particularly the woredas operate an

inspection system which covers all cooperatives. However, it is greatly under resourced according to the responses received.

In addition concern was expressed that many inspectors and auditors did not themselves have a good grasp of the nature of SACCOs.

This will not improve if the crucial importance of a strong audit system as well as an active regulatory and inspection function is not appreciated let alone implemented.

Annex 1 Route to Developing a Stronger Regulatory Regime for SACCOs

1. Introduction And Background

It is obvious that there is a serious shortcoming in the regulatory function for SACCOs in Ethiopia. This is not surprising given the rapid drive to create the institutions with the consequent concentration on the development side of the process.

The founding of new SACCOS was treated as a priority. However the same effort was not invested in the quality of oversight for SACCOS. These societies were grouped together with all other forms of cooperative for supervision purposes. Thus their unique characteristics were not recognised in setting up structures to oversee the management of risk and other essential prudential considerations.

At present there are an estimated 20,000 SACCOs in the country. This poses an extremely serious challenge for regulators in terms of their sheer volume alone.

To add to this data collected just over a year ago by the Agricultural Transformation Agency in 2015 highlighted the disparate sizes of the units. This is shown below in pie chart format.

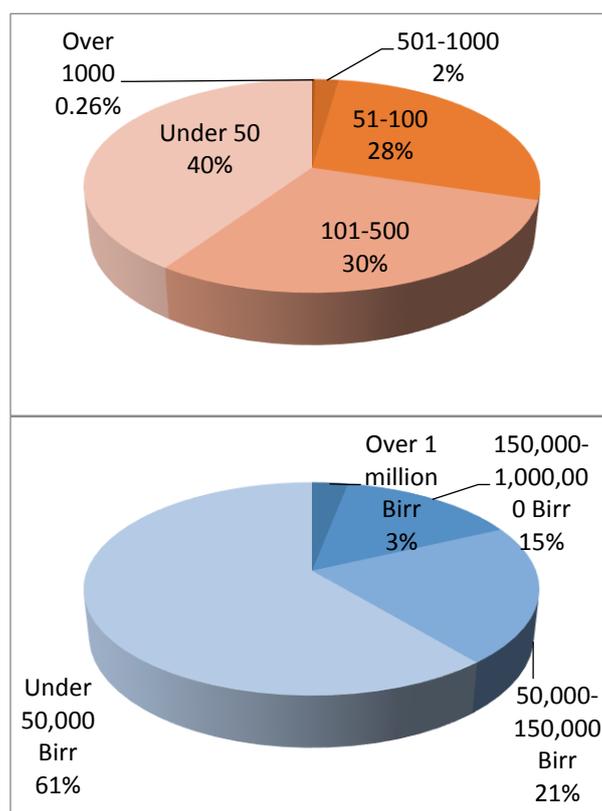


Table 3: Breakdown of SACCO Membership and Asset Size

While this is not the result of a formal countrywide census it is a good reflection of the structure of the movement as a whole in Ethiopia. It illustrates the skewed nature of SACCOs in terms of membership and asset size. Almost 70% have less than 100 members. Less than 3% have more than 500. This implies that the number with over 500 members is about 600.

It is only by carrying out a census of the registered SACCOS that we can be certain of the actual details of the movement's structure can be established. This will be an essential component in determining a strategy for dealing with the current shortfall in regulatory resources. For example if the census results reveal that SACCOS with more than 500 members are in the region of six or seven hundred then it will be an indicator of how the resources at the state's disposal can be best deployed. It will also give a sense of direction in the recruitment of the most appropriate personnel to manage the future safety and soundness of the national movement.

The reason behind the Governments support for SACCOS was to help deal with the need for a wider access to credit for productive purposes. These societies are savings based community institutions and consequently take time to accumulate a capital base in the form of reserves. **Properly developed they are extremely resilient in the long term and form a sound basis for the creation of a personal and community owned capital base.**

The best information to hand indicates clearly that the vast preponderance of SACCOS are very small at present.

In this connection it will be necessary to match the type of inspection in these cases to the level that they can reach for a limited period to allow them to grow. However, in doing this the overriding matter of safety and soundness will always need to be borne in mind.

Therefore the standards imposed on them should be drafted with their growth in mind. Any sanctions for non-performance should be designed to encourage them to grow, merge or be liquidated where necessary.

For example the smaller societies could be subject to an enhanced form of the current supervision. In addition if they have not been audited for more than two years the responsible authority should be bound to have one carried out or be subject to penalty. A large element of the current inspection system would be at the heart of such a development

Clearly the medium and larger SACCOS should be subject to the normal form of prudential regulation.

Some benefit arises if the larger SACCOS number less than 1,000 because the expert resources required will be significantly lower with the adoption of a tiered approach to the subject. This applies to the more significant audits as well as inspections.

However, in the case of audits, it should be noted that the English version of the cooperatives societies' proclamation number 985/2009 in s.50 provides that *the appropriate authority shall audit or cause to be audited by a person assigned by it, the accounts of any cooperative society at least once in a year in accordance with its fiscal year.* This, on the face of it, clearly lays the duty at the feet of the state authorities. Unfortunately the evidence points to the fact that the number of experienced auditors available falls far short of those necessary to do the work.

2. Looking To The Future

Because of the circumstances that prevail at present the process of upgrading the regulatory system needs to address a number of issues. These fall into two main categories.

1. The implementation of a SACCO specific law, which recognises the movement's specific characteristics and which will include appropriate regulatory requirements.

2. In addition, the shortfall in resources available to carry out the task needs to be addressed. The provision of funds for the creation of an active SACCO registry (either at national or regional level) is also such a necessity.
3. Enhancing the inspection/regulatory function and providing the training and advice necessary to implement a regulatory regime that addresses the safety and soundness of the movement. This would include the drafting of SACCO specific directives within the framework of current legislation and the production of relevant guides or handbooks.

The implementation of the issues highlighted in the first list lie solely within the power and responsibility of the relevant authorities in Ethiopia. A campaign should be launched to convince them of the necessity for action in the matter.

The second category falls to be implemented by the various regulatory/inspectorate offices. Much of the training and education for this can be undertaken immediately and delivered in phases in the coming couple of years. Likewise the drafting of directives and handbooks for SACCO inspection can be done in the short to medium term. This will help to lay a sound basis for the delivery of an enhanced regulatory regime as soon as the necessary resources are deployed.

3. Next Steps

A number of significant and positive actions have taken place in the past year in relation to the strengthening of the regulatory function for cooperatives in Ethiopia. The most significant is the move to separate the regulatory/inspection function from the developmental aspect of the process.

However much still needs to be done to strengthen the function and make it more effective.

Of course some of the problems highlighted above can only be overcome by the allocation of additional resources. However many of the processes can be set in motion straight away and others in the medium term.

The main actions that need to be undertaken are set out below and are divided into their respective categories.

INITIAL INTERVENTIONS

1. Awareness and Training Sessions

These will consist of presentations on international practice with senior inspectors and regulators in the national and regional offices. SACCO leaders in voluntary organisations will be invited to participate in the training and to contribute to the conversation. The training will be concentrated on the need for adopting a prudential approach to the regulation and inspection of SACCOS. This programme will include an element which exposes the responsible officials to best practice used in successful movements in other jurisdictions.

2. Discussion and Exchange Sessions

As part of the initiative, discussion and exchange sessions will be incorporated into all training and awareness modules. The purpose of this is to enrich our common knowledge of the opportunities and barriers to the introduction of enhanced practices in the regulatory processes. This will recognise the situation that exists both at national and regional levels.

MEDIUM TERM INTERVENTIONS

Liaison and collaboration with FCA regulator

The consultancy team will continue to liaise and work closely with the federal regulator on a participative basis. The office will be kept informed of and consulted with on all findings and plans. All documents will be shared with the regulator and his comments taken into account in the production of the final drafts.

Collaboration in drafting such instruments as SACCO directives will be initiated. The production of guidelines and handbooks on SACCO inspection and regulation will be carried out on a collaborative basis where required. The views and observations of the regional regulators will also be incorporated in drafting the latter documents. This will set the ground for improving the nature of regulation for SACCOS as opposed to the general needs of cooperatives as a whole.

1. Training Exercises

The awareness creation modules will be followed by a number of training exercises with the staff of the FCA regulator's office. This will involve exposure to the tools and the approaches used by SACCO regulators in other jurisdictions as well as exercises in the use of the methodologies used.

As part of the training process key regulatory personnel in the regions will be given similar training and exposure to appropriate systems in another relevant mature movement or movements.

2. Collaboration in drafting directives

Liam Morrissey and Carilus Ademba will work with the regulator in enhancing the draft directives dealing with the oversight of SACCOS. This will involve the introduction of agreed standards of prudential oversight including other relevant governance and management issues.

The relative requirements for small and emerging societies will be recognised in drafting the instruments. These should include remedies aimed at encouraging their growth or amalgamation in the search for sustainability.

3. Consultations with FCA and regions on 'safety and soundness' factors to be measured in monitoring the ongoing status of the SACCOS.

4. Collaboration in drafting SACCO specific handbooks/manuals for regulatory staff.

After the ratification of the directives the consultancy team will prepare a draft operational manual (or manuals) for SACCO regulators. This manual will be refined in collaboration with the legal and operational staff in the federal cooperative agency.

5. Consultations with FCA and regions on structural and IT needs for Regulatory offices.

While we cannot effect change in the short term we aim to discuss, consult and advise the named offices on the most desirable options.

6. Subsequent training modules

When the work on the directives and manual(s) is complete training of key staff in their use will be undertaken.

It is envisaged that the federal and regional staff will continue to carry out these training programmes with other regulators/inspectors in the practical operation of the workbooks on an ongoing basis.

7. Training of trainers

As mentioned, the present role of the FCA inspection/regulatory staff includes the verification and support of the work of the regional inspectorate. In this regard a series of T.O.T sessions should take place with the staff responsible for this work both at national and regional level.

8. Training for large SACCOS, unions and federations in process including return forms

A dedicated programme training the principal SACCOS, unions and federations on any new procedures that will be essential for the smooth launching of any enhanced initiative. In addition auditors and woreda staff would need exposure to the regime planned for all others.

9. Role of Federations in 'safety and soundness' issues and enabling primary and secondary societies to participate.

While the resources necessary for this work do not currently exist it must be emphasised that federations (and unions) have a major role to play in ensuring that their members are compliant with all aspects of the law. It is of central importance that any federation looks to the welfare of its constituents and this includes the monitoring of the health of its membership.

Vital Issues That Fall Outside of the Team's Powers

As well as those actions which will enhance the oversight of the SACCO movement and which fall within the competence of the team there are others which fall outside their powers.

These include:

1. A comprehensive census of SACCOS in the federal democratic republic.
2. The establishment of active regional registries of active SACCOS.
3. The enhancement of the regulatory and audit staff roles for SACCOS.
4. IT hardware and software for regulators.
5. Developing the capacity of the smaller SACCOS to enable them take an active role in compliance requirements (The volume and locations of these societies makes it very difficult to spend the necessary time in their education at present let alone in the additional tuition etc.).
6. Changing the structure of the regulatory departments to maximise their oversight capacity, including the operation of a 'desk audit support system'.
7. Enhancing the number and capacity of the inspectors and auditors while encouraging mergers and other solutions to the large number of SACCO primaries.
8. Finding the resources to train the large number of inspectors and others in the changes required to enhance the inspection/regulatory process for SACCOS.

While many of these issues do not fall directly within the remit of a regulatory body it will be impossible to fulfil the task of installing a fully effective regulatory system without addressing them.