



The Feed the Future Ethiopia - [Livelihoods for Resilience Activity \(L4R\)](#) was a 6.5-year USAID-funded project running from December 2016 through July 2023. Building on lessons learned from the preceding project (GRAD), the Livelihoods for Resilience Activity supported poor rural households to build resilient livelihoods with improved food and nutrition security, even in the face of shocks and stresses.

The project worked closely with the livelihoods component of the Government of Ethiopia's Productive Safety Net Program (PSNP), and targeted over 97,000 PSNP households in 41¹ woredas of Amhara, Tigray, Oromia, Sidama, and Southern Nations, Nationalities and Peoples' Region (SNNPR), with the aim of enabling these households to graduate from the PSNP with resilience.



A consortium led by CARE and comprising the Relief Society of Tigray (REST), ORDA Ethiopia, Agri-Service Ethiopia (ASE), and SNV implemented the project.

Learning Brief #6 RUSACCOs and their contribution to financial inclusion for VESA members

This brief explores the Livelihoods for Resilience Activity's experience working with rural saving and credit cooperatives (RUSACCOs) and managing their relationships with members of village economic and social associations (VESAs). The brief does not aim to be a comprehensive brief on RUSACCOs and their pros and cons, but rather delves into the various ways in which the project engaged with RUSACCOs, the implementation processes and achievements in financial inclusion, and the lessons learned and recommendations for the future.

Background – Why work with RUSACCOs?

RUSACCOs, like village economic and social associations (VESAs), are community-based financial institutions that are member-owned, operate in rural areas, and provide saving and credit services to their members. These similarities have led many stakeholders to view RUSACCOs and VESAs as being inherently in competition with one another. However, RUSACCOs can contribute to financial inclusion for underserved households, even those who are already members of VESAs. In a country where financial inclusion rates are rising but still low (only 46% of



Ethiopian households own accounts in financial institutions [Global Findex 2021], with even lower rates for women [38%] and the poor [35%]), rural households need all the help they can get, and RUSACCOs can play several critical roles, as outlined below.

RUSACCOs can provide products and services designed to suit the needs of local communities, including Muslim households. In regions where Muslim households are significant in number but are not the regional religious majority, these households are often underserved by the regionally affiliated microfinance institutions (MFIs), which often do not provide Sharia compliant (non-interest-bearing) loans.

RUSACCOs are locally owned and driven, and as such may be more responsive to the needs of their member-clients, and more flexible to provide loans according to the terms that their clients need.

RUSACCOs serve as a mid-level financial service provider for rural households. RUSACCOs are registered financial institutions with bylaws, credit

policies and reporting obligations, but they are less formal in nature than a microfinance institution or bank. They can provide access to larger loans than VESAs for members who join RUSACCOs, whilst retaining some similar communal qualities as village economic and social associations (VESAs), such as regular membership meetings, which can build social capital among members in the areas in which they operate. RUSACCO services are fast and relatively uncomplicated, at least in theory.

The increased financial capacity of RUSACCOs comes from the fact that they may be able to leverage third party capital, through attracting depositors outside their membership base or by taking on loans from parties such as a RUSACCO union or other financial institutions.

L4R's experience with RUSACCOs

The Livelihoods for Resilience Activity promoted RUSACCO membership but only worked directly with a small number of RUSACCOs. The lessons outlined in this brief should therefore be taken within the limited context of L4R operations.

The Livelihoods for Resilience Activity introduced all project participants to the potential benefits of RUSACCOs in its *Understanding Financial Services and Products* session (VESA discussion session 10). This session compared the relative strengths and weaknesses of VESAs, RUSACCOs, MFIs, and banks, likening VESAs to bicycles, RUSACCOs to motorbikes, MFIs to cars, and banks to trucks. The session explained that the different types of financial service providers cater to different needs of different people, and emphasized that they are not mutually exclusive. The session concludes: *“A person can be a member of a VESA and a client of a bank or MFI or RUSACCO. Sometimes people have different needs that are met by different services.”* (L4R VESA manual, page 101)

The Livelihoods for Resilience Activity worked directly with RUSACCOs in three different ways, listed here in descending order of project involvement (starting with the heaviest involvement to the lightest).

1. In Amhara, L4R supported three “conventional”

RUSACCOs in Muslim-majority areas in transitioning to Sharia-compliant RUSACCOs. The three RUSACCOs in the Habru and Guba Lafto woredas of Woldia cluster had existed for a long time but had never provided Sharia-compliant loans, despite having majority Muslim membership. In fact, in 10 years, the three RUSACCOs had not provided more than 40 loans in total. VESAs operating in this area were already operating in a Sharia-compliant manner through the simple solution of setting a 0% interest rate for internal loans, but their members were unable to access larger loans due to the absence of Sharia-compliant financial service providers in these areas.

The Livelihoods for Resilience Activity first approached the Federal Cooperative Agency (now the Ethiopian Cooperative Commission) in late 2019/early 2020 to propose support for the rollout of its new Sharia-compliant RUSACCO manual. Over the 2020 – 2023 period, with significant interruptions due to the COVID pandemic and the northern conflict, L4R provided the following support:

- Facilitated training of trainers by senior FCA/ECC experts to 13 promoters from the RUSACCOs and officers from the cooperative office on Sharia-compliant lending and savings product management. Also facilitated training on

Sharia-compliant RUSACCO operations, rules and regulations, operations, record-keeping, financial management, group governance, leadership, and general office management.

- Organized regional-level consultative workshops with the directorate team from the FCA/ECC, Muslim religious leaders, Sharia compliance senior finance expert, regional government counterparts and implementing partners.
- Organized an exposure visit for senior staff from Amhara regional, zonal and woreda cooperative offices, Muslim clerics, and Sharia board members to Sharia-compliant RUSACCOs in Silte Zone of SNNPR.
- Provided in-kind support through the L4R Innovation Fund in the form of office furniture, computer equipment, photocopiers, record-keeping materials and stationery.
- Assisted with the transition to a Sharia-compliant RUSACCO, including the preparation of the documentation, convening the required meetings, and re-registration with the cooperative office.

2. In SNNPR, eight VESAs came together with project support to form a RUSACCO. In Kochere Woreda of Gedeo Zone, the members of eight VESAs decided that it would be most sustainable if they were

to consolidate their activities into a more formal institution such as a RUSACCO. After the project created awareness of the benefits and linked it with the local cooperative office, the RUSACCO, called Danane, was formed in 2021. The project helped mobilize the members; the by-laws, credit policies, necessary vouchers and other documentation; governance arrangements, convening meetings to elect committee members and training them on documentation, record keeping, financial management and governance/leadership; registration with, and reporting to, the cooperative office; and hardware such as shelves, table benches and safe box.

3. In Amhara and Tigray, the project promoted linkages between VESA members and existing RUSACCOs, and encouraged VESA members to join RUSACCOs. In both regions, there had been a high level of misunderstanding among certain government cooperative office staff and VESAs, which stemmed from a perception that RUSACCOs and VESAs were in competition for members. One of the concerns was that households would not be able to support both institutions and may have to drop out of a RUSACCO in order to join a VESA or vice versa. Through the efforts of the project, many of these objections were overcome, largely due to the collaborative atmosphere created as a result of the L4R activities.

Accomplishments and learning along the way

RUSACCOs are accepting PSNP households as members and providing loans, and VESA members appreciate their services. The four RUSACCOs supported under L4R (listed under 1 and 2 above) are operating with a total membership of 833 as of May 2023, of whom a large portion (40% of the Sharia-compliant RUSACCOs and 69% of Danane RUSACCO) are L4R VESA members.

The three RUSACCOs in Amhara are now providing Sharia-compliant financial services. As of May/June 2023, the RUSACCOs had begun providing Sharia-compliant loans for the first time, and their membership had grown by 22% (from 441 to 537 members) in just six months, reflecting high levels of interest in accessing these loans.

VESA members who join RUSACCOs appreciate their financial services. The VESA members interviewed from these RUSACCOs spoke highly of the experience: whilst there was initial hesitancy, members eventually committed to the transition. VESA members attributed increased access to savings and credit to their RUSACCO membership. Members were not generally concerned about the need to pay for shares and make a minimum deposit with the RUSACCO, although some VESA members do lack the capacity for double savings, fees and share purchase obligations (in both VESAs and RUSACCOs).

The reach of these activities was limited, and RUSACCO membership across L4R households remains relatively low. Despite a significant emphasis on promoting RUSACCO membership in Amhara, only 9% of L4R households in the region reported saving in RUSACCOs at endline, and access to loans remained virtually unchanged from baseline as well.



Conclusions and recommendations

L4R contributed to building stronger relationships between RUSACCOs and VESAs, to the benefit of the institutions and their members, although the reach of these activities was limited. Where the project invested in this activity, households that would otherwise be financially excluded now have the potential to access larger loans and more formal financial services, while maintaining membership in VESAs. The project also helped overcome some negative perceptions of VESAs from cooperatives and government officials. However, the key issue for each RUSACCO is its future sustainability. Many members join a RUSACCO in the expectation of obtaining larger loans with a longer duration, and there is therefore a risk of over-selling the loan size and number of potential borrowers in the early years of existence of a RUSACCO. The lessons and conclusions below can be applied to future projects.

RUSACCOs can play an important role in financial inclusion for PSNP households

It seems clear that RUSACCOs can fill a gap in financial service provision, particularly with respect to the potential for providing larger loans and providing Sharia-compliant financial services to Muslim households currently underserved by formal providers.

VESAs and RUSACCOs can complement one another. By encouraging VESA members to join RUSACCOs, the project has helped overcome the initial distrust of VESAs by cooperative stakeholders and helped dispel the sense of competition between them and RUSACCOs. However, while officials and members appreciate the complementarity of membership, it is important to ensure that duplicate membership is in the interests of each member, as both VESAs and RUSACCOs impose shareholding requirements, compulsory savings and other fees.

Sharia-compliant loan products are complex to manage and will require follow up

The three Sharia-compliant RUSACCOs have all begun to provide loans to their members, with a focus on *Maharaba* loans among several options. However, these can be complex to manage. Interviews with RUSACCO RUSACCO members and committee members revealed persistent misunderstandings as to how the profit-sharing element of the *Maharaba* loan is implemented, how in-kind loans are managed, and the role of interim service fees charged by the RUSACCOs in advance of obtaining that income stream.

The design and administration of the new Sharia-compliant products, especially loans, must be clearly defined, and the RUSACCOs would benefit from specialized technical assistance in this process.

Key to both RUSACCO sustainability and sustained member satisfaction is the need for the RUSACCO to

raise capital beyond members' contributions

The longer-term sustainability of nascent RUSACCOs is linked to their ability to access external sources of capital, in the absence of which their lending capacity will be limited to total member deposits minus operational expenses. Nascent RUSACCOs lack access to the external funds which would allow them to meet members' financial demands. There will inevitably be a period of two or more years before the RUSACCOs are fully operational and able to increase their lending by gaining access to non-member funds. Some RUSACCOs (not including the four supported by L4R) have been able to attract large deposits from non-members. More mature RUSACCOs are able to access outside funding from a union or other financial institutions, with submission of a business plan, various approval letters, and security over the RUSACCO deposit with the union. Even then, borrowing from the union will be limited to three times the amount the RUSACCO has saved with the union.

The RUSACCOs supported under L4R require further support and should be engaged by future programs

The RUSACCOs will require further capacity building with regard to permanent office space and equipment such as hardware and stationery. With L4R support coming to an end, cooperative offices have indicated a willingness to step up, but that support may be underfunded, at least in the short term.

More generally, all RUSACCOs would benefit from improvements in financial and operational processes, including calling meetings and recording transactions; committee and management governance and oversight, including implementation of bylaws; product development, description and marketing especially for Sharia-compliant RUSACCOs; and, as highlighted as key to sustainability, access to external finance.

