

MEKELLE UNIVERSITY
SCHOOL OF LAW



**Securing Informal Financial Institutions “equb”: Assessment of
Legal and Practical Challenges**

By: Hadas Tekulu Belay.

**A Thesis submitted to the School of Law in partial fulfillment of the Requirements
L.L.M. Degree in Business Laws.**

Principal Advisor: Ato Kahsay G/medhin L.L.B, L.L.M, (Assistant Professor)

DATE: MARCH 22/2025

MEKELLE, TIGRAY

Mekelle University

School of law

Securing Informal Financial Institutions “equb”: Assessment of Legal and Practical Challenges

Hadas Teklu

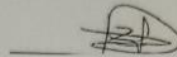
Board[panel] of examiners

Approved by

Advisor's name

Signature

__Kahsay G/Medhin__



External examiner-Name

Signature

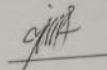
__Afeworki G/Yohanes__



Internal examiner-Name

Signature

__Kahsay Gidey



DECLARATION

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

Name: _____ Signature: _____

Place : _____ Date of submission: _____

Acknowledgements

Thanks God for the hope and strength that enriched me to accomplish this work. The extraordinary professional guidance of my advisor ATO KAHSAY G/MEDHIN (Associate Professor) was exceptionally helpful that deserves sincerest gratitude. A great appreciations extends to my family, the courageous my father Tekulu Belay and the patience of my Mother Zayd Hayle. Infinite honor to my husband Kiros Negash the source of Love & tolerance. And sincerely Thanks to my precious sons: Abel, Kaleb, Abiselom, Haben and Temsgen. High credits to all brothers and sisters for their contribution in caring and achievements of my life.

Finally, I am grateful to all my relatives, friends & all persons who gave me credit and support till to my final reach of this thesis.

Abbreviations

Art/art	Article
Am	Anti Meridian
FDRE	Federal Democratic Republic Of Ethiopia
TNRS	Tigray National Regional State
No	Number
Pm	Post Meridian
Proc.	Proclamation.
UN	United Nations
Vol.	Volume
ROSCA	Rotating Savings and Credit Associations
SFT	Semi financial transactions

Abstract

In Ethiopia in general and Tigray in particular informal financial institutions are vast and play significant roles in the socio-economy. Equbs are among the informal financial institutions that are very common throughout the country and they serve both as saving and credit institutions. Equbs have evolved from very small grouping of friends and families for saving and consumption purposes into big institutions with significant financial transactions for commercial activities.

Financial transactions of equb associations are traditionally managed through customary laws including the articles of association, guarantee agreement, attendance book and registration book.

These customary laws do not give full guarantee to the security of the financial transactions of the equbs. As result of this, a research work was initiated with an objective to investigate the customary laws, legal and practical challenges in ensuring security of financial transactions of the equbs in Kedamay weyane sub-city of Mekelle city in Tigray National Regional State.

The research methodology employed descriptive study depended more on qualitative data from the written documents of the equb, government policy, Journals and interview results from the administrators of the selected informal financial institutions, lawyers, and focal group discussions were used to collect data and information so as to enhance the findings.

Accordingly, the analysis of the results of the data and information obtained from interviews of members and leaders of 10 equb associations in kedamay weyane sub-city, relevant government officials and legal advisors from Mekelle, revealed that the customary laws including the articles of associations and guarantee agreements lack transparency and this led to abuse the money of the members by the organizers of the equbs. Besides, the equb associations inflict different kinds of social sanctions on defaulting members and leaders of the equb which led to demoralizing and alienation of the defaulters from the society.

Moreover, the research work indicated that the big equb associations like that of Rahwa have huge financial transactions which is becoming very challenging in administrating them properly and securely through the common customary laws and these associations need to be secured legally by giving legal personality to the associations through modern governing laws.

On the other hand, the small size equbs, which are very significant in number with less defaulting practices are not interested in obtaining legal personality fearing the very bureaucratic nature of the governmental laws.

In general, the leaders of the equb associations have the rights to sue and indemnify any payments on behalf of the equb according to their customary laws. But there is not any legal ground for the members of the equb associations to claim their rights from the equb.

The researcher has also concluded that even though the equb associations play a great role in the social and economic activities of the research area in particular and the region as well as the country in general. However, very low attention has been given by the governments at all levels. This has been witnessed by the negative response of the National Bank of Ethiopia to the request for legal registration by one of the big equbs (Rahwa) in Mekelle town.

The major recommendations forwarded by this research include:

1. Legal recognition and registration of the big equb associations by the federal organizations of civil societies proclamation number 1113/2019 article 3/3/b and Tigray National regional state civil societies proclamation number 327/2019 so as to securely manage the financial transactions and;
2. Developing and implementing customary laws properly for small size equbs in order to minimize the insecurity of the financial transactions and social sanctions of defaulting members and leaders of equb associations.
3. The equb associations need to have articles of associations with clearly stipulated duties and responsibilities of the equb organizers so as to legally charge cases against the equb organizers in case of any defaults and misuses in managing the financial transactions of the equb associations

Key Words: Formal financial institutions, Informal financial institutions, equb

CONTENTS

TITEL	Page
Declaration.....	III
Acknowledgement	VI
Abbreviations	V
Abstract	VI
Table of Contents	VIII
CHAPTER ONE	1
1. INTRODUCTION.....	1
1.1 Background of the study.....	1
1.2. Statement of the problem	2
1.3. Research questions	3
1.4. Research Objectives	4
1.4.1. General Objective	4
1.4.2. Specific Objectives	4
1.5. Methodology	4
1.5.1. Research design	4
1.5.2. The total population	4
1.5.3. The research site	4
1.5.4. Sample and sampling techniques	5
1.5.5. Data Source and tools of data collection	5
1.5.6. Procedures of data collection	5
1.5.7. Methods of data analysis	6
1.6. Ethical Consideration	6
1.7. Limitation of the study area	7
1.8. Organization of the research	7
CHAPTER TWO.....	8
DEFINITION & LITRETUR REVIEW.....	8
2.1. Definition of Informal financial institutions	8
2.2. Literature review	9
CHAPTER THREE:	12
3.1 TYPES AND ROLES OF INFORMAL FINANCIAL INSTITUTIONS IN ETHIOPIA	12

3.1.1. Iddir	12
3.1.2. Equb.....	14
3.1.3. Why members join equb	14
3.1.4. Features of equb	16
CHAPTER FOUR	18
4. Existing relevant Ethiopian laws,	18
4.1. Ethiopian Federal constitution	18
4.2. Ethiopian Civil code	18
4.3. Federal and regional proclamations	19
4.4. An approach to increase the performance and enforcement of equb	20
4.4.1. The first approach	21
4.4.2. The second approach	21
CHAPTER FIVE	22
5. DATA PRESENTATION AND LEGAL ANALYSIS OF THE STUDY	22
5.1. DATA PRESENTATION	22
5.1.1 Demographic Characteristics of samples.....	22
5.1.2. Results.....	22
5.1.2.1. Customary laws	22
5.1.2.2. Articles of association of Rahwa equb.....	23
5.1.2.2.1. Rights & obligations of the organizer	23
5.1.2.2.2 Rights & obligations of the secretary	24
5.1.2.2.3. Rights & obligations of the members.....	24
5.1.2.2.4. Disciplinary measures	25
5.1.2.3. Attendance books	25
5.1.2.4. Establishment of equb.....	26
5.1.2.5. Financial administration and customary practice of equbs in Mekelle:an empirical review on rahwa equb.....	28
5.1.2.6. Motivation to organize an equb.....	30
5.1.2.7. The size of an equb	31
5.1.2.8. full pot contribution	31
5.1.2.9. The allocation of pot size	32
5.1.2.10. Duration of pot cycle	32

5.1.2.11. Could you change pot of your turn early?.....	33
5.1.2.12. What are the guarentee Criteria to participate in large size Equb?.....	34
5.1.2.13. Benefits of the organizers.....	34
5.1.2.14. Do the existing organizers wish to keep on organizing the Equb in the future?.....	35
5.1.2.15. Do you think articles of association legally bound equb associtions?	36
5.1.2.16. Why equb associations are not regsterd yet?	37
5.1.3. Equb members.....	38
5.1.3.1. How could a member of an equb be treted if he/she does not pay his/her contribution.....	38
5.1.4. Equb leaders.....	39
5.1.4.1. Do the financial transactions carried on by equb leaders have leagal security?.....	39
5.1.4.2. Do the equb leaders should be accountable for the uncollected money?why?.....	40
5.1.4.3. Do the customary law of the equb give guarantee to their financial transactions?.....	40
5.1.4.4. Government officials	41
5.1.4. 5.Are the government officials aware of the significant role of equbs in the society?	41
5.2. legal Analysis	41

CHAPTER SIX45

6. CONCLUSIONS AND RECOMMENDATIONS.....45

6.1. Conclusions.....45

6.2. Recommendations.....46

References

48

Annex:

51

• Annex – A: Interview with organizers 51

• Annex – B: Interview with eqqube members 52

• Annex – C: Interview with eqqube government officials

53

List of Tables

Table- 1: The financial and administralational capacity of the 10 equbs in Kedamay weyane sub-city of Mekelle city	25
--	----

Table-2: the financial security problems in countered in the 6 equbs in Kedamay weyane sub-city 27

Table- 3: Selection criteria for guarantee32

Table- 4: The responses of equb members37

List of figures

Figure- 1: Scanned copy of an articles of association of Rahwa equb -----22

Figure -2: Scanned copy of attendance books of different equb associations25

Figure- 3: Scanned copy of different certificate awards given to Rahwa equb ----- 29

CHAPTER ONE

1. INTRODUCTION

This chapter deals with highlighting some concepts about the formal and informal financial institutions in Ethiopia. It includes a background of the study, statement of the problem, Research questions, Research objective, Methodology, ethical consideration, Limitation of research and lasting with the organization of the research.

1.1 Background of the study

Financial Institutions are institutions that include all financial transactions that take place beyond the functional scope of various countries' banking, insurance, pension and other financial sector regulations.¹ It is not directly agreeable to control by key monetary and financial policy instruments².

These institutions are usually created by organizations and individuals with legal status. Regulation is a distinct set of rules or law designed to govern certain conduct through creating limits, constrains, duty or responsibility.³ It is established by a regulatory institution, which in the area of financial markets can be a government, a central bank as a regulator, or the regulated financial market participants by themselves.⁴ Where a regulation aimed specifically in safeguarding the financial system stability in general and protecting the safety of small deposits in individual institutions in particular, it becomes prudential regulation.⁵ Obviously, saving and credit co-operations collectively represent only a small percentage of the financial sectors total assets in most countries because of their customers being the poor, low and middle income individuals and as a result of their local level of establishment.

Although their assets may be low by comparison, credit unions serve large numbers of small depositors and, as such, should be regulated and supervised.⁶ Traditional financial system in Ethiopia has long history and paramount contribution to economic improvement and social wellbeing of the society. Catherin states that "Informal institutions permeate the life of all societies, including those of Ethiopia, to provide practical and psychological support. In addition, a large number of organizations built

¹Aryeetey E 1998. *Informal Finance for Private Sector Development in Africa*. African Development Bank Economic Research Paper

²Chipeta C, Mkandawair MLC 1991. *The Informal Financial Sector and Macro-economic Adjustment in Malawai*. African Economic Research Consortium. Research Paper. No. 41.

³ Bivott Kevin, *The Effect of Regulation by SARSA on Performance of Small SACCOs in Kenya*, MA Thesis, Kabarak University, 2014, p.3, [unpublished, available online], [hereinafter Bitwott Kevin, *The Effect of Regulation*]

⁴ Michel Fiebig, *Prudential Regulation and Supervision for Agricultural Finance, Agricultural Finance Revisited*, Food and Agriculture Organization of the United Nations (FAO), Rome, Italy, 2001, P.1, [hereinafter Michel Fiebig, *Prudential Regulation and Supervision*].

⁵ Onafokan O. Oluoyomba (ed), *Cooperative Finance in Developing Economies*, Soma Prints Limited, Lagos, Nigeria, 2012, p.64, [hereinafter Onafowokan, *Cooperative Finance in Developing Economies*].

⁶World Council of credit Unions, *Credit Union Regulation and Supervision Technical Guide*, WOCCU, U.S.A.2008, P.2, available at www.woccu.org/publication.., last accessed on 3rd March, 2018, [hereinafter WOCCU *Technical Guide*]; and Onafowokan, *Cooperative Finance in Developing Economies*, P.65

around collective action exist.”⁷ She states that “various forms of collective action are a response to the high levels of risk experienced in Ethiopia” because isolation reinforces the need for rural communities to be self-sufficient and fall back on their own resources while at the same time enabling cultural customs, norms and practices to continue, with positive or negative consequences for communities or groups within the community.” Traditional institutions organized with a sense of cooperation and risk sharing has enabled Ethiopians to experience saving and financial management within its cultural context. Equb and idir are some of the informal financial institutions.

In developing countries the informal sector is vast and it plays a significant role in the economy.⁸ Only about 22 % of Ethiopia’s population has transaction accounts in the regulated financial institutions.⁹ 56% of the adult population uses the informal credit market for saving, borrowing and insurance services.¹⁰ Very few individuals about 12% are able to secure loan from regulated financial institutions whereas loans from the informal credit markets have proved to be very common in the society.¹¹ The National Inclusive Finance Strategy recognizes that the informal credit market is the main source of credit for small and medium enterprises.¹² Equb can be characterized as local or informal financial institution which contributes much for the social life of the people. The concept and the operation of the institution is much deeper than stated above and it is explained widely in this research.

1.2 Statement of the problem

In Ethiopia informal financial institutions like “equb” has the ability to create jobs for the poor and the unskilled citizens and it has improved the lively hood of many people. But equb is left up to the discretion of their members and the appointed equb leaders, although they own and practice different kinds of customary laws. Some of the equb organizers develop articles of associations which are required to be ratified by all members of the associations as their governing law. Most of these associations develop their articles of associations without considering any Criteria for Registration.

⁷ Catherine Butcher 2007, *Understanding the role of informal institutions in social accountability. Contract agreement of the Edget Behibret equb*, 2006 G.C.

⁸ Ihrig Jane and Moe, Karine. 2004. *Lurking in the shadows: the informal sector and the government policy*, *Journal of development economics*, 73 pages 541-557

⁹ The National Bank of Ethiopia (2017), *National Financial inclusion Strategy*. Available at <https://www.nbe.gov.et/pdf/service/Ethiopian%20National%20Financial%20Inclusion%20Strategy.pdf>. Accessed on 13.11.2018. 2 Ibid. 3 Ibid. 4 Ibid. 5 A. Beza & S. Rao (2017), ‘Financial Inclusion in Ethiopia’, *International Journal of Economics and Finance*, Volume 9(4), pp. 191-2001.

¹⁰ .ibd

¹¹ Haile sellasie I, Emperor of Ethiopia Quoted in Fisher, Stanley Z., “Traditional Criminal Procedure in Ethiopia”, *The American Journal of Comparative Law*, Vol. 19, No. 4, (1971), pp. 709-746

¹² Leila, Chirayath, et al , *Customary Law and Policy Reform: Engaging with the Plurality of Justice Systems*,(2006), Prepared as a Background Paper for the World Development Report (Equity and Development), p.2, available online at <https://namati.org>, accessed on May 20/05/2016

According to their articles of associations equb leaders formulate attendance books which are required to be signed daily or weekly by the equb members as well as different written contract agreement forms are prepared. While some other equbs use attendance books only. But, most of the time the customary laws are not practically implemented. Some equbs violate the articles of associations they ratified. Sometimes, the leaders of the equb abuse the lottery draw by drawing it without full participation of their members and sell the draw of the absent member secretly to other member with some interest that can be used for the benefit of the leaders not for benefit of the member who owns the draw.

In some equbs members of the associations forget to sign on the daily or weekly attendance books and in the guarantee contract agreements. Most of the time, equb association organizers do not want to attach the written evidences, they rather depend on trust mechanisms and personal relationships. This phenomenon truly erodes the informal financial transaction security system.

Equbs play great role in solving critical financial problems so as to improve the livelihood of low income citizens and also to expand some businesses, in Mekelle city in particular and Tgray in general. On the other hand, the traditional financial management of the equb associations has encouraged for more defaulting activities by their members and leaders during their financial transactions. Most of the time members of equb association are not educated, they agree to manage their financial transactions through trust family relationship honesty rather than customary laws, those equb members try to enact customary laws but they did not implement it practically.

Customary laws lack transparency and this led to abuse the money of the members by the organizers of the equbs. In addition to this informal financial institution like equb and idir associations are not covered under the federal civil society proclamation. These practical and legal challenges do not give full security to informal financial transactions of the equbs. As the result of this, a research work was initiated with an objective to investigate the customary laws, legal and practical challenges and to recommend possible solutions in ensuring security of financial transactions of the equbs.

1.3. Research questions

- What do the customary laws that are applied to secure financial transactions of equb look like?
- What are the practical and legal challenges in ensuring security of financial transactions of Equb?
- What are the appropriate mechanisms for securing the financial transactions of equb associations

1.4. Research objective

This research has general and specific objectives.

1.4.1 General objective

The general objective of this research is to investigate the customary laws, legal and practical challenges of the equb financial transactions and recommend appropriate mechanisms for ensuring their security in Kedamay weyane sub-city, Mekelle, Tigay National Regional State.

1.4.2 Specific objectives

To achieve the general objective, the paper sets the following specific objectives and these are to:

- Examine the customary laws that are applied to ensure security of financial transactions of equb;
- Analyze the legal and practical challenges in securing the financial transactions of an equb;
- Recommend the appropriate legal mechanisms for securing financial transactions of an equb

1.5. Methodology

The research methodology focuses on the research design selected, the total population and the number of samples that were taken, the research site, the sampling technique implemented, sources and tools of data collection selected, procedures of the data collection used by the researcher to collect data, and the plan for the methods of analyzing the collected data.

1.5.1 Research design

The research is designed to be descriptive which aims to describe the factors behind the informal financial institutions that contribute to the wide acceptance of equbs and focuses on the selected equbs,

1.5.2 The total population

The total population used for this research is 1594 people including the administrators and the members of the equb associations. Specifically, the equb involves the manager and the secretary as leaders of the equb and 25 members were considered to interview from 10 equb associations,

1.5.3 The research site

This research work focuses on the security of financial transactions of equb. The research was held in 10 equbs located in the Kedamay Weyane sub-city of Mekelle in Tigray National Regional State and

Mekelle is situated 780 km north of Addis Ababa. Kedamay weyane sub-city is the leading market and commercial center of the region, where financial transactions are very high,

1.5.4 Sample size and sampling techniques

The data collected from the respondents was kept highly confidential because of its sensitive nature and all ethical standards of a research were conducted by the researcher. To triangulate and complement data collected from the key informant interviews including the leaders of equb, Semi structured questionnaire was designed to guide these interview sessions.

This interview was necessitated to double check the authenticity and impartiality of the views from administrators and the interview was fully qualitative in nature. The number of sample respondents was decided based on a subjective judgment of “how many responses will be enough to get a clear and objective picture on the subject?” The sample size is deemed sufficient by the researcher as the responses got quite repetitive towards the end which is a good signal that the sample size was enough for the qualitative interviews.

1.5.5 Data sources and tools of data collection

The researcher used both primary and secondary sources. The primary data were collected by using a semi-structured interviews with the key informants’. The secondary data collection involves court cases and legal documents analysis as well as customary laws including the article of associations and contract agreements of the equb associations and other relevant literatures. However, the documents were not the only inputs and the researcher used some questions in the interviews to prove the reliability of the documents.

1.5.6. Procedures of data collection

The data collection procedure started from developing the interview and semi interview questions, and then continued the process by asking the willingness of the respondents for an interview, selecting the medium and place for an interview, having an appointment for conducting the interviews. The respondents were informed clearly about the aim of the interviews and they were also informed that their responses will be kept secured. While conducting the interviews the researcher carefully listened and recorded audios and took notes of the responses from the respondents. After collecting the

necessary data using videos the full statements of respondents were written and organized immediately after the interviews..

1.5.7 Methods of data analysis

The methods that were used to describe the qualitative data collected by interviewing the key informants and document reviewing were stated by grouping and organizing similar and different responses based on their supporting or contradicting nature. The collected data were finally analyzed which help to come up with some findings, conclusion and recommendations so as to answer the basic research questions.

In addition, the researcher has analyzed the legal regime of the federal and regional governments related to different social associations and customary laws on informal finance practices and their implementation status.

1.6. Ethical Considerations

Ethical Considerations can be specified as one of the most important parts of the research. The following principles of ethical considerations were used to conduct this research:

- Respect for the dignity of research participants was prioritized.
- Research participants were not subjected to harm in any ways by any means.
- Full consent was expected to be obtained from the participants prior to the study.
- The protection of the privacy of research participants and adequate level of confidentiality of the research data were ensured.
- Any deception or exaggeration about the aims and objectives of the research were avoided
- And any type of communication in relation to the research was done with honesty and transparency.
- Any type of misleading information, as well as representation of primary data findings in a biased way were avoided.

In order to address ethical considerations aspect of this research in an effective manner, the researcher considered each of the following points:

- ✓ Voluntary participation of respondents in the research was important.

- ✓ The use of offensive, discriminatory, or other unacceptable language was avoided in the formulation of Key informant interviews including leaders and members of the equb associations
- ✓ Privacy and secrecy of respondents was very vital.

1.7.Limitation of the research

The main limitations of this study are: a) to get literatures and previous studies made on equbs are very limited and it was also very difficult to access them from libraries and relevant organizations. The researcher was forced to depend more on the limited related previous studies made recently by Ethiopians from different internet sources for literature review. b) Most of the equb organizers and members were not willing for interviews due to unknown reasons. After exerting much effort to convince the members and leaders of the equbs on the aim of the interviews some of them showed their willingness but, again they were reserved on their responses.

1.8. Organization of the research

The research paper is divided into six chapters. Chapter one deals with the introductory part of the study which contains background of the study, Statement of the problem, Research questions, Research objective, Methodology, Ethical consideration, Limitation of research then ends with stating the organization of the research. Chapter two is exclusively devoted to the definition and literature reviews on informal financial sectors particularly focusing on Equb and related associations. While, Chapter three presents types and roles of informal financial institutions in Ethiopia, Chapter four presents existing relevant Ethiopian laws, chapter five presents analysis of results and obtained findings as well as discussions of the empirical data. And finally, chapter six presents conclusions of the findings and recommendations.

CHAPTER TWO

2. DEFINITION & LITRETUR REVIEW

2.1 Definition of Informal financial institutions

Different scholars and institutions gave their own definition for Rotating Saving and Credit Associations. It is defined by the World Bank as associations whose members regularly contribute a fixed amount of money that is allocated to each member in turn.¹³ Rotating savings and credit associations (ROSCAs), are among the oldest and most prevalent savings institutions found in the world and play an important role in savings mobilization in many developing countries.¹⁴ ROSCAs in Ethiopian version called equb is one of the most important informal financial institutions which are locally organized groups that meet at regular intervals; at each meeting members contribute funds that are given in turn to one or more of the members.

Once every participant has received funds, the equb can disband or begin another round. In joining an equb, an individual agrees to a schedule of periodic payments in return for which he/she receives a lump-sum payment at a future date.¹⁵ Informal Financial Institutions are institutions that embrace all financial transactions that take place beyond the functional scope of various countries' banking and other financial sector regulations.¹⁶ Ethiopian traditional financial institution “equb” which is defined as: “a Traditional saving and credit institution with a rotating fund system of saving whereby people

¹³ World Bank 2004. *Micro and Rural Finance in Ghana: Evolving Industry and Approaches to Regulation Findings*. Washington D.C: The World Bank.

¹⁴ Gugerty, M. K. 2007. *You Can't Save Alone: Commitment in Rotating Savings and Credit Associations in Kenya*. *Economic Development and Cultural Change* 55 (2): 251 -282.

¹⁵ 15. Gashayie, A & Singh, M. 2016 *Development of Financial Sector in Ethiopia: Literature Review Journal of Economics and Sustainable Development* www.iiste.org ISSN 2222-1700 (Paper) ISSN 2222-2855 (Online) Vol.7, No.7.

¹⁶ Kamla-Raj 2009 *J Soc Sci*, 20(1): 71-81 (2009) *Informal Financial Institutions and Poverty Reduction in the Informal Sector of Offa Town, Kwara State: A Case Study of Rotating Savings and Credit Associations (ROSCAs)* Noah Yusuf 1, Gafar T. Ijaiya2 and Muftau A. Ijaiya3 1 Department of ociology, 2Department of Economics, 3Department

form groups and pay periodically a fixed amount of money, which will be collected in a common pool, so that, in rotation, each member of the group can receive one large sum.

Kiros Habtu also defines equb in line with the above definition: “Equb- is an informal institution established voluntarily to collect a specific amount of money from the members on a specific date to be paid on round and lottery basis to the members, the members know each other and thus trust each other to make the equb function smoothly”.¹⁷ Rotating savings and credit associations (ROSCAs), as a component of the informal sector of the economies of developing countries, meet essential financial needs of the bulk of the population of these countries. They play a complementary role by filling in the gap left by the formal sector.

As a result, important aspects of equb have remained largely unexplained. For example, we know very little about mechanisms adopted by equb to deal with problems of adverse selection and of moral hazards.

2.2. LITRETUR REVIEW

In this chapter relevant literatures from different written secondary sources are reviewed. Some of the informal financial and social institutions that are mostly used in Ethiopia are highlighted. The literature review focuses on the informal financial institutions stated in the preceding section, i.e. equb.

Financial sector currently operating in Ethiopia is composed of formal, semiformal and informal institutions. The formal financial sector uses a regulated system which comprises of financial institutions such as banks, insurance companies and microfinance institutions. The nature and procedure of the informal financial sector in Ethiopia has been extensively described¹⁸. Informal Financial Institutions are institutions that embraced all financial transactions that take place beyond the functional scope of various countries’ banking and other financial sector regulations.¹⁹ It is financial institutions that are not directly amenable to control by key monetary and financial policy

¹⁷ *Kiros Habtu, October 2012 Classifying Informal Institutions in Ethiopia internship paper, Wageningen university*

¹⁸ Dejene, A. 1993. The informal and semi-formal financial sectors in Ethiopia: A case study of Iqqub, Idder, and Saving and Credit Cooperatives, African Economic Research Consortium (AERC), Nairobi.

¹⁹ Aryeetey E 1998. Informal Finance for Private Sector Development in Africa. African Development Bank Economic Research Paper

instruments²⁰. These institutions are usually created by organizations and individuals and with no legal status.

The informal financial institutions can be classified into three namely:(i) proprietary informal financial entities, such as, money lenders, trader, estate owners, grain millers, smallholder farmers, self-help groups and other businessmen, (ii) staff and social welfare schemes such as those run by employers, friends relatives and neighbors; and (iii) mutual identities, such as, Accumulating Saving and Credit Associations (ASCRA); and a Rotating Saving and Credit Associations (ROSCAs)²¹ An informal institution has three function which are provision of security or insurance, economic function, and socialization.²² From the function of informal institution Roscas serve more than one function. This is considered to be economic, social and cultural institutions.²³ The saving and credit cooperatives are considered as semiformal financial institutions like micro finance associations, which are not regulated and supervised by National Bank of Ethiopia (NBE).

The informal financial sector in the country consists of unregistered traditional institutions such as equb (Rotating Savings and Credit Associations) and idir institutions as well. The nature and procedure financial institutions that are not directly amenable to control by key monetary and financial policy instruments²⁴. In the informal financial case, the average scale of operation of the informal financial sector in Ethiopia has been extensively described²⁵. From the major attributes of Roscas membership is the first one; the number of participants in a given cycle of Rosca could range from handful to several hundred. The cost of rendering financial service is small; procedures are flexible; there is in general freedom of entry and exit; there is freedom from de jure and de facto control by central authorities; information gathering is kept to the minimum and, instead, trust and firsthand knowledge of a participant is important (see Bouman and Houtman 1988: (69-70).

²⁰ Chipeta C, Mkandawair MLC 1991. *The Informal Financial Sector and Macro-economic Adjustment in Malawai*. African Economic Research Consortium. Research Paper. No. 41.

²¹ Kamla-Raj 2009 J Soc Sci, 20(1): 71-81 (2009) Informal Financial Institutions and Poverty Reduction in the Informal Sector of Offa Town, Kwara State: A Case Study of Rotating Savings and Credit Associations (ROSCAs) Noah Yusuf 1, Gafar T. Ijaiya² and Muftau A. Ijaiya³ *Department of Sociology, 2Department of Economics, 3Department*

²² Dagnelie, O. & Lemay-Boucher, P. 2008. *Rosca Participation in Benin: a Commitment Issue*. UFAE and IAE Working Papers 735.08.

²³ Geertz, C. 1962. The Rotating Credit Association: A "Middle Rung" in Development. *Economic Development and Cultural Change* 10(3): 241 – 263

²⁴ Chipeta C, Mkandawair MLC 1991. *The Informal Financial Sector and Macro-economic Adjustment in Malawai*. African Economic Research Consortium. Research Paper. No. 41.

²⁵ Dejene, A. 1993. *The informal and semi-formal financial sectors in Ethiopia: A case study of Iqub, Idder, and Saving and Credit Cooperatives*, African Economic Research Consortium (AERC), Nairobi.

Most of the informal businesses operate openly though they are not subjected to government laws and regulations in most cases. The informal sector escapes government regulations but gives more value to customs, "No modern legislation which does not have its roots in the customs of those whom it governs Can have a strong foundation".²⁶

*"...the vast majority of human behavior is shaped and influenced by informal and customary normative frameworks. Even in societies with the most developed legal systems, only about 5% of legal disputes (that is, 5% of situations that have been understood as 'legal') end up in courts."*²⁷

As the above quotes sufficiently demonstrate, legal and regulatory institutions may not obtain authority, legitimacy and effectiveness unless they reflect, as much as they can, social norms and values of their respective communities.²⁸

*"Different social, religious and political institutions serve the society in different ways including maintaining its identity, history and cultures and passing its values, moral understandings and customs from generation to generation", and "traditional institutions have their own established values, Principles, customs and very strict ritual practices"*²⁹

Institutions permeate the life of all societies, including those of Ethiopia, to provide practical and psychological support.³⁰ In addition, a large number of organizations built around collective action exist." Catherine Butcher states that; *"various forms of collective action are a response to the high levels of risk experienced in Ethiopia" because isolation reinforces the need for rural communities to be self- sufficient and fall on their own resources while at the same time enabling cultural customs, norms and practices to continue, with positive or negative consequences for communities or groups within the community.*"

Sub-Saharan Africa has a long tradition of "group saving in the form of traditional Rotating Savings and Credit Associations (ROSCAs)" and this system enables each participant to make; "A regular

²⁶. Ihrig Jane and Moe, Karine. 2004. *Lurking in the shadows: the informal sector and the government policy*, *Journal of development economics*, 73 pages 541-557

²⁷ Leila, Chirayath, et al , *Customary Law and Policy Reform: Engaging with the Plurality of Justice Systems*,(2006), Prepared as a Background Paper for the World Development Report (Equity and Development), p.2, available online at <https://namati.org>, accessed on May 20/05/2016

²⁸ .Gebre Yntiso, Assefa Fiseha & Fekade Azeze (Eds.) *Introduction-Customary/Alternative Laws: Values, Practices and Legality*, in *Customary Dispute Resolution Mech*

²⁹ .Gebreyesus Abegaz Yimer (Mekelle University), Abera, Gebrehiwot Hadush (Mekelle University), Ghebregergis, Mehreteab Ghebremeskel (Mekelle University); Dr. Halibo Seyoum, Gidey (KU Leuven) and Prof. Dr. Decock, Wim (KU Leuven), 2015,

³⁰ . Catherine Butcher 2007, *Understanding the role of informal institutions in social accountability. Contract agreement of the Edget Behibretequb*, 2006 G.C.

contribution to a common fund, which at each meeting is lent out to a different member of the group until each member has profited from the fund once.”³¹

CHAPTER THREE

3.1. TYPES AND ROLES OF INFORMAL FINANCIAL INSTITUTIONS IN ETHIOPIA

Informal financial institutions are not fully or partly regulated by law but they rely on self-regulating and trust mechanisms. Informal operators are a worldwide phenomenon: this demonstrates the universal need of the population, particularly the rural financial services and the ability of the professional operators to provide some of these services under different circumstances as a financially viable occupation.

There are various types of informal financial organizations in Ethiopia. These include private sector rotating saving and credit groups such as iddir and equb that are initiated and organized by the people themselves, under the premise of financial relations based on reciprocity.³² In Ethiopia iddir, mahiber, equb, debo, elders’ group, women’s association, money lenders, friends and relatives, pawn brokers, money keepers and tradesmen are the most important informal traditional organizations.

Informal financial institutions can be classified into three namely:(i) proprietary informal financial entities, such as money lenders, traders, estate owners, grain millers, smallholder farmers, self-help groups and other businessmen, (ii) staff and social welfare schemes such as those run by employers,

³¹ Michaela Beck, 2012, *Impact of Accumulating Savings and Credit associations on Child Wellbeing*, master’s thesis

³² 24. Gashayie, A & Singh, M. 2016 *Development of Financial Sector in Ethiopia: Literature Review Journal of Economics and Sustainable Development* www.iiste.org ISSN 2222-1700 (Paper) ISSN 2222-2855 (Online) Vol.7, No.7.

friends, relatives and neighbors; and (iii) mutual aid entities, such as, Accumulating Saving and Credit Associations (ASCRAAs); and a Rotating Saving and Credit Associations (ROSCAs).³³ From those organizations, some selected informal organizations which have a relationship with the subject matter are explained as follows:

3.1.1. Iddir

Iddir is one of the informal local institutions in Ethiopia established voluntarily by the community involved in self-help and other social activities. Iddir is established primarily to provide mutual aid in burial matters but also to address other community concerns. It is an association established by a group

Of persons united by ties in families, friendship, neighborhood, or belonging to the same job. Furthermore, Iddir is a local association with long history widely spread and commonly known in rural and urban areas of Ethiopia.

Iddir organizes people according to gender, generation, wealth, education, religion, neighborhood, kinship, ethnicity and some other special relations. To mention some of the Iddir associations formed based on professions like the teachers' Iddirs, on gender such as women's Iddirs, or on ethnicity or clanship such as those formed by migrants from specific areas. However, with regard to membership structure, Iddirs are the most democratic social organizations which people are free to join and become a member regardless of their differences in religion, sex, and ethnic affiliation.

Iddir is an informal financial and social institution, which is almost universal throughout Ethiopia.³⁴ Iddir is also defined 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, Iddir is a sort of insurance program run by a community or a group to meet emergencies. The original purpose of Iddir was the funeral of the dead. Today, 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. Suggests that, Iddir unlike the insurance system, is very popular among the people.³⁵ It is attractive because it is culturally appropriate, flexible, easily

³³ .Kamla-Raj 2009 *J Soc Sci*, 20(1): 71-81 (2009) *Informal Financial Institutions and Poverty Reduction in the Informal Sector of Offa Town, Kwara State: A Case Study of Rotating Savings and Credit Associations (ROSCAs)* Noah Yusuf 1, Gafar T. Ijaiya2 and Muftau A. Ijaiya3 1 Department of Sociology, 2 Department of Economics, 3 Department

³⁴ . *Supra note 8*, p.28.

³⁵ Salole, G. 1986, *Ekub edir and meredeja mahber "as potential development*

accessible, and cost-effective.³⁶ Unlike the insurance system, it is basically a nonprofit 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; Iddir is invariably have a strong linkage with the banking system. It is keeping the bulk of their financial assets in banks. Only small amount of cash is kept at hand to meet emergency requirements.³⁷ On the other hand Iddir associations were known as unrecognized and unregistered institutions, they were scattered here and there without legal recognition.

But now a days Iddir is registered and ratified by the Addis Ababa city administration as legal institution by fulfilling the required criteria according to the Directive No. 151/2024 article 8.³⁸

This research is mainly concerned about the informal financial institutions named as equb and it will be discussed in detail below.

3.1.2 Equb:

Equb is one of the indigenous financial institutions interchangeably known as ROSCAs, which is formed for various purposes such as; starting or expanding businesses, personal consumption purposes that need expending large sum of money at one time or simply for saving. Being a member of equb can be held as collateral to borrow from individuals outside the equb. Interestingly enough, equb can also give benefit by delivering credit and sharing information. Equb vary in size of members and amount of capital they have but serve people with various socio-economic statuses. Bigger equbs with higher capital mostly conduct business oriented operations. Bigger equbs usually act as formalized institutions and they are likely to have written-by-laws, (Terefe, 2005).

3.1.3. Why members join equb?

Equb is formed for various purposes and the reason why members of the equb want to join are diversified. The study of previous researchers' about the subject revealed different justifications as to why members join equb.

tools in Addis Ababa', Symposium on the Centenary of Addis Ababa, 24-25 November, IES, University of Addis Ababa

³⁶. *supra note 15, p.8.*

³⁷. *Ibid.p.18*

³⁸. "The Addis Ababa City Administration, *Edirs and Edir Councils Registration and Legalization Directive No. 151/2024 Article 8.*

The reasons why members join equb are to avoid higher costs.³⁹ Members participating in large equb are motivated to join because of their interest to avoid higher costs caused by higher transaction costs in formal institutions. Thus, they prefer to use equb as a mechanism to reduce the cost of financing. As compared to formal institutions, the average waiting period, the transaction cost as well as the interest expense is very low in equb.⁴⁰

The second reason why members join large scale equb which is dominated by traders is for starting or expanding business ventures.⁴¹ Most notably, equb may facilitate the purchase of unsmooth durable goods. On average, equb allow individuals to buy the desired lumpy goods sooner in their lifetime than by accumulating private savings.⁴²

The reduction in waiting time to buy a bulky asset is one of the areas where the Pareto improvement is reflected. “Earl pot motive” as the motive of joining equb for the purchase of durable goods.⁴³ This proposition challenged by noting that if the main motive of joining equb is saving for the purchase of indivisible goods, the person who wins the last pot will not be better off by joining equb. Thus, he will leave the group. Then, second to last person will become the last and he will decide the same thing since he will not be better off by taking the last pot. In such a way, no one will stay at the equb at the end of the day.⁴⁴ The empirical evidences found by Gugerty from Western Kenya against the lumpy durable good explanation. In her survey, she mentions that; *“Over half of equb participants use their equb winning lottery pot for more than one purpose, and one fifth use their winning lottery pot for more than two purposes.”*

Furthermore, in the same study, many equb participants indicate that they do not necessarily prefer to receive the pot sooner than later.⁴⁵ The other motivating suggestion given to why members join equb is the objective of Self-commitment. Self-commitment is a key reason for members to join equb.

Equb provides a collective mechanism for individual self-control in the presence of time- inconsistent preferences and in the absence of alternative commitment technologies. It ties participants’ hands and commits them to savings patterns.⁴⁶ People bind themselves with some kind of saving pattern to handle

³⁹ *Ibid*

⁴⁰ *Supra note 33, p.229-238.*

⁴¹ *Supra note 26, p.201 – 229.*

⁴² Birchall, J., & Simmons, R. 2004. *What motivate members to participate in Co-operative and mutual businesses? A theoretical model and some findings.* *Annals of Public and Cooperative Economics* 75(3): 465–49.

⁴³ 64. Ambec, S., & Treich, N. 2003. “Roscas as financial agreements to cope with social pressure” *Centre for Studies in Economics and Finance, Working Paper No. 103.* Available at: <http://www.csef.it/WP/wp103.pdf>

⁴⁴ *Supra note 33, p.229-238.*

⁴⁵ *Supra note 24, p.251 -282 see also Supra not 33, p.229-238.*

⁴⁶ *Supra note 24, p.251 -282.*

their unpractical feelings “I can start saving tomorrow, not today”.⁴⁷ Hence, they need some kind of commitment device to handle the procrastination difficulties.

Equb could be a commitment device to protect participants from two potential risk categories: internal threats, like present biased Preferences; and external threats, similar to spouse pressure. The present biased effect is dependent on the personality of a given naive or sophisticated individual.⁴⁸ Naive individuals are highly affected by the present biased effect. A sophisticated individual is very pessimistic about his or her behavior in the future while a naive individual think that she or he will behave in a way that she or he wants in the future. In the middle, there are partially naive individuals who know that they may over consume but they underestimate their weakness.⁴⁹

Further, the insurance motive is the justification for individuals to join equb. It stresses that equb members do not necessarily want to take the pot early since they consider equb as insurance scheme. Equb could be taken as insurance by members that do not receive the pot yet and suddenly need some money because of emergency. But this only works under a condition where other members and the next pot winner are willing to switch the order.⁵⁰ Sometimes equb provide a rudimentary type of insurance schemes where members raise a special fund to financially assist the family of the deceased member of the group. Or in case of a crisis situation such as, the burning of a business enterprise, a member is entitled to immediate collection of pool fund free of charge.

A critics against the insurance mechanism is that people grouping together in a given equb generally belong to the same village, or have similar occupations or revenues.⁵¹ On the other hand, people face an external social pressure to share their income. Equb may then be viewed as a commitment device that may help them to resist sharing obligations in “social pressure”.⁵² Finally, some individuals want to join equb because of an intra-household conflict in consumption decisions.⁵³

3.1.4. Feature of Equb

Members in a big equb want the number of participants to be large while the medium and small size equb members want the number of members to be small. The reason for the big equbs to have more

⁴⁷ *Ibid*

⁴⁸ *Supra note 29, p.34.*

⁴⁹ *Supra note 33, p.229-238*

⁵⁰ *.Supra note 27, p.9.*

⁵¹ *Supra note 33, p.229-238.*

⁵² *Supra note 55, p 45.*

⁵³ *ibid*

members is their need to win a large sum of money in one cycle. Large money collected from business equb is usually used to finance working capital of an established business or to expand an already running or even to establish a new business which will otherwise be impossible or when it is possible a bit costly.⁵⁴ Members could be selected based on age, ethnic affiliation, occupation, religion or educational background or any given social tie.⁵⁵ On the other hand there are contributions in equb and the Contribution of members could be in the form of cash or kind or a combination.⁵⁶ The other feature of equb is the *fund*. Despite the fact that all members contribute fixed and equal amount throughout the life of a given equb cycle, the advantages that members enjoy are not equal.

At some point in a given cycle, all members will switch from a position of net saving to net debtor except the one who collects the pot at the beginning of the cycle that will make him a net debtor in the whole life of the cycle.⁵⁷ All members but the last to receive the fund get interest free loans of decreasing magnitude for decreasing periods, and all but the first give interest free loans of increasing magnitude”.⁵⁸ The additional attribute of equb is *transferability*. The funds in a given equb could be or could not be transferable. The transferability depends on the agreement and consent of the equb members at the time of establishment or in due course.⁵⁹ Further *enforcement* is a serious concern in equb, in practice, empirical evidence provided by numerous anthropological studies suggests that default in equb is rare.⁶⁰ This shows that the relationship between members of a given equb the social setting among members is a critical factor as an enforcing mechanism.⁶¹

⁵⁴ *Supra* note 27, p.5-7.

⁵⁵ Sandsör, A. M. J. 2010. *The rotating saving and credit association - An economic, social and cultural institution*. MSc Thesis. University of Oslo. Available at: <http://www.esop.uio.no/research/masterthesis/sandsor.pdf>.

⁵⁶ . *Supra* note 26, p. 201 – 229.

⁵⁷ *Supra* note 8, p.16

⁵⁸ Bisrat,A., Kostas,K. and Feng,Li. 2012. “Are there financial benefits to Join RoSCAs? Empirical Evidence from Equb in Ethiopia” *Procedia Economics and Finance*, Vol,1 pp.229-238.

⁵⁹ *ibid*

⁶⁰ *ibid*

⁶¹ *ibid*

CHAPTER FOUR

4. Existing relevant Ethiopian laws,

In Ethiopia, though saving and credit cooperation is the way of life of Ethiopians and has a long year of experience as a tradition, there should be sufficient, effective and enabling regulatory situation in the country. In fact, developing effective regulation and supervision may be an important means of increasing saving and credit co-operations outreach in order to meet the government policy and strategy and the overall development of the sector.⁶² Without sufficient regulation and supervision of the sector, its growth and outreach could not be an expected.

4.1 Ethiopian Federal constitution

Customary laws are deeply rooted and widely used in all societies of the country despite the introduction of the codified modern legal system (largely adopted from Europe) in the 1960s. First, several studies point to the fact that rural communities (to a large extent) and urban residents (to some extent) prefer the customary laws to the formal counterpart.⁶³ Second, the global tendency to promote indigenous knowledge since the 1970s led to the recognition of the customary laws as part of the indigenous knowledge variety along with others. According to the FDRE constitution (Art. 34:5 and

⁶² *Carlos and Klaus, Cooperative Financial Institutions, P.2-3*

⁶³ *Pankhurst and Getachew (eds.), cited above at note 2, p. v; Gebre Yntiso, Fekade Azeze, and Assefa Fiseha (eds.), cited above at note 4, (2011), p.xii.*

78:5) every Ethiopian has the right to engage freely in economic activity and to pursue a livelihood of his/her choice anywhere within the national territory & the Ethiopian Government's official determination since the early 1990s to respect cultural diversity and the constitutional recognition of customary laws.⁶⁴

4.2. Ethiopian Civil Code

The Ethiopian Civil Code embraces the General contract laws principle of freedom of contract and it guarantees contracting parties have a right to freely determine the nature of their contract and the form of the contract that they would like to use. The Civil Code provides general principles of contract under Book IV, Title XII *article 1678 and 1731/1*.⁶⁵ Most provisions in the Civil Code are gap filling and permissive provisions (superlative laws) that can be modified or replaced by the agreement of contracting parties.

The Civil Code sets general principles that require the object of the contract to be sufficiently defined, possible, lawful and morally acceptable. As long as these mandatory requirements under the Civil Code are fulfilled, the terms of contract articulated by parties in their contract would be considered as a law and shall be enforceable in court of law. Furthermore, the Civil Code provides that courts should not be interpret contracts considering the contracting parties agreement. Courts use and accepted such equb associations records to prove that a person has made equb contribution and to prove membership as well as how much money paid by the member.⁶⁶

4.3. Federal and regional Proclamations

The regulation of saving and credit co-operations started in the country besides the emergence of the first saving and credit co-operations. Specifically, regulation of saving and credit co-operations, as cooperative, in Ethiopia dates back to 1960, when the first directive of saving and credit cooperatives was enacted, Directive No. 44/1960. During the Transitional Government, saving and credit co-operations were initially licensed and supervised by the National Bank of Ethiopia (hereinafter NBE) under the Monetary and Banking Proclamation No. 84/1994.” However, since the issue of Proclamation No. 147/1998 , there has been a separate authority for cooperatives, including saving

⁶⁴ *Constitution of the Federal Democratic Republic of Ethiopia, 1995, Art. 34:5 and 78:5, Proc. No. 1, Neg. Gaz. Year 1, No. 1.*

⁶⁵ *Civil Code of the Federal Democratic Republic of Ethiopia, 1952-Book IV, Title XII article 1678 and 1731/1/1952 e.c.*

⁶⁶ *Supra note 5, p.13.*

credit co-operations, which is now called the Federal Cooperative Agency (hereinafter FCA). Proclamation No 147/98 incorporated all the International Cooperative Alliance principles and the standard legal aspects of cooperatives. It was amended by Proclamation No. 402/2004 and the latter also repealed by Cooperative Societies Proclamation No.985/2016 (hereinafter Proc.No.985/2016). And it is currently repealed by Proclamation number 1113/2019 organizations of civil society's proclamation shall be applicable to:

On organizations operating in two or more regional states; Foreign organizations; Organizations established in Ethiopia to work on international, regional or sub regional issues or not operate abroad; Organizations operating in the City Administration of Addis Ababa or Dire Dawa; and, Charitable organizations established by religious institutions.

But this Proclamation shall not be applicable to: Religious institutions; Edir, Equb and similar traditional institutions & Organizations formed under other laws.

Tigray National Regional state proclamation number 327/2019 article 4/3/b registration and regulation of associations of civil society organizations is also enacted and this proclamation shall not be applicable in to the following : a) Religious institutions; b) Edir, Equb and similar traditional institutions c) Children and elder people rehabilitation institutions d) Organizations formed under other laws too.

However, the adequacy of Ethiopian saving and credit cooperation's regulation has been questioned by different studies conducted in the area. Saving and credit cooperation's are regulated under the cooperatives laws which are designed for multipurpose cooperatives and there are no specialized laws for specialized cooperatives such as saving and credit cooperation's. Even the by-laws and guidelines developed by the FCA, based on the general cooperatives law, for the promotion of saving and credit cooperatives are failed to accommodate financial norms and standards for saving and credit cooperation's " kinds of cooperative. Furthermore, they were regulated and supervised by the FCA which is not financial authority and its capacity to supervise financial institutions like saving and credit cooperation's is also in doubt. Generally, legal and regulatory framework related problems of saving and credit cooperation's, if any, should be addressed in order to improve their soundness, stability, effectiveness, governance, product diversity and integration to the formal financial system. Otherwise, the sector will stand stagnantly and eventually collapse. This in turn requires one to explore and investigate Ethiopian legal and regulatory frameworks.

On the other hand, in accordance with sub-article 2(E) of Addis Ababa City Administration Implementing Bodies Proclamation No. 74/2021, The Addis Ababa City Administration Women, Children, and Social Affairs Bureau hereby issued a directive known as Idirs and Idir Councils Registration and Legalization Directive (directive No 151/2024).

The Addis Ababa city administration take the initiative by ratifying a directive known as Idirs and Idir Councils Registration and Legalization Directive (directive No 151/2024). This directive is essential in creating conducive environment for idirs and idir councils to carry out their respective duties with an aim to acquire a legal personality. It is also very important to strengthen organizational structures, capacity building and ensuring proximal aid as well as to lay down the procedure that ensures idirs engage in development activities beyond funeral aid.

4.4. An approach to increase the performance and enforcement of equb

For a bigger equb there are two major approaches to increase the performance and enforce commitments of ROSCAs.⁶⁷

4.4.1. The first approach is that screening before admission as member through checking the good social reputation, good behavior and established social, economic and religious ties that make it less probable for the people to default in their commitment.

4.4.2. The second approach is condition to be paid by equb; this indicates that the equb requires a personal guarantor and in addition to the personal guarantor most equbs also require a member to issue a cheque in the name of the equb leaders. The cheque gives to the equb leaders strong leverage since, they have a cheque with more value than the actual value of a person. On the other hand, a member who issues a cheque without having sufficient balance in his bank account faces a criminal charge. Therefore, leaders can use the cheque to threaten & to initiate a criminal charge in addition to a civil action.⁶⁸ Finally, cases of defaulters, of course, are brought to court. It is the duty of the equb leader/dagna/ and the secretary to undertake the necessary litigation.⁶⁹

The next chapter of this paper will analyze if the factors mentioned above are valid reasons for assessing legal practices in the informal financial sector. This paper also explores other factors that

⁶⁷ *Ibid* p. 14-18.

⁶⁸ *Ibid*

⁶⁹ *Ibid*

make the informal financial sector more securable. Besides, this paper will use the framework discussed above to investigate and validate the existence of customary law, legal recognition & implementation on informal financial institutions.

CHAPTER FIVE

5. Data Presentation and Legal Analysis of the Study

5.1. Data Presentation

5.1.1 Demographic Characteristics of Samples

During the research work interviews were prepared for three interview focus groups. These are equb organizers, equb members and government and private legal employees. The number of interviewed persons were 25 from 10 different equb associations in Kedamay weyane sub-city and other individuals from Mekelle. The researcher held interviews with all the 25 respondents.

As far as gender is concerned, 17 (68%) respondents were males while the rest 8 (32%) were females. 14 (56%), 6 (24%) and 5 (20%) of the respondents are aged 30-39, 40-49, and above 50 years old respectively. In terms of the occupation of the respondents, 16 (64%), 6 (24%) and 3 (12%) of the respondents are traders, government officials and private workers, respectively.

5.1.2 Results

The financial transactions of most equb members are controlled and managed by using their customary laws.

5.1.2.1. Customary laws

Customary laws are laws which are enacted by all members of the equb as binding rules of the equb association. The customary laws include attendance books, articles of associations and guarantee contract agreements. Rahwa equb being taken as a sample association, it has a relatively well organized system from the other mentioned 10 equbs of the research. The equb leaders collect and pay money through banks and the customary laws of the equb are implemented properly. Every member of the association has approved and signed on the articles of association as a binding customary law of the equb. As a sample the attendance book and articles of association of Rahwa equb written in Tigrigna are presented below.

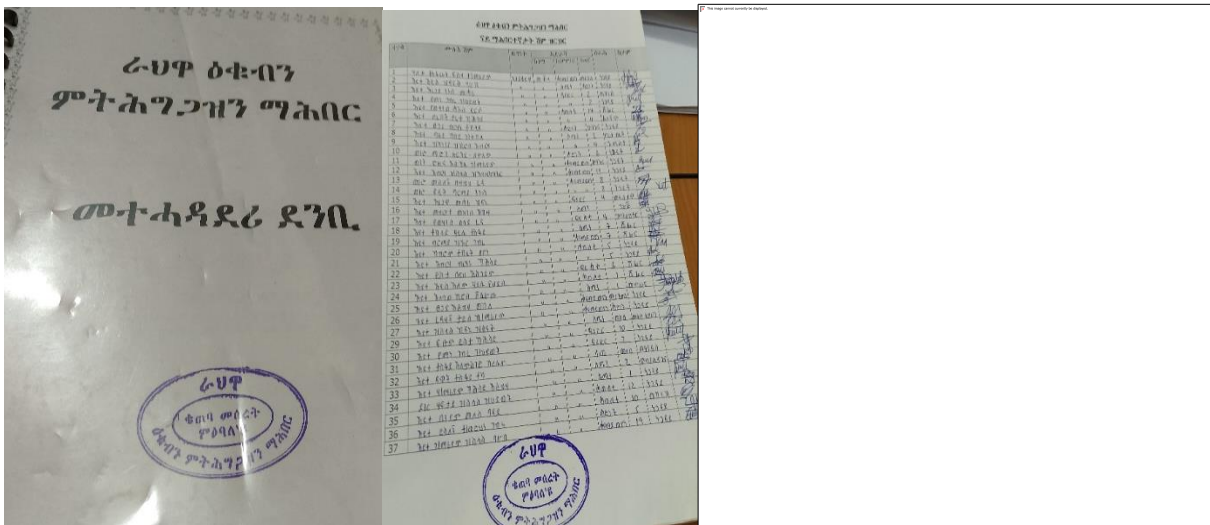


Figure-1: scanned copy of an articles of association of Rahwa equb

5.1.2.2. Article association of Rahwa equb

Equbs are controlled and managed by using different mechanisms. Most of the small size equbs with 5-10 members collect the contribution daily without any receipt or evidence by a simple signature of the organizer on a book. While, the medium and big size equbs use articles of association, attendance

books & registration books. From the selected 10 equbs stated in table -1 below, 50% of the equb associations develop and apply articles of association. The sample Rahwa equb is relatively well organized. It has an articles of association which was ratified after detail discussion of every member of the equb association. The members agreed and presumed it as governing law of the association. This equb association is managed by two individuals elected by the members: the organizer (commonly referred in Tigrigna as “akabi equb or dayna” and the Secretary commonly referred in Tigrigna as ‘Tsehafi equb’.

5.1.2.2.1. Rights & Duties of the organizer

The organizer of the equb acquire different rights and duties from the articles of the association and some of them are stated below:

According to the equb’s Article 4 of the articles of the association, the organizer decides and accomplishes all tasks that should be performed for the purpose of the equb and he/she also monitors members who stop paying the weekly contributions for more than three consecutive collection days and consults a lawyer in order to take legal actions, if deemed necessary.

Articles of the association of the equb states also that the organizer is responsible for the money collection on every Saturday on the specified collection time and pays the collected money in cheque to the pot winner. Relatively this equb association is well organized but it did not clearly stipulated rights and duties of the organizer and the association.

5.1.2.2.2. Rights & Duties of the secretary

The secretary of the equb acquire different rights and duties from the articles of the association and some of them are stated below:

According to the equb’s articles of association, the secretary’s responsibility is clearly stated in article 4.3 of the equb agreement. As per this agreement, the secretary should always come early before the collection time and collect the money from each member. Then, the secretary submits the daily cash balance to the organizer. In the absence of the organizer, the secretary assumes the role of an organizer and acts on behalf of the organizer. The secretary also files and keeps the documents of the equb properly and remind members to pay their weekly contribution on time.

According to article 6 of the equb agreement, the winner of the pot for the week is selected randomly by one member who picks a random name from the pot and the name of the lucky pot winner is clearly shown to the members. The other left over names are checked by the members present in the pot draw ceremony. There need to be at least 10 members to conduct the lottery draw and any member has the right to check for the availability of his name on the pot. If the winner is absent, the equb organizer is

required to inform the winner of the pot of the week. If the name of the member does not exist in the pot, this member is a winner by default. Hence, both the organizer and the secretary are responsible to pay the money for the winner, as per Article 6.7 of the equb agreement.

5.1.2.2.3. Rights & Duties of the members

Members of the equb acquire different rights and duties from the articles of the association and some of them are stated below:

“A member who has any doubt on the equb can raise her/his ideas to the organizer. If the pot winner fulfills the guarantee requirements, he/she can take his/her money according to Article 5. Any member who wins the pot can sell or transfer his/her lottery prize to another member if the lottery winner agrees to do so as per article 6.4 of the agreement.

To secure the financial transaction every member of the equb is required to provide reliable personal guarantors and sufficient cheque balance. If the guarantee is not adequate the leaders can reject it. If full contribution is not full filled by any member, then this leads to a penalty according to the articles of association of the equb. An attachment of insufficient cheque balance could also lead to penalty according to the equb`s articles of association.

Most of the equb members pay their weekly full contribution every Saturday or Sunday morning at the time of 10:00 – 11:00 o'clock in the morning. Any member who does not pay on time is punished. There are mainly two mechanisms of punishment and these are:

1. Not to give the lottery pot money to the defaulter if he/she wins the lottery.
2. To punish the defaulter according to the equb's articles of association.

5.1.2.2.4. Disciplinary measures

As stated in article 9, members should pay their respective contributions weekly. If a member fails to pay the weekly contribution after the payout (winning the pot), guarantors' of the individual member will be liable collectively and individually. On the other hand, if any member fails to pay the weekly amount on time, then he/she will be penalized by an additional payment of 10% of the amount he/she failed to pay as per article 7.4. If a member insults or makes inappropriate remarks on equb collectors during the collection and payment time, he /she will be punished birr 100 as well as if any money is lost due to the disturbance created by the behavior of this member, he/she will be liable for the lost money too.

5.1.2.3. Attendance books

In addition to the articles of association, equb members are required to have an individual attendance book that should be available at any payment time and the contribution of each member has to be registered in the equb registration book. According to the rules of the equb, in most equb the attendance book rules and regulations are similar, members of the association practice the attendance book as their legal document. Any strike off written documents are presumed illegal and this leads to accountability.

In case of losing an attendance book, members of the association are required to report in written form to the equb leaders. To recover for any lost attendance book, one has to pay 10 birr. But if the attendance book is lost the members may gate the attendance book but they couldn't justified the payment .The attendance book consists also essential information and explanations of the equb member and some books of some equb members are presented below.



Figure -2: Scanned copy of attendance books of sample equb associations

5.1.2.4. Establishment of equb

According to the interviewees, to establish an equb, the willingness of all members is required. However, the leaders of the equb take the initiative for the establishment. The big equbs were established and operate under a written agreement. While the small equbs which draw daily do not have written regulations. The 10 equbs where the researcher carried out structured interviews vary in the size of members, year of establishment, full pot contribution, duration of the draw, existence of articles of association, fulfilment of other Customary laws and these are illustrated briefly in the table below.

Table-1 The financial and administrative capacity of the 10 equbs in Kedamay weyane sub-city of Mekelle city

S.N	Equb name	year of establishment in E.C	duration of draw cycle	Full contribution in birr	Size of the equb population	Existence of articles of association	Fulfilment of other Customary laws
1	Rahwa	2004	1 year	2,080,000.00	850	✓	Every customary law document is available
2	Mihzine t	1985	1 Year	312000.00	330	✓	Attendance book & guarantee contract are often un signed
3	Selam	2011	1 Month	260000.00	30	X	Attendance book is available. But the attached contract agreement is not completed because of trust.
4	Tadese	2005	2 years	104000.00	100	X	Unsigned registration book is available because of trust.
5	Kidum Michael	1999	1 year & 3 months	50000.00	40	✓	Every customary law document is available.
6	Haftom	2014	1 year	250000.00	30	X	Attendance book & guarantee contract are available but the lottery wining pot is sometimes sold secretly by the equb leaders.
7	Kalkidan	2011	1 year	156000.00	60	✓	Lottery pot is paid without adequate guarantee because of family and friendship ties.
8	Kedir	2000	1 year	350000.00	54	X	Signed attendance book is available. But the equb members do not know each other. They depend on those who manage the equb.

9	Tefera	2015	1 year	450000.00	70	✓	Every customary law document is available.
10	Rahel	2016	1 year	350000.00	30	X	Signed registration book is available

The above mentioned equb associations were established from 1985-2016 E.C. Their draw cycle is from one year up to one year and three months and the full pot contribution is from 20,080,000.00 birr up to 50,000.00 birr. Total population number of the above equb members is 1594 and 50% of the equb associations use articles of associations. Most of the equb associations use attendance books and registration books. While, almost 50% of the attached contract agreements are not signed and completed because of trust, family and friendship ties.

5.1.2.5. Financial Administration and customary Practice of equbs in Mekelle: an Empirical review on Rahwa equb

Rahwa equb is located in Mekele city, Kedamay Weyane Sub-city which is the business center of Mekelle, which is situated 780 km north of Addis Ababa. According to the equb leaders, Rahwa equb was established in 1/2/2004 E.C with an aim of supporting the business community to have better access to finance and thereby expand their businesses. The equb started with 200 members making a weekly contribution of Birr 250.00 – 40,000.00 with a total payout of Birr 13000.00 - 2,080,000.00 to the pot lot winner.

In line with an increase in weekly contributions from members the pot size also increases. The number of members, amount of contribution and total payout has shown increment from year to year for the last 13 years, from 2004 to 2016 E.C.

As it can be seen from the above table-1, Rahwa equb is the biggest as well as it is the leading equb in owning and practicing the customary laws in the Kedamay weyane sub-city and also in Mekelle city as well as probably in Tigray too. Hence, this equb was chosen for investigating the financial management and customary practices of the equb in Mekelle. Besides, Rahwa equb was also chosen as sample equb of this research, because its financial management is relatively modern and all of its transactions are made through banks. The equb leaders do not have any contact with money and all its communications are also in written form.

The ceremony of the drawing lottery is carried out publicly and the association secretary announces the winner by phone to all members. Therefore, every member of the association gets the information who the winner of the pot is according to the articles of association of the equb.

On the other hand, some of the equb associations mentioned in the above table-1 have developed customary laws. But these equb associations could not able to properly implement the customary laws due to family, friendship and other relationship ties.

Table-2 The financial security problems in countered in the 6 equbs in Kedamay weyane sub-city

S.N	Equb name	Financial security problems
1	Rahwa	<ul style="list-style-type: none"> • Although the customary laws are practiced in this equb, it does not have any legal personality. The equb leaders stated that they requested to get legal personality from the national bank of Ethiopia. But the bank did not accepted it because of not to violate the cultural and traditional values and norms of the equb associations. . • Its Articles of association lacks clearly in the stated rights and obligations of the organizers and the association. Therefore, in case of any default there is not any legal ground to charge a case against the organizers and the institution itself.
2	Mihzinet	<ul style="list-style-type: none"> • Even though, the rights and obligations of the members are specified in the articles of the association, the duties and responsibilities of the organizers and the associations are not clearly stipulated in the articles of the association. Hence, there is not any legal ground to bring the organizers and the equb association to court, when they abuse their power.
3	Selam	<ul style="list-style-type: none"> • One of the organizers took the money collected from the members and used it for his personal benefits. Then, he left Mekelle and this led to the dissatisfaction of the members. As a matter of fact, the articles of association of the equb does not clearly stipulate the rights and responsibilities of the organizers. In addition to this, in general there is no any legal ground which governs the equb organizers as well as the equb associations. Therefore, the members are in need of legal corrective measures from the government. • And also as an informal group, equb cannot legally enforce agreements between members. Rather, the equb inflict sanctions on defecting members. They can exclude the member from all future equb benefits and throughout from all other equb groups as well. The equb can also punish defection through different kinds of social sanctions such as giving a bad reputation and retaliating at the workplace or damaging personal property.
4	Tadese	<ul style="list-style-type: none"> • Since this equb is daily equb members are always in threat, because they all depend only on the honesty and trust of the organizers without any legal security. Members of this equb association take the money first and then pay daily contribution the whole month as mechanism to secure their money.
5	Kidusmichael	<ul style="list-style-type: none"> • Organizers of the equb association have the right to sue and indemnify anything on behalf of

		the equb according to their customary law. But there is not any legal ground for the members of the equb association to claim their rights from the equb. However, the organizer and the secretary can be prosecuted for their illegal actions individually but not as legal institution agents.
6	Haftom	<ul style="list-style-type: none"> The organizers took the service charge of 10% for themselves by selling the money of the pot winner to another member secretly. The customary laws lack transparency and this led to abuse the money of the members by the organizers of the equbs.
7	Kalkidan	<ul style="list-style-type: none"> Lottery pot is paid without adequate guarantee because of family and friendship ties.
8	Kedir	<ul style="list-style-type: none"> The lottery drawing pot time is not specific. Money collection is in cash, so the financial transaction is not secured.
9	Tefera	<ul style="list-style-type: none"> The lottery drawing pot time is not specific. Money collection is in cash, so the financial transaction is not secured.
10	Rahel	<ul style="list-style-type: none"> There is no transparent financial system. Equb organizers collect the money in cash and this leads to unsecured financial transactions.

As it can be seen from the above table-2, the money collected from the equb members is open for miss use by the leaders. As a result of this, financial transactions depend mainly on trust of the equb leaders and as an informal group, equb cannot legally enforce agreements between members. Rather, equb can impose social sanctions on defecting members.

They can alienate the defaulting member from participating in all other equb groups. The equb can also punish defaulting members through different kinds of social sanctions mentioned in the table-2 above. Besides, some leaders and members have short comings in properly formulating and implementing their customary laws. And this has led to unsecured financial transactions of equb associations.

5.1.2.6. Motivation to organize an equb

The leaders of the equb have different reasons for their motivations why they become organizers. In the big equbs, the leaders get financial benefits for their initiative and coordination of the activities related to the establishment of the equb.

In an interview held with the big equb leaders, the organizer of Rahwa equb said that; *"What motivated him to organize an equb was his intentions to improve the poor saving habits and to reduce the extravagant costs of the local communities including his friends and relatives. He encouraged them to join the equb and he was successful in doing so. As a result, he got the first lot as an organizer"*.



Figure-3 Scanned copy of different certificates of award given to Rahwa equb

Another interviewee, Ayte Tadesse, organaizer of tadesse equb stated that; *"His father was an organizer of the equb and when his father passed away he took his position and he became an organizer of the equb. He also said that business men need more money to expand their businesses. But, when they went to the formal financial institutions the procedure was lengthy and the interest was very high. Besides, banks demand physical collateral which they were not able to afford it. Hence, the easiest way to get money was organizing an equb"*.

5.1.2.7. The size of an Equb

As stated in the table-1 above, the number of members in a given equb at a given cycle is decided by the organizers and the members themselves. Size of the equb members differs from equb to equb. The sizes of this research equbs range from 30 members (Rahel equb) to 850 members (Rahwa equb). The weekly full pot contributions of the equbs range from 50,000 to 2,080,000 members. As the amount of the money contributed by each member of the equb increases, the drawn lottery pot money increases too. And also when the equb is big its financial transaction is relatively modernized and organized. Because the bigger equbs develop and implement better customary laws with written communications than those small equbs which mainly depend on trust, friendship and other relationship ties.

In an interview held with one organizer from Mihzinet equb stated that; *"In our equb we prefer to have more than 400 to 500 persons. When the number of members is large, money collected in the pot will be higher. As a result of this, as far as the applicants fulfill our equb's criteria they are welcomed as members of the equb"*.

5.1.2.8. Full pot contribution

Members' contribution is the only source of money for equb specifically and ROSCAs in general. The contribution of the members could be in the form of cash or kind or a combination of both. Since the members of big equb are financially motivated their contribution is limited to in cash. Members can contribute either full pot or two members can contribute each half pot for one full pot contribution. The second kind of contribution which is half pot contribution is difficult for the leaders of the equb that may open the way to defaulters. Both contributions have the same right to receive their money during the lottery pot, but members with half pot contribution may not repay their contributions on time. On the other hand, one member can contribute more than one full Pot contribution.

As per the information obtained from one of the interview respondents (*legal advisor*) of the Mihzinet equb, it has been stated that; *"In our equb half pot contribution is permitted, two members contributed 3000.00 birr each with a total of 6000.00 birr per week. Both of them took their lottery pot of 312000.00 ETB according to our equb's customary law by fulfilling all requirements. These members after receiving their lottery pot they failed to repay due to personal problems. Both of them migrated to south Soudan and their families faced economic problems. We can charge a case against them by providing evidences. But we did not do it not to hurt their families.*

Even though it is one of our positive cultural values to help those who are in critical problems. On the other hand, this could encourage for more defaulting activities and this in turn may contribute a negative impact on the already unsecured financial transactions of the equb members.

5.1.2.9. The allocation of Pot size

For the success of equb, the allocation procedure for the size of the pot is an important factor that determines the net benefit of each member at a given equb cycle. Based on the pot size allocation system equb is classified into bidding, random, fixed or pre-deterministic and decision. All the interviewed leaders of the equb stated that the pot size of each equb is assigned in a random or lottery format.

As per the information given by the organizer of Rahwa equb, when any member needs to take the pot early by paying additional charge, then the pot lot is sold to other member with willingness of the winner and 9% percent interest is given to the winner. The pot winner is informed by phone and text messages. And sanctions are put for delay in payment, then the collected money helps to cover the expenses of stationary and humanitarian activities for the civic societies.

5.1.2.10. Duration of pot cycle

According to table-1 the duration of a given pot cycle is decided depending on the number of members, amount and frequency of the contribution. The late pot winners will be affected by the duration of the time at which they get their money back. As the cycle of the duration gets longer, the chance for the money to be affected by inflation or time value of money will increase. As it can be observed in table-1 above, whatever the size of the equb is the duration of the pot cycle of every equb is not more than 2 years.

Both the organizers of 'Haftom equb and Selam equb stated that late pot winners are negatively affected for not using the money in improving their businesses on time. Besides, the equbs generate some extra money from the penalties of late payers. This money is used for helping some members who need special support and for humanitarian assistance of non-equb members.

5.1.2.11. Could you change pot of your turn early?

According to Selam equb organizer, the worst situation for the equb members is that the members who get the lottery draw at the end of the draw pot duration are disadvantaged in case they need the money urgently. However, the member who needs the money urgently can buy from the current pot winner member for additional 10 percent of the full pot contribution without any delay as per the article of association of the equb.

On the other hand, one respondent member from Selam equb stated that sometimes the equb leaders draw the lottery secretly or without full participation of the members and they sell the draw pot of the absentee member illegally without informing him/her for the sole benefit of the organizers by violating the article of association of the equb.

As per the Kidusmichael equb leaders, the selling price of the lot is left for the mutual agreement of the buyer and seller members with a maximum limit of 10 percent as per the articles of association of the equb.

5.1.2.12. What are the guarantee criteria to participate in an equb?

Table 3: Selection criteria for guarantee

Guarantee criteria	Remarks
<ul style="list-style-type: none"> - House plan - Vehicle ownership - Members guaranteeing each other is mandatory - Requires to issue a check in the name of equb leaders. - Two guarantors (persons) from inside & two guarantors from outside equb can be accepted. 	<ul style="list-style-type: none"> - It gives value for checks But most of the time the checks do not have enough coverage. And the equb takes long time to indemnify it. This is not safe - Most of the big equbs give more value to collaterals tis is successful to indemnify the equb’s money.

When the equb is established, most of the organizers of the equb never request criteria for membership. But they require different criteria for guarantee based on the strength of the equb. They conclude a contract to bind them as a law, the selection criteria differs from one equb to the other. The characteristics of all equbs is almost the same, here are three sample equbs from the selected 10 equbs. House plan or Vehicle libere and two guarantors (persons) from the Equb members inside & two guarantors from outside equb can be accepted. In addition to this equb association requires to issue a cheque in the name of equb leaders. However equb members required to attach collateral according to their cultural and customary regulations but most of the equb association members failed to attach collateral, contract document. Most of the time the attached check is insufficient this situation leads to civil and criminal litigation.

5.1.2.13. Benefits of the Organizers

The benefits of the organizers of the equb differs from one equb to the other. The advantage that they take as an organizer is based on the willingness of the members and their interest. After the discussions with the members of the equb about the organizer’s privileges their benefits are incorporated in the articles of association of the equb.

In an interview with the organizers about their benefits, the founder of Selam equb stated; *“As an organizers our advantage is taking the first lot. We can also sell the lot 10% for the member who wants the money urgently on behalf of the winner by his willing. By preparing contract agreement of the sale in written form and providing 2 guarantee persons and a signed cheque to the organizer.”* *“An equb organizer in addition to the gaining of his/her first lot payment, he/she also earns other financial*

benefits. As a usual customary rule, in most equbs the organizer is rewarded one free total sum first lot. In Rahwa equb the organizer took Birr 2,080,000.00 which was used for constructing a commercial building and buying a car. So this implies that investing on equb is a worthy investment. The organizer stated also that he can also use the reserve money for his personal cash shortage. As a result of this, an equb member who was an organizer of Rahwa equb further explained that this opportunity was a pillar his current wealth.’’

The researcher observed that the possibility of having the first lot without contribution is the prevalent advantage of all equb organizers. However, during selling of the winning lot the implementation of the contract agreement varies from association to association. Some equbs implement their articles of association but others depend on other customary practices and failed to implement their customary laws. Because, they relate it with family, friendship and staff connections and as a result, they failed to sign on the documents properly.

Another equb organizer from Mihzinet equb stated that; *“As equb leaders; for the first time, we can have the first lot as remuneration without Contribution and then after wards, we have the right to take our lot pot money with contribution the same as the other members. However this privilege is not enough when we compare it with the boring work and long service duration of the equb. He further explained that unless the members adjust our benefits, we intend to stop participating as an organizer in the equb.’’*

5.1.2.14. Do the existing organizers wish to keep on organizing the equb in the future?

The researcher asked the organizers whether they could keep on organizing and participating in equb or not. Three group respondents from different equbs with a group size ranging from 3-4 organizers gave two different responses for the given question. The response of the organizers interviewed by the researcher are stated as follows:

The first group said; *“organizing an equb as an association is very hard and the process takes long time. Firstly, we need to initiate or motivate persons to be a member. Then, we have to convince them by our current wealth and social dignity for guarantee to trust & depend on us. After organizing the equb, there are a number of tedious activities to be done. Moreover, members sometimes don’t give their contributions on time. Even collecting a huge amount of money has its own risk. On the other hand, we give our time, exhaustive labor and ideas. While providing several services, the gain from equb is not sufficient. Unless members are willing to improve our benefits, we will be forced to stop organizing and participating in the equb”.*

The second group respondents stated; *“Actually there are difficulties in organizing and participating in equb. But, as organizer of the equb, we are benefited from what we gained and that changed our lives. Hence, we need to keep on organizing and participating in equb and we need to upgrade it in to a micro finance and bank level, but in a secure, transparent and un-bureaucratic way.”*

The third group respondents stated that; *“It is true that there are challenges in organizing and participating in equb, because it did not have any legal security. We have just involved in it because we do not have other chooses”*. Generally, the three responding groups stated that although it needs more work and time to organize an equb, at the same time the organizers have been economically benefitted. The existing equb associations do not have any legal security regarding ensuring their financial transactions. As a result of this, they want to upgrade their equb to microfinance level.

5.1.2.15. Do you think the articles of association legally bound equb associations?

The researcher asked the organizers and members whether the articles of association legally bound the equb associations. Two group respondents from different equbs with a group size ranging from 3-4 organizers and members gave responses for the given question. The responses of the interviewed persons by the researcher are stated as follows:

The first group respondents stated; *“The articles of associations are ratified and signed by all the members of the associations and it is presumed that articles of associations are legally bounding laws to all the members. And it penalizes the irresponsible and outlaw persons. We can indemnify our money from the members according to our articles of associations. However, there is problem in the articles of association for not properly addressing the rights and responsibilities of the equb organizers. For example one organizer of big equb from Mekelle, collected all the contributions of the equb members for about 8 weeks and used this money to construct a building of G+5 and he transferred the ownership to his relatives and then after he left the city. All members of the equb want to charge a case against the organizer and the equb association to indemnify their money, but according to their articles of association they couldn't get any legal ground to litigate against the equb organizer and the equb association.*

The second group respondents stated; “As organizers of the equb, we have attendance books and articles of associations ratified by all members to be used as a binding rule. But, we did not implement

it practically due to the social loyalty and trust. To emphasize this, if members did not repay their contributions, most of us did not want to indemnify our money from the defaulting members. Even though, we have full evidence to charge a case against them, rather we want to cooperate each other due to the social loyalty. For example two members of our association took their lot by fulfilling all requirements according to the articles of the association, but they couldn't repay their annual contributions due to the personal problems as a result of the Tigray war. Both of them went to south Sudan leaving their families in Mekelle and since we have collaterals, we have the right to indemnify the money but we did not want to charge a case because the families of the defaulters were in real problem.

5.1.2.16. Why equb associations are not registered yet?

The researcher asked the organizers the above question. The three group respondents from different equbs with a group size ranging from 3-4 organizers gave responses for the given question. The responses of the organizers interviewed by the researcher are stated as follows:

The first group respondents stated that equb associations need social freedom and also they do not want the restrictions and regulations imposed by the governing laws of the government.

The second group respondents stated; "Actually registering an equb association may give legal recognition. Because many other social associations were registered by their respective authorized bodies. Both the association and the members of the association can have the right to sue and be sued. And it also makes conscious the association members to full fill the legal requirements to inter in to a contract in written form. But most of the small size equb association members did not want that because they just give more trust on their relatives, families, staff members and organizers. However, both the equb associations and association members are not legally recognized".

The third group respondents stated; "We were happy to register our association. So many times we have asked to the authorized body to register us, but they were not willing to register us because of social loyalty. The National bank stated that registering the equb associations may undermine the social wellbeing of the members. Due to this reason we have not yet registered. As a result of this, financial transactions of the equbs are not secured".

5.1.3 Equb members

In Mekele city, there are a number of equb associations. For any one in the society who wants to establish or to expand her/his business activity, the easiest way to get a finance is to group local people in one traditional financial institute called equb.

5.1.3.1 How could a member of an equb be treated if he/she does not pay his/her contribution?

For the above question raised by the researcher, the interviewed legal person responded that when it comes to the law of Ethiopia, every person who concludes a contract shall have the obligation to pay according to his agreement. Some equbs have articles of associations or what we call ‘srit’ in Tigrigna. Members of these equb agreed in their articles of association on how to pay their remunerations, to discharge from the association, repayment of their money, transfer of their rights and their unpaid equb money as well as repayment by guarantee agreement having obligations jointly and severally according to article 1920 and its succeeding of the civil code of Ethiopia. Therefore, their agreements are abided according to the federal civil code of Ethiopia article 1678 and 1731/1. As a result of this, members of the association can be sued and be responsible for their repayments according to their agreements as per the opinion of Ato Redae Abay (lawyer).

The reason why the researcher wanted to make an interview with equb members is that to understand clearly what the organizers are benefited from the equb as well as to realize how the members feel about the equb and the members of the equb replayed for the question as shown below.

Table 4: The responses of equb members

No	Questions for equb members	The replay of members			
		Respondent from Rahwa equb	Respondent from Mihzinet equb	Respondent From Tadesse equb	Respondent from Haftu equb
1	No. of Participating years in equb.	13 years	6 years	11 years	2. years
2	How much is the contribution for full pot?	2,080,000.00 ETB	312,000.00 ETB	104000.00 ETB	260000.00 ETB

3	How often & how much is the contribution for the equb?	Weekly 40000.00 ETB	Weekly 6000.00 ETB	Daily 2000.00 ETB	15days 10000.00 ETB
4	How is the winning pot transferred?	it is transferred with 9% commission	it is transferred with 10% commission	it is transferred with 10% commission	it is transferred with 10% commission
5	What are the benefits of the organizers from equb?	They take first lot without contribution and they have also a possibility to take second lot with contributions.	They have a possibility to take second and third lots with contributions	They have a possibility to take first and second lots with contributions	They have a possibility to take second and third lots with contributions
6	How is the equb organized?	The equb is organized as saving and credit association	the equb is organized as saving and credit association	The equb is organized as group saving association	The equb is organized as group saving association
7	Does the equb have a governing law?	Yes it has: -An articles of association - contract agreement - recording book	Yes it has: - An articles of association - contract agreement - recording book	it has only the recording book	it has the recording book and contract agreement

5.1.4 Equb leaders

5.1.4.1 Do the financial transactions carried out by equb leaders have legal security?

For the above question raised by the researcher, the interviewed government officials responded that When it comes to the law of Ethiopia, every person who concludes a contract shall have the obligation to pay according to the federal civil code of Ethiopia article 1678 and 1731/1. However, there is not any written provision which declares the rights and duties of the equb leaders. There must be such written

evidence which restricts and obliges in the future court preceding of the equb members to exercise their rights and duties.

Ato Redae Abay, a legal advisor stated that even though, the rights and duties of equb members are stipulated in their articles of association, equbs are not recognized as legal institutions because they are not covered under proclamation number 1113/2011 article 3/3/b. He further stated that since equb organizations are not recognized and registered as legal associations in the proclamation they do not have legal personality. As a result of this, these associations couldn't sue and be sued as legal institutions and this has led to unsafe financial transactions of ROSCAs in general and equbs in particular.

Respondents from Tigray Bureau of Justice stated that; *“they need to gather information about equb and after detail analysis of the financial transactions of equb, the government has to pass regulations that will enable to recognize the informal financial institutions as legal associations.”*

5.1.4.2. Do the equb leaders should be accountable for the uncollected money? Why?

For this given question, all of the respondent groups reply the same and they said as follows:

“As members of an association the equb organizers should be penalized for their personal illegal actions. But practically, there is no legal ground to charge a case against the equb leaders.”

5.1.4.3 Do the customary laws of the equbs give guarantee to their financial transactions?

For this given question, all of the three respondent groups reply the same and they said as follows:

Most of the small size equbs do not have articles of association and guarantee agreements as well as collaterals. The transactions are made mainly on trust, friendship, family, religious, and other cultural ties. Hence, these equbs are more open to defaulting and abusing activities by their leaders and members during their financial transactions.

The big size equbs have relatively well formulated and implemented customary laws including articles of association, guarantee agreements and collaterals. It is true that these big equbs have relatively better financial management than the small equbs. However, these equbs with customary laws are still exposed to unsecured financial transactions because of the following reasons:

- The equb organizers have the legal ground to indemnify the unpaid money from members according to the federal civil code of Ethiopia article 1678 and 1731/1/1920 and its succeeding articles. However, members of the association cannot indemnify their rights from the association because, the equb organizers do not have legal delegation of the association.
- Equb associations are not covered under federal and Tigray region governmental state proclamations. Therefore, the customary law of an equb including the articles of association

Attendance book, guarantee agreements and registration book do not give full guarantee to the financial transactions of an equb unless the association is legally registered.

5.1.4.4 Government officials

The researcher also conducted an interview with concerned government officials that are directors, lawyers, public prosecutors and judges in order to understand the customary practices of equb with the perspectives of the government officials.

5.1.4.4.1. Are the government officials aware of the significant role of equbs in the society?

For the above given question, almost all of the government officials replay the same and they have said as follows:

“As a member of a society we know the social events in the society, so we have understandings about the vast role of the equb. Today you cannot think of a business without equb. As government officials we are noticing the activities of equb organizers and we have an interest to work closely with the organizers to strengthen the equb.”

5.2. Legal challenges and analysis

As it has been mentioned in chapter 4 of this paper, many decades have passed since Ethiopia has ratified and practically exercised numerous Legal & customary laws. In Ethiopia, although the modern legal system has been practiced since 1960s, customary laws are still influential in all parts of the Tigray region in particular and the country in general. The customary laws are recognized by articles 34:5 and 78:5 of

the FDRE constitution.

Although the Ethiopian Civil Code, including the general contract laws, guarantees contracting parties have a right to freely determine the nature of their contract. As a result of this by full filling the mandatory requirements of civil code any person can conclude an agreement, and the terms of contract specified in the contract of the parties are considered as governing law of the contracting parties. For equbs in Ethiopia, which are the subject of many cases brought before the official courts.

Both Equb leaders and members seem to realize that they need the formal courts to enforce the internal rules and to minimize default. Especially considering the growth of Eqqub as a device for financing bigger projects and its capacity to bring together more and more people who do not know each other personally, reputation mechanisms alone do no longer suffice to obtain obedience from all members of the Equb. Interestingly, litigation about Equb is often introduced before the courts by lawyers who received their training at the university as experts in codified norms, but then they defend normative practices that are going against the letter of the official law.

As indicated in chapter-4, in Ethiopia different associations are legally organized and recognized by Federal proclamation. It is true that equb associations have been playing a vital role in solving financial problems and expanding small businesses of significant number of citizens across the societies of Mekelle in particular and Tigray in general. However, these equb associations are not legally recognized by the above stated existing federal and regional proclamations.

As a result of this, it is legally presumed that the equb associations do not have legal personality under the existing federal and regional laws and these associations are not registered as legal institutions by the concerned authorized governmental body. Hence, the equb associations cannot sue and be sued as legal institutions. Here it is clear that the court applied the prevailing custom and practice in the administration of Equb, since there is no formal law that allows the rights and duties of the association. As a result of this, the financial transactions of the equb associations are not safe and secured.

In general, there are significant number of equb associations participating thousands of citizens that are organized in every corner of the Mekelle city. The small equb associations specifically, are far more in number than the big ones but with very limited financial transactions by every equb association.

Almost all the small equbs' financial transactions are traditionally managed mainly by the honesty and trust of the equb organizers as well as family, friendship, neighborhood, workplace and other cultural ties. Most of these equb associations lack customary laws including articles of association and guarantee agreements. Although, some of these associations develop the customary laws partially or wholly, but they do not properly implement the customary laws. Hence, it is better to control and manage the financial transactions of these small equb associations using the common customary laws than to manage their transactions using more restrictive government legal laws.

On the other hand big equb's financial administration like that of Rahwa is relatively have huge amount of money and its transaction is modern since all of its transactions are made through banks. These big equbs are also relatively better in designing and implementing the customary laws.

However, as can be seen in table-2 the researcher interviewed equb members from 10 different equbs and the respondents indicated that there are limitations in the security of the financial transactions of the equbs in kedamay weyana sub-city of Mekelle town. Some of the main limitations that are identified during the research work are:

- The duties and responsibilities of the equb organizers are not clearly stipulated in the articles of the association. This has led to the misuse of the power for personal benefits by some equb organizers or leaders.
- A significant number of the equb members are always in threat because the financial transactions of most equbs are made based on merely honesty of the equb leaders
- The customary laws including the articles of association and guarantee agreements lack transparency and this led to abuse the money of the members by the organizers of the equbs.
- The equb associations inflict different kinds of social sanctions on defaulting members which led to demoralizing and alienation of the defaulter from the society.
- Equb leaders can indemnify the uncollected money from the members according to the articles of association of the equb. However, there is problem in the articles of association for not properly addressing the rights and duties of the equb organizers.
- Instead the equb leaders can be prosecuted for their illegal actions individually but not as agent of a legal institution.

As indicated in table-1 of chapter-5 of this research paper, when the number of members of the equb increases, the weekly full contribution of the equb increases significantly too. Hence, members of the big equbs have a keen interest of legal corrective measures from the government because these equbs have huge financial transactions which is becoming very challenging in administrating them properly and securely through the common customary laws.

The leaders of the Rahwa equb, which is the biggest equb in Mekelle, requested to get a legal personality from the national bank of Ethiopia. But the bank did not accept it, because of not to miss use the cultural and traditional values and norms of the equb associations. Hence, especially the big equbs with big financial transactions need to be secured legally by giving legal personality to the associations through modern governing laws.

On the other hand, the small size equbs, which are very significant in number, compose mostly members which know each other. Although, some defaults are reported in the small size equbs, these equbs are not interested in obtaining legal personality. Because they do not feel comfortable with the very bureaucratic nature of the governmental regulations and laws.

As the size of the equb increases the amount of money to be contributed increases and the drawn lottery pot money increases too. And also when the equb is big its financial transaction is relatively modernized. Because the bigger equbs have developed and implemented better customary laws than those small equbs which mainly depend on trust, friendship and other relationships.

As the result of this, the small equbs are vulnerable to defaults and this led to more unsecured financial transaction. Therefore, it is advisable for these small equbs to properly develop and implement customary laws including articles of association and guarantee agreements in order to minimize the insecurity of their financial transactions.

CHAPTER SIX

6. CONCLUSIONS AND RECOMMENDATIONS

6.1 CONCLUSIONS

It is well known that informal financial institutions in many developing countries have significant role in the economy. Even though, these institutions are not subjected to the regulations of the government, they still existed for decades. Equb is one of the ROSCAs' with our positive cultural values to help those who are in critical financial problems to improve their livelihood and expand their businesses. On the other hand, the traditional financial management of the equb associations has encouraged for more defaulting activities during their financial transactions.

Hence, the researcher has tried to investigate the practical and legal drawbacks and challenges in the financial transactions and management of the equb associations using the information and data gathered and then analyzed from interviewees of organizers and members from 10 equb associations in Kedamay weyane sub-city of Mekelle city as well as interviews from legal advisors and governmental staff members in Mekelle city.

The study showed that most of the small equb associations lacked customary laws including articles of association and guarantee agreements, while few of them developed the laws without implementing them properly. Their financial transactions are traditionally managed mainly by trust of the equb organizers and personal relationships of the members. It is also noted that the financial transaction of each small equb is minimal and well developed customary laws followed by proper implantation are necessary to administer the financial transactions of the small size equbs.

The analysis of the results of the data and information obtained from the research indicated that the big equbs have relatively better customary laws including articles of association, guarantors and collaterals and also the financial transactions of some of the big equbs like Rahwa equb are entirely through banks. However, as the size of the equb increases, the weekly full pot contribution of the equb also increases significantly and the big financial transactions made by the big equbs are becoming beyond the local customary governing laws and as a result of this, the financial transactions are unsecured because they are exposed to misuse by the equb leaders and other defaulting members.

In general, the leaders of the equb associations have the rights to sue and indemnify any payments on behalf of the equb according to their customary laws. But there is not any legal ground for the members of the equb associations to claim their rights from the equb.

This research work has also implied that most of the equb associations impose various social sanctions on defecting members and leaders of the equb associations by alienating them from other future equb associations and other social activities. This leads to the traumatizing and morally damaging and hurting of the social values of the equb member. As result of this, social sanctions have been practiced than the legal sanctions.

The researcher has also concluded that even though the equb associations play a great role in the social and economic activities of the study area in particular and the region as well as the country in general, very low attention have been given by the governments at all levels. This has been witnessed by the negative response of the National Bank of Ethiopia to the request for legal registration by one of the big equbs (Rahwa) in Mekelle town. Besides, from the researcher's point of view the government is losing financial benefits that can be generated from the legal registration fees of equb associations.

6.2 Recommendations

As per the analysis of the results of the data and information obtained during the research work on the practical and legal challenges of the financial transactions of the equb associations, the following main recommendations are forwarded:

- Customary laws such as articles of associations lack clarity on rights and obligations of the organizers. Hence, the equb associations need to clearly stipulate the duties and responsibilities of the equb leaders so as to legally charge cases against the equb leaders in case of any defaults and misuses in managing the financial transactions of the equb associations.
- In order to minimize the insecurity of the financial transactions of the small size equbs and social sanctions of defaulting members and leaders of the equb, well developed customary laws locally known as 'Sirits' followed by proper implementation are necessary.
- Well organized legal awareness training should be given to equbs to secure and manage their financial transactions as well as developing and implementing customary laws properly in order to minimize the insecurity of the financial transactions.
- In order to secure the financial transactions of the big equb associations, these associations should be legally registered and recognized as per the federal proclamation number 1113/2019 article 3/3/b and Tigray National Regional state proclamation number 327/2019 article 4/3/b, like the other different associations in Ethiopia.
- Tigray regional government can take the initiative in recognizing and registering legally the big equb associations by the bureau of social affairs of Tigray region as it has been practiced by the

Addis Ababa city administration women, children and social affairs bureau in legally registering the iddirs and iddir counsels by ratifying a new directive.

- There should be coordination between the SACCOs' regulator, since it has a responsibility to promote the development and regulation of SACCOs along with the formal financial institutions of the country,
- This research will be important in bringing the issue of unsecured informal financial institutions' transactions into the attention of policy makers, researchers and legal scholars. This, in turn, will be significant in the study of further issues in the area, the result of which could probably trigger other scholars to undergo further researches on this untouched subject. This research could also be significant in providing a reference material for those who are interested in the area.

REFERENCES

1. Aryeetey E 1998. Informal Finance for Private Sector Development in Africa. African Development Bank Economic Research Paper
2. Chipeta C, Mkandawire MLC 1991. The Informal Financial Sector and Macro-economic Adjustment in Malawi. African Economic Research Consortium. Research Paper. No. 41.
3. Ihrig Jane and Moe, Karine. 2004. Lurking in the shadows: the informal sector and the government policy, *Journal of development economics*, 73 pages 541-557
4. The National Bank of Ethiopia (2017), National Financial inclusion Strategy. Available at <https://www.nbe.gov.et/pdf/service/Ethiopian%20National%20Financial%20Inclusion%20Strategy.pdf>. Accessed on 13.11.2018. 2 Ibid. 3 Ibid. 4 Ibid. 5 A. Beza & S. Rao (2017), 'Financial Inclusion in Ethiopia', *International Journal of Economics and Finance*, Volume 9(4), pp. 191-2001.
5. Haile sellasie I, Emperor of Ethiopia Quoted in Fisher, Stanley Z., "Traditional Criminal Procedure in Ethiopia",
6. The American Journal of Comparative Law, Vol. 19, No. 4, (1971), pp. 709-746
7. Leila, Chirayath, et al , Customary Law and Policy Reform: Engaging with the Plurality of Justice Systems,(2006),Prepared as a Background Paper for the World Development Report (Equity and Development),p.2,availableonlineat <https://namati.org>, accessed on May 20/05/2016
8. Kedamy weyane Sub city Administration Plan and Finance Office Report (2018), Unpublished, p.1.
9. John W. Creswell, Educational Research; Planning, Conducting, and Evaluating Quantitative and Qualitative, University of Nebraska–Lincoln, 4th ed., 2012, P 35, p. 239.
10. World Bank 2004. Micro and Rural Finance in Ghana: Evolving Industry and Approaches to Regulation Findings. Washington D.C: The World Bank.
11. Gugerty, M. K. 2007. You Can't Save Alone: Commitment in Rotating Savings and Credit Associations in Kenya. *Economic Development and Cultural Change* 55 (2): 251 -282.
12. Gashayie, A & Singh, M. 2016 Development of Financial Sector in Ethiopia: Literature Review *Journal of Economics and Sustainable Development* www.iiste.org ISSN 2222-1700 (Paper) ISSN 2222-2855 (Online) Vol.7, No.7.
- 13..Kamla-Raj 2009 *J Soc Sci*, 20(1): 71-81 (2009)Informal Financial Institutions and Poverty Reduction in the Informal Sector of Offa Town, Kwara State: A Case Study of Rotating Savings and

Credit Associations (ROSCAs) Noah Yusuf 1, Gafar T. Ijaiya² and Muftau A. Ijaiya³ 1 Department of Sociology, 2 Department of Economics, 3 Department

14. Gebre Yntiso, Assefa Fiseha & Fekade Azeze (Eds.) Introduction-Customary/Alternative Laws: Values, Practices and Legality, in Customary Dispute Resolution Mechanisms in Ethiopia, (2012), Ethiopian Arbitration and Reconciliation Center, Addis Ababa, vol.2, p.32

15. Dejene, A. 1993. *The informal and semi-formal financial sectors in Ethiopia: A case study of Iqqub, Idder, and saving and Credit Cooperatives*, African Economic Research Consortium (AERC), Nairobi.

16. Chipeta C, Mkandawire MLC 1991. The Informal Financial Sector and Macro-economic Adjustment in Malawi. *African Economic Research Consortium. Research Paper. No. 41.*

17. Gebre Yntiso, Assefa Fiseha & Fekade Azeze (Eds.) Introduction-Customary/Alternative Laws: Values, Practices and Legality, in Customary Dispute Resolution Mechanisms in Ethiopia, (2012), Ethiopian Arbitration and Reconciliation Center, Addis Ababa, vol.2, p.32

18. Gebreyesus Abegaz Yimer (Mekelle University), Abera, Gebrehiwot Hadush (Mekelle University), Ghebregis, Mehreteab Gebremeskel (Mekelle University); Dr. Halibo Seyoum, Gidey (KU Leuven) and Prof. Dr. Decock, Wim (KU Leuven), 2015,

19. Catherine Butcher 2007, Understanding the role of informal institutions in social accountability. Contract agreement of the Edget Behibretequb, 2006 G.C.

20. Michaela Beck, 2012, Impact of Accumulating Savings and Credit associations on Child Wellbeing, master's thesis

21. Gashayie, A & Singh, M. 2016 Development of Financial Sector in Ethiopia: Literature Review Journal of Economics and Sustainable Development www.iiste.org ISSN 2222-1700 (Paper) ISSN 2222-2855 (Online) Vol.7, No.7.

22. Kamla-Raj 2009 J Soc Sci, 20(1): 71-81 (2009) Informal Financial Institutions and Poverty Reduction in the Informal Sector of Offa Town, Kwara State: A Case Study of Rotating Savings and Credit Associations (ROSCAs) Noah Yusuf 1, Gafar T. Ijaiya² and Muftau A. Ijaiya³ 1 Department of Sociology, 2 Department of Economics, 3 Department

23. Mauri, A. 1987. The role of financial intermediation in the mobilization and allocation of household saving in developing countries: interlinks between organized and informal circuits: the case of Ethiopia, International Experts Meeting on Domestic Savings Mobilization, East-West Centre, Honolulu, 2-4 June 1987.

Available at: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=943426

24. Salole, G. 1986,'Ekub edir and meredeja mahber "as potential development tools in Addis Ababa', Symposium on the Centenary of Addis Ababa, 24-25 November, IES, University of Addis Ababa.
25. Bisrat,A., Kostas,K. and Feng,Li. 2012. “Are there financial benefits to Join RoSCAs? Empirical Evidence from Equb in Ethiopia” *Procedia Economics and Finance*, Vol,1 pp.229-238.
26. Chiteji,S. 2002. “Promises kept: Enforcement and the role of Rotating saving and Credit Associations
27. Ardener, S. 1964. The comparative study of rotating credit associations. *The Journal of the Royal Anthropological Institute of Great Britain and Ireland*
28. Birchall, J., & Simmons, R. 2004. What motivate members to participate in Co-operative and mutual businesses? A theoretical model and some findings. *Annals of Public and Cooperative Economics* 75(3): 465–49.
29. Ambec, S., & Treich, N. 2003. “Roscas as financial agreements to cope with social pressure” Centre for Studies in Economics and Finance, Working Paper No. 103. Available at: <http://www.csef.it/WP/wp103.pdf>
30. Pankhurst and Getachew (eds.), cited above at note 2, p. v; Gebre Yntiso, Fekade Azeze, and Assefa Fiseha (eds.), cited above at note 4, (2011), p.xii.
31. Kiros Habtu, october 2012. *Classifying Informal Institutions in Ethiopia* internship paper, Wageningen university
32. Constitution of the Federal Democratic Republic of Ethiopia, 1995, Art. 34:5 and 78:5, Proc. No. 1, Neg. Gaz. Year 1, No. 1.
33. Civil code of the Federal Democratic Republic of Ethiopia
34. The Federal Democratic Republic of Ethiopia proclamation number 1113/2011 article 3/3/b
35. Tigray National Regional state proclamation number 327/2011 article 4/3/b.
36. Article of association of the Rahwa equb, 2005 E.C

ANNEXES: The guideline questions for Equb organizers.

Dear Sir/Madam

My name is Hadas Teklu Belay. I am a second year Masters student in business law at Mekele University. Currently, I am writing my thesis on Equb with a title “**Securing Informal Financial Institutions “equb”: Assessment of Legal and Practical Challenges in Kedamay woyane sub city, Mekelle: Tigray, Ethiopia**”. The objective of this study cannot be realized without your cooperation to answer for the question. I therefore kindly request you to answer the questions based on your experience. I guarantee that your answers will only be used for the research purpose.

Thank you very much in advance for your time!

Hadas Teklu Belay.

Background information

Sex -----Age ----- Marital status ----- status Occupation (possible to choose more than one)

1. When did you start to organize Equb?
2. What does motivate you to organize Equb?
3. How many members of participants are there in your Equb currently?
4. How much could be the contribution for full pot?
5. How could be the Allocation of the pot?
6. The duration of current Equb cycle?
7. Could you change pot of your turn early?
8. What are the criteria to participate in large size Equb?
9. What is the benefit of organizing Equb? Do you think that it has special benefit?
10. Do you think that you will keep on organizing and participating in Equb? in the future? Why?

ለዕቁብ አደራጆች የቃል መጠይቅ መሪ ጥያቄ

ዕድሜ ፤ ----- ያታ ፤ ----- የትምህርት ደረጃ ፤ ----- የስራ ሁኔታ -----

1. እቁብ ማደራጀት ከጀመሩ ምን ያህል ጊዜ ሆነዎት? የጊዜ ርዝመት
2. እቁብ ለማደራጀት ምን አነሳሳዎት?
3. አሁን ያሉበት የእቁብ አባላት ቁጥር ስንት ነው?
4. የዕቁቡ ሙሉ እጣ ስንት ነው?
5. የእቁብ ዕጣ የሚደለደለው እንዴት ነው?
6. አሁን ያሉበት ዕቁብ የቆይታ ጊዜው ምን ያህል ነው?
7. የእቁብ አባላት ለሌላ የደረሰውን እጣ ላስቸኳይ ጉዳይ ቢፈልጉት የሚቀይሩበት ሁኔታ እንዴት ነው?
8. የዕቁብ አባል ለመሆን መሟላት ያለበት መስፈርት ምንድነው?
9. የእቁብ አደራጅ መሆን ጥቅሙ ምንድን ነው? የተለዩ ጥቅም ያስገኛል?
10. ወደ ፊት እቁብ በመሳተፍ እንዲሁም በማደራጀት የሚቀጥሉ ይመስልዎታል? ለምን?

The guideline questions for Equib members

1. For how many years have you been participating in Equib?
2. How much could the contribution be for full pot?
3. When shall you prefer the allocation of the Equib to be decided?

4. How do you change pot of your turn in a case when the other member needs your turn early?
5. What is the benefit of Equb organizer?

ለዕቁብ አባላት የቃል መጠይቅ መሪ ጥያቄ

1. እቁብ መሳተፍ ከጀመሩ ምን ያህል ጊዜ ሆነዎት?
2. የዕቁቡ ሙሉ እጣ ስንት ነው?
3. የእቁብ ድልድሉ መቼ እንዲወሰን ይፈለጋል?
4. እርስዎ እየተሳተፉበት ካሉበት እቁብ አባላት ለእርስዎ የደረሰውን እጣ ለአስቸኳይ ጉዳይ እንዲቀይሩት ቢጠይቅዎ የሚቀይሩበት ሁኔታ አለ?
5. የእቁብ አደራጆች የሚያገኙት ጥቅም ምንድን ነው?

The guideline questions for the government official.

1. Does the government official currently have a thought about the huge role of equb in the society and its benefit?
2. Does Equb leaders or Equbb lottery seller have legal recognition of Roscas? What does the law says?
3. Under what categories such a person could be treated if he is not return the pot?
4. Do you believe that the Equb leaders or Equb lottery sellers should entitled or accountable for the uncollected monye? Why?
5. Do you believe that member’s articles of association and attendance book of the Equb give guarantee to their financial transaction? How?

ለመንግስት አካላት የቃል መጠይቅ መሪ ጥያቄ

1. የመንግስት አካላት በአሁኑ ወቅት እቁብ በማህበረሰቡ ውስጥ ስላለው ሰፊ ሚና እና በእቁብ የሚገኙ ጥቅሞችን አስመልክቶ ያለው ግንዛቤ ምን ይመስላል?
2. የእቁብ ዳኞች እና እቁብ ሎተሪ ሻጮች የሚሰበሰቡት ገንዘብ እንደ ተጃም የህግ እውቅና ያገኛሉ? ህጉ ምን ይላል?
3. በህግ ይጠየቁ ቢባል በምን ስር ይወድቃል?
4. የእቁብ ዳኞች እና እቁብ ሎተሪ ሻጮች አስቀድሞ የተከፈላቸው ገንዘብ ሳይሰበሰብ ቢቀር በህግ ሊጠየቁ ይገባል ብለው ያስባሉ? ለምን?
5. የእቁብ አባላት ያረቀቁት ልማዳዊ እና ባህላዊ ህጎች ለሚከፍሉት ገንዘብ ዋስትና ሊሰጣቸው ይችላል ብለው ያስባሉ? እንዴት?