Indira Gandhi National Open University

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Assessment of Loan Repayment and Revolving Fund Status of Farmers` Cooperatives: The Case of Libo Kemkem Woreda, South Gondar Zone, Amhara National Regional State, Ethiopia

A Thesis Submitted to Indira Gandhi National Open University in Partial Fulfillment of the Requirement of Master of Art in Rural Development.

By

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DECLARATION

I hereby declare that the dissertation entitled " ASSESSMENT OF LOAN REPAYMENT AND REVOLVING FUND STATUS OF FARMER`S COOPERATIVES: THE CASE OF LIBO KEMKEM WOREDA, SOUTH GONDAR ZONE, AMHARA NATIONAL REGIONAL STATE, ETHIOPIA" submitted by me for the partial fulfillment of the M.A in Rural Development to Indira Gandhi National Open University, (IGNOU) New Delhi is my own original work and has not been submitted earlier, either to IGNOU or to any other institution for fulfillment of the requirement for any course of study. I also declare that no chapter of this manuscript in whole or in part is lifted and incorporated in this report from any earlier work done by me or others.

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CERTIFICATE

This is to certify that Mr. Kifle Worku Terefe, student of M.A (RD) from Indira Gandhi National Open University, New Delhi was working under my supervision and guidance for his project work for the course MRDP-001. His project work entitled " ASSESSMENT OF LOAN REPAYMENT AND REVOLVING FUND STATUS OF FARMER`S COOPERATIVES: THE CASE OF LIBO KEMKEM WOREDA, SOUTH GONDAR ZONE, AMHARA NATIONAL REGIONAL STATE, ETHIOPIA" which he is submitting, is his genuine and original work.

Place: Addis Ababa

Date: November 2017

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ACRONOMY

ACSI	Amhara Credit and Saving Institute
ANRS	Amhara National Regional State
BoFED	Bureau of Finance and Economy Development
CBE	Commercial Bank of Ethiopia
CSA	Central Statistical Agency
FAO	Food and Agriculture Organization
FEDO	Finance and Economy Development Office
GDP	Gross Domestic Product
ICA	International Cooperatives alliance
MOARD	Ministry of Agriculture and rural development
MPCs	Multi-purpose Cooperatives
NBE	National Bank of Ethiopia
NGO	Non Governmental Organization
WCPO	Woreda Cooperative promotion Office
WoFEO	Woreda Finace and Economy Office

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ABSTRACT

Provision of loan to smallholder farmers is one of the strategies of Ethiopia which is believed to withdraw them out of abject poverty. Various outlays for loan provision are established by private, governmental and nongovernmental organizations in Ethiopia through which loans are channeled to the ultimate beneficiaries. Multipurpose cooperatives are among the channels through which loan is transferred to their members in Libo Kemkem Woreda located in South Gondar Zone of Amhara region, Ethiopia. However, the loan repayment performance of these cooperatives is stringed by many problems and discouraging. Therefore, the general objective of this research study is to assess loan repayment and revolving fund status of farmers` cooperatives in Libo kemekem Woreda of Amhara Region, Ethiopia.

Three multipurpose cooperatives were taken purposively as samples from which 120 respondents, 60 defaulters and 60 non defaulters, were taken randomly proportionate to their size. Scheduled interview and discussions were held with 120 sample respondents and focus group discussion participants respectively. Furthermore, secondary data was also taken from Libo Kemkem Woreda Cooperative promotion Office. Descriptive statistics such as mean, frequency, percentage, tables and graphs are used for data analysis.

The result of the study revealed that the loan repayment performance of the woreda is very weak and the system of revolving fund adopted by NGOs is not working. Various factors are responsible for the weak repayment performance and malfunctioning of the revolving fund system. Demographic factors such as age of borrowers and family size affect loan repayment. Furthermore, socio-economic as well as institutional factors have also played a significant role on the loan repayment performance. Size of land owned by borrowers, their educational level, involvement in alternative off farm income generating activities, lack of supervision, training & incentives, absence of accountability put in place, and other socio-economic and institutional factors affected loan repayment performance.

Various measures such as involving farmers in alternative income generating activities, improving the performance of livestock animals, improving the productivity of land, and strengthening of supervision and training on loan repayment by government as well as nongovernmental organizations are recommended in this field survey.

Key Words:- Loan Repayment, Defaulters, Non Defaulters, Multipurpose cooperatives, Revolving fund

CHAPTER ONE: INTRODUCTION

1.1 Background

Ethiopia is one of the largest countries in Africa and second most populous country in Sub-Saharan Africa, with population of 91 million and growing at 2.9% per year (World Bank Report 2012). The agriculture sector is important to the Ethiopian economy; contributing 46.4% to Gross Domestic Product (GDP), at an annual rate of 7%, and employing roughly 85% of the labour force (Ministry of Agriculture Report, 2012). The sector generates 90% percent of export (foreign currency) earnings and accounts for 85 percent of rural employment. Hence, agriculture is the backbone of the economy from which 80 percent of the population derives its livelihood (Haile and Assefa, 2006).

It is obvious that if the problem of poverty is to be tackled further among the rural households in Ethiopia, there has to be fundamental transformation of small-scale production system to a more modernized agriculture, which would make use of improved farm inputs and modern technology. Provision of credit services to the poor has been considered as one of the strategies carved to reduce poverty and promote rural entrepreneurship. Increasing access to financial services hold the promise to help reduce poverty and improve development outcomes by enabling the poor to smooth consumption (in cases of adverse shocks such as poor rain, plant diseases, increase food price), start or expand businesses, cope with risk and increase/diversify household income. Having access to and acquiring financial services by the rural poor farmers is one way of improving productivity in the agricultural sector (Irz et al., 2002). Credit has been increasingly accepted as a powerful instrument to lift the rural poor out of abject poverty. It plays a crucial role in increasing agricultural productivity via building up production assets (Amha, 2000). It also enables smallholder farmers to invest in land improvements and thereby adopt new agricultural technologies such as high yielding seeds and fertilizers that increase their efficiency and income (Zeller and Sharma, 2000).

Financial services for the poor can be a powerful tool to fight poverty. Access to a well functioning financial system can empower individuals both economically and socially, allowing

them to integrate more successfully into the economy of their countries, actively contribute to their development, and protect themselves against economic shocks.

The development of the agricultural sector calls for, among others, the introduction of modern technologies. However, with the introduction of new production technologies, the financial needs of farmers increase manifold. Moreover, there exists no significant margin of income that can be channeled into the agricultural sector to undertake developmental activities. Thus, here comes the importance and significance of the availability of rural credits to bridge the gap between owned and required capital (Singh et al., 1985).

Wolday (2004) stated that, in Ethiopia, among other things, lack of finance is one of the fundamental problems impeding production, productivity and income of rural and urban households. Since access to institutional finance is very limited, the majority of the poor obtain financial services through informal channels, such as money lenders, 'Ikub', relatives and others. In Ethiopia, there is a wide gap between owned and required capital to finance the agricultural activities of small holder farmers since the income from subsistence agriculture does not provide much surplus beyond family consumption and other social obligations. The lack of access to capital in rural areas is one of the major factors which hinder the development of agriculture. The price of inputs is going up every year. Consequently, the dependence of the subsistence farmers on financial institutions for credit has become substantially higher now a day (Tefera, 2004). In Ethiopia, the importance of agricultural credit in the development of the sector has been underlined strongly by various authors (Sisay, 2008; Gebrehiwot, 2006; Tsegaye, 2006; Wolday, 2003). All these authors had concluded that credit helps to bring about the required productivity and food self sufficiency through the adoption of new technologies.

Steady agricultural development depends up on the continuous increase in farm investment. Most of the time, large investment cannot be made by the farmers out of their own funds because of their low level of incomes. Thus, here comes the importance and significance of the availability of rural credits to bridge the gap between owned and required capital (Gebrehiwot, 2007). Agricultural lending involves giving out of credit (in cash and kind) to small scale farmers for the purpose of farming. There is no doubt about the crucial roles of credit in economic

development. But the increasing default rate is one of the major problems of the lending institutions (Mohammad, 2009). A loan may be taken for productive reasons, but may be used for other purposes (such as consumption) that cannot be easily transformed to money repayment. A loan may be put into risky activities that might fail to repay the loan. These create a problem of involuntarily default. Voluntarily or strategic default can arise when the legal system of loan enforcement is weak, or probability costly (Woldehanna et al., 2002).

Increasing defaults in the repayment of loans may lead to very serious implications. For instance, it discourages the financial institutions to refinance the defaulting members, which put the defaulters once again into vicious circle of low productivity. Therefore, a rough investigation of the various aspects of loan defaults, source of credit, purpose of the loan, form of the loan, and condition of loan provision are of utmost importance both for policy makers and the lending institutions (Kelly, 2005). In Ethiopia, the current agricultural loan repayment performance is not promising.

Similarly, increasing default rate is one of the major problems of farmers' multipurpose cooperatives in Libo Kemkem Woreda. The past studies that were conducted on the factors contributing to loan default in different regions are not similar and the issues that were identified as problems in the previous studies may not issue today. This is because changes are in a continuous process that are bringing new challenges in terms of the conditions of credit supply, production technology, costs of production, the relative prices of the associated inputs and outputs, which could have impact on the general profitability of enterprises. In addition to these, factors affecting loan repayment performance of smallholder farmers even in the good harvesting years are not yet studied in the study area. Therefore, this study was conducted with the following specific objectives.

1. To assess the extent of loan repayment of farmers` cooperatives
2. To assess the effectiveness of revolving fund modality
3. To identify major factors affecting loan repayment and revolving fund

1.2. Statement of the Problem

Provision of loans channeled through various institutions is one of the strategies of Ethiopia to alleviate poverty. This helps farmers to avoid challenges facing severe scarcity of financial resources and apply improved agricultural technologies to boost agricultural production and productivity. The adoption of modern technologies is relatively expensive and small farmers cannot afford to self finance. As a result, the utilization of agricultural technologies is very low. It is argued that enhanced provision of rural credit would accelerate agricultural production and productivity (Briquette, 1999).

Majority of the rural households could not borrow from the formal credit sources due to lack of access to these sources. The big share of credit covered by the informal sources of finance indicates that there is a huge unmet demand of credit.

In subsistence agriculture and low income countries like Ethiopia, where the smallholder farming dominates the overall national economy, small peasant farmers often face scarcity of capital (saving) due to low level of production to adopt new agricultural technologies. Hence, short and medium term credits with favorable terms for seasonal inputs like fertilizer, improved seeds, pesticide and herbicides would generally be favored because better return would be achieved quickly within the cropping season.

Amhara Credit and Saving Institute (ACSI) and farmers cooperatives are the two major institutions through which credit services are provided to the farmers in Amhara region. Cooperatives are expected to serve farmers by providing agricultural inputs, output marketing and providing credit services to their members.

Cooperatives are the main channels through which agricultural inputs are distributed to farmers in credit in Libo Kemkem Woreda with the assumption that the loans would be repaid in cash or kind. Furthermore, there are some loans passed through cooperatives with the assumption that the loan would revolve. However, the loans are not returned in the desired manner and even the meager repaid loan is not revolving properly. Various factors could affect loan repayment and revolving of the fund.

Hence, this study aimed at assessing the socio-economic, human and institutional factors affecting loan repayment of those farmers who have got loan from their cooperatives. Moreover, it tries to investigate factors contributing to the malfunctioning of revolving fund system.

1.3. Objective of the Study

- General Objective

The general objective of this study is to assess loan repayment and revolving fund status of farmers` cooperatives in Libo kemekem Woreda of Amhara Region, Ethiopia

- Specific Objectives

1. To assess the extent of loan repayment of farmers` cooperatives
2. To assess the effectiveness of revolving fund modality
3. To identify major factors affecting loan repayment and revolving fund

1.4. Significance of the Study

Funds extended for the purpose of augmenting capital of smallholders should be used for the intended goal and finally be repaid to the lending institution in order to have viable, strong and sustainable credit schemes and efficient operation mechanisms year after year. Contrary to this fact, it has been reported in various literature that loan default is a critical problem of Farmers` cooperatives in Ethiopia. Nonetheless, little has been attempted in identifying specific important factors that should be treated to reduce this national problem.

Therefore, the study generated information on diverse set of issue related to loan repayment and revolving fund managed by multipurpose cooperatives in the study area. This would give direction for policy makers in order to design appropriate policy interventions. It further helps them to recognize the necessity of detailed study of root causes of differences in loan repayment status and also help stakeholders, including research, to design appropriate mechanisms for the effectiveness of loan provision and repayment based on micro level information.

1.5. Scope and Limitation of the Study

This study is limited to Libo Kemkem Woreda MPCs and the study focused only to formal credit obtained from MPCs as it has wide coverage and diversified purpose with a good number of beneficiaries. Moreover, the study limited itself to short term credit that will be distributed for agricultural production only. Also, it considers a cross-sectional data and it does not attempt to look into the inter-temporal variations that might occur with regard to loan repayment capacity. Since a one-year cross sectional data could not reveal the overall credit system, the study mainly focused on credit of 2013/14 production year.

Regarding the limitation, due to the fact that most of the households do not keep records, the accuracy of most of the data collected depends on individual`s ability to recall. However, it is believed that the data would provide a useful basis of information for identifying the important factors that affect smallholders' loan repayment performance and making suggestions to correct these problems.

CHAPTER TWO

REVIEW OF LITRATURE

2.1. Theoretical Evidences

2.1.1. Concept and Definitions

Credit: - Beckman and Foster (1969) defined credit as the power or ability to obtain goods or services in exchange for a promise to pay for them later. In other words, it is the power or ability to obtain money, through the borrowing process, in return for a promise to repay the obligation in the future. According to these authors, credit represents the actual or prospective debtor's power or ability to affect an exchange by offering his promise for future payment. The Concise Mc Graw-Hill Dictionary of Modern Economics defines credit as an exchange of goods and services for a promise of the future payment. It also indicates that credit is necessary in a dynamic economy because of the time that elapses between the production of a good and its ultimate sale and consumption and credit bridges this gap. The risk in extending credit is the probability that future payment by the borrower will not be made (Greenwal & Associates, 1983). Futurity is thus a basic characteristic of credit and risk is necessarily associated with the time element.

According to Bekele (1995), informal credit sources are categorized as commercial (those who lend money on short-term basis to obtain profit) and non-commercial (lenders that generally include friends, relatives and neighbors). Mutual help associations include Iddir, Iqqub, modern cooperatives, NGOs, etc. Informal finance is the one that comprises of all lawful but unregulated activities, such as rotating and non-rotating savings and credit associations (ROSCAs), moneylenders and money collectors and other providers of retail financial services.

Loan Repayment: - The time that a borrower or debt holder to repay his dept or loan, the minimum payment that has to be made in a period or penalties levied for late payment (Graw-Hill Dictionary). In the study loan repayment refers to the period which member borrowers repay their agricultural input loan to their cooperatives.

Cooperative: - The International Cooperatives alliance (ICA) defined cooperatives in 1995 as a cooperative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise (ICA, 1995).

Agricultural Multi-Purpose Cooperative Societies: -multipurpose cooperatives unlike single purpose cooperative undertake diversified activities. Multipurpose cooperatives, which functions on the basis of a fully integrated framework of activities, planned according to member`s requirements identified at the grass root level, taking the socio-economic life of the farmer members in its totality.

Default and Non Default: - Default is defined as failure to pay a debt or a loan at the right time. On the contrary, non-default is defined as payment of a debt or a loan at the right time. Hunte (1996) defined credit worthy (synonymous to non-defaulter) borrowers as those who satisfy the entire loan contract conditions and repay their loans without ever going into arrears. Non-credit worthy (defaulters), as opposed to non-defaulters, are those who breach their loan contracts and have repayment problems.

Agricultural Input Credit: -In the study, Agricultural input credit refers to short term credits extend to farmers for purchase of agricultural inputs like fertilizer, chemicals, seed etc**.**

2.1.2. The Need for Credit

Credit is the key input in every development program; this is particularly true for rural development because so long as sufficient credit is not provided to the development programs of poor sections of the society, the goal of development cannot be achieved. Access to capital in the form of either accumulated savings or a capital market is necessary in financing the adoption of many new agricultural technologies (Feder et al., 1985).

The importance of credit facilities to smallholders of less developed countries has been underlined by several authors (Adams and Graham, 1981; FAO, 1996; Gonzalez-Vega, 1977;

Pischke, 1980). Governments of less developed countries and aid agencies have extended a large amount of money in the form of agricultural loans. The motivation has been the belief that loans are an essential part of various input packages that are prescribed as part of agricultural investment projects designed to introduce modern technologies and thus stimulate change and growth in agriculture.

Kumar *et al.* (1987) indicated that the need for credit in the case of majority of cultivators arises from inadequate savings to finance various activities on their farm. Moreover, while their income accrues during limited period of the year, their expenses are spread throughout the year. This implies that expenditure on inputs have to be incurred much in advance of the income from resulting outputs. Producers meet these expenditures out of their past savings; and when these savings fall short of the requirement, they borrow. Studies undertaken in Ethiopia show that credit provision to small farmers increases their productivity and improves their standard of living. For instance, Assefa (1987) reported the need for the expansion of rural credit to all areas of the country. Likewise, Berhanu (1993) and Getachew (1993) pointed out the need for agricultural credit to increase productivity and accelerate adoption rates.

According to Shahidur and Rashid (2003) Credit is important for development. It capitalizes farmers and entrepreneurs to undertake new investments or adopt new technologies. It helps smooth consumption by providing working capital and reduces poverty in the process. Both formal and informal lenders are active in rural credit market. Collateral-free lending, proximity, timely delivery and flexibility in loan transactions are some of the attractive features of informal credit. However, informal finance may not be as conducive to development as formal finance because; (i) it is expensive; (ii) it is short-term and largely used for consumption; and (iii) it is not generally large enough to spur investment and growth.

Recent theoretical and empirical work in economics has established that credit markets in developing countries work inefficiently due to a number of market imperfections. The literature cites a number of market imperfections which lead some potential borrowers to be rationed out of the credit market. These imperfections include: (1) interest rate ceilings usually imposed by the government; (2) monopoly power in credit markets often exercised by informal lenders; (3)

large transaction costs incurred by borrowers in applying for loans; and (4) moral hazard problems. In many cases a number of these imperfections combine to ration farmers out of the loan market (Jeremy, 2004).

Foder (1985) as quoted in Belay (2002) stated that credit is Important in every development program; this is particularly true for rural development because, so long as sufficient credit is not provided to the development programs of poor sections of the society, the goal of development cannot be achieved. Access to capital in the form of either accumulated savings or a capital market is necessary in financing the adoption of new agricultural technologies.

Generally, credit removes a financial constraint and helps accelerate the adoption of new technologies, increases productivity, and improves national and personal incomes. In addition, it constitutes an integral part of the process of commercialization of the rural economy and a convenient means of redressing rural poverty (MOA, 1995)

2.1.3. Importance of Cooperatives for Agricultural Input Credit Delivery

Kelly (2005) explained the importance of farmers' association for an effective delivery of vital services in rural areas. Accordingly, the demand for fertilizer in Sub Saharan Africa as collective action has the capacity to reduce farm-level transaction costs for potential input suppliers and output buyers. Belay (1998) expressed about financial institutions like Development Bank of Ethiopia (DBE) and Commercial Bank of Ethiopia (CBE) that need collateral and legal group formation for loan processing could reduce administration cost with existence of cooperatives. Given the Bank's existing working conditions, it is much difficult and almost impossible to reach the numerous geographically dispersed farm households individually, thereby he recommended the demand for credit should be accompanied with volunteer group formation so that loan application, processing, acquisition and repayment can be simple and effective. The same author suggested that, in order to qualify for credit service, farmers' cooperatives should be registered under cooperatives law. Capable management, adequate record keeping, reliable market for farm products and efficiency in lending and collection performances are some of the areas of consideration for measuring the viability of cooperatives.

2.1.4. Agricultural Credit in Developing Countries

Fertilizer consumption in developing countries is closely linked with access to input credit. 70-90% of the annual fertilizer sales in these countries is on credit bases as compared to less than 30% in the developed nations (K.Wierer & J.C.AbboTT, FAO, 1995). Among other measures, unless otherwise input credit is made available for farmers, the low level of fertilizer consumption will not be improved as required.

In developing countries there are a number of credit sources. Government banks (commercial and Agricultural), farmer cooperatives, credit and saving institutions, fertilizer retailers etc. are among the major ones. Though, public banks are the main sources of credit in many of the developing countries, unfortunately, in the greater number of cases, small farmers do not have easy access direct to bank credit as they lack land titles or other acceptable collateral. In the eye of banks, loans to small holders are too risky and costly to supervise (Zemen, 2005). Thus, banks to serve the small holders would have to lend to farmers cooperatives, rurally based micro credit and saving institution, fertilizer traders etc. since, these institutions are rurally based, they have the potential to reach small farmers that do not have access to the formal financial institutions (FAO, July 1995).

In countries where fertilizer distributors/ retailers play a prominent role in the marketing of agricultural inputs, they also provide efficient credit service to farmers. Unlike banks, they are mostly well placed to evaluate and judge the credit worthiness of farmers and to follow up repayment. Usually they are more flexible than institution in providing credit quickly and without bureaucratic procedures. Fertilizer distributors/ retailers in order to extend sufficient credit to farmers; they should have been also financed by banks or fertilizer manufactures /importers.

Agricultural cooperatives established to perform a variety of activities are also one of the main sources of input credit for the small holders. Contribution of members, saving and income obtained from other activities of the cooperatives are the main source of credit funds. Some cooperatives also depend on external fund sources like the agricultural or commercial banks. Although, cooperatives in the developing countries have a mixed record regarding their

performance in input credit administration, they can efficiently administrate input credit extension activities at the gross root levels if bottom-up planning and decision making approach is followed; run by educated members, resolve organizational problems, ensure adequate infrastructure, management, and avoid government interference (FAO July 1995) Like cooperatives, institutions established by share holders specifically to extend credit and to mobilize saving in the rural areas of developing countries can also perform credit extension activities for the small farmers from own fund sources or from external sources. In general cooperatives, fertilizer dealers and micro credit and saving institutions are well placed in the rural areas as compared to banks to evaluate and judge the credit worthiness of farmers to follow up repayment, to work with minimum overhead costs and to avail input credit timely especially for the small holders in the developing countries. In fact, these institutions should have reliable fund source, managed by educated personal, have good organization structure etc. to perform their duties efficiently.

Repayment generally takes the form of periodic payments that combine part of the principal sum and interest in each payment. The amount of each installment is usually calculated as the principal sum and interest due, divided by the number of installments. Alternatively, a lump sum with interest is repaid at maturity. In group-lending schemes, payments are generally collected in a group meeting with the help of loan officers. The personal and regular collection of installments by bank staff is one of the key procedures of microfinance that is widely believed to reduce the risk of default in the absence of collateral and to make lending to the poor feasible. On the other hand, personal collection enables the drastic reduction of financial transaction costs and improves the matching of the loan size to the clients' needs and repayment ability (World Bank, 2004).

Maturity periods are determined on the basis of how the loan is used and in some instances by the capacity of the borrowers to make repayments. In case of repayment failure, an appropriate penalty or rescheduling of the installments is proposed by the financial institutions. A punishment interest of 30% or higher may be imposed on borrowers who are unable to pay back their loans within the maturity period (Izumida, 2003). In case of unintentional repayment failure caused by natural disasters, fires, contagious disease, changes in state policy or fluctuations of the market price, the losses may be absorbed by the financial institutions' risk reserve fund and the debt will be frozen or rescheduled (Izumida, 2003).

Derban et al. (2005) classified the causes of non-repayment into three main categories. First, the inherent characteristics of borrowers and their business that makes it unlikely that the loan will be repaid. Second, the characteristics of the lending institution and the suitability of the loan product to the borrowers; and third, the systematic risks from external factors such as the economic, political and business environment that may influence the borrowers' operations and performance.

Previous studies have found that the loan repayment performance of farmers is mainly affected by farmers' characteristics such as years of farming experience and their level of education (Oke, et al., 2007, Oladeebo and Oladeebo, 2008, Afolabi, 2010). Moreover, loan repayment is found to be influenced by social relations, responsibilities of the borrowers (Ugbomeh et al., 2008) as well as loan characteristics such as interest rates and the amount of money borrowed (Ugbomeh et al., 2008, Afolabi, 2010). Furthermore, the level of livelihood diversification with the relative importance of non-farm and off-farm income of farm households seems to be important for credit repayment by both poor and non-poor households (Hamza, 2007). Brehanu and Fufa (2008) suggested that the loan repayment rate of the households was significantly affected by the agro-ecology, total landholding size, total livestock holding, experience in the use of agricultural extension services, contact with extension agents and income from off-farm activities. Finally, market characteristics, such as price stability of the agricultural commodities produced, are found to influence repayment (Ugbomeh et al., 2008).

Several studies suggested that repayment rates of group-based credit might be higher than those of individual borrowers, which is mainly explained by the fact that in group-based credit schemes the functions of monitoring, screening, and enforcement of loan repayment are to a large extent transferred from the bank's agent to the group of the credit taker (Ghatak, 2000, Laffont and N'Guessan, 2000). In group-based systems, borrowers have better information on each other, can monitor each other's investments and activities more easily, and may be able to impose powerful non-pecuniary social sanctions at low cost. Even if the loans are officially obtained individually by each member of the group, the risk of default by one member will be equally shared by the entire group (Ghatak, 2000, Laffont and N'Guessan, 2000).

A study on the repayment performance in case of individual lending to farmers by Koopahi and Bakhshi (2002) suggested that repayment was influenced by socio-economic characteristics of the borrower (i.e. income level, educational level, years of farming experience) and loan characteristics (i.e. transaction costs, amount of loan obtained, length of repayment period, bank supervision of

credit use, the waiting time for loan reception). In addition, levels of physical capital (i.e. the use of machinery) and community characteristics (i.e. prevalence of natural disaster, seasonal and risky activities) were found to be significant (Koopahi and Bakhshi, 2002). Finally, also characteristics of the lending institutions seem to affect the levels of repayment (Adams and Mehran, 2003) (as also suggested above).

Al-Azzam et al. (2011) suggest that peer monitoring, group pressure, and social ties are likely to improve repayment performance of group-based credit. In addition, Rai and Sjostrom (2004) show that repayment performance of group-liability contracts depends on the truthful exposure of each group member to the success of the peers' projects. The repayment performance of group lending has been found to be affected by the weekly sales and distance between the members (Wydick, 1999, Karlan, 2007), cultural similarities and gender differences (Kevane and Wydick, 2001, Bhatt and Tang 2002, Armendariz and Morduch, 2005, Karlan, 2007), the role of group leaders, peer monitoring and social ties (Hermes et al., 2005), and group size (Madajewicz, 2005). With respect to the latter, Impavido (1998) suggested that group size affects both the ability to impose punishments as well as the level of monitoring. Large groups are more difficult to manage than small ones. Yet, conversely, Madajewicz (2005) suggested that a credit institution benefits more from lending to larger groups even if these include a risk of low repayment rates. However, it is also argued that group liability and social collateral by borrowers are not a panacea to secure repayment.

In fact, Chowdhury (2005) has shown that joint liability alone cannot diminish an ex-ante moral hazard problem. Van Tassel (2004) used a household bargaining model to explain that a group member may invest credit in uncertain business projects beyond his or her ability to pay back the loan even though other members are also responsible for repaying the debts. The rationale of the borrower may be that he/she assumes that the other members would be willing to repay the loan in order to secure their future loans.

Godquin (2004) suggested that the provision of non-financial services such as training, basic literacy and health services has a positive impact on repayment performance. Roslan and Zaini (2009) found that borrowers that did not have any training in relation to their business have a higher probability to default. Tedeschi (2006) noted that there are two possible reasons for default: strategic default or default due to a negative economic shock. The lending contract provides incentives to discourage strategic default, but default due to an economic shock is unavoidable. In contrast, Hulme and Mosley (1996) suggests in that, the important factors that

contribute to loan repayment performance are the design features of the loan. They categorize the design features into three categories namely access methods, screening methods and incentive to repay. Access methods generally ensure that poor people access the loans not the richer people and the features include maximum loan ceilings and high interest rate. Screening methods are used to screen out bad borrowers. However, Stearns (1995) argued that, "it is the lender not the borrower, who causes or prevents high levels of delinquency in credit programs. Awoke (2004), reported that most of the default arose from poor management procedures, loan diversion and unwillingness to repay loans. Therefore, the lenders must devise various institutional mechanisms that are aimed to reduce the risk of loan default. A few researchers also found that loan characteristics play an important role in determining repayment performance (Roslan and Zaini, 2009), found that defaults generally arise from poor program design or implementation, not from any essential problems with the borrowers.

According to Derban *et al*, (2005), the causes of non-repayment could be grouped into three main areas. First the inherent characteristics of borrowers and their businesses that makes it unlikely that the loan would be repaid. Second, the characteristics of lending institution, and suitability of the loan product to the borrower which make it unlikely that the loan would be repaid. Third, the systematic risk from the external factors, such as the economic and political and business environment in which the borrower operates. Vigenina and Kritikos (2004) found that individual lending has three elements namely the demand for non-conventional collateral, a screening procedure with combines new with traditional elements and dynamic incentives in combination with the termination threat in case of default, which ensure high repayment rates up to 100 percent. Hakim (2007) in their study concluded that close and informal relationship between MFIs and borrowers may help in monitoring and early detection of problems that may arise in non-repayment of loans. In addition, cooperation and coordination among various agencies that provide additional support to borrowers may help them success in their business.

2.2. Empirical Evidence on Loan Repayment

2.2.1. Evidence from Ethiopia

The determinants of loan repayment rates for agricultural loans were investigated by Brehanu and Fufa (2008). They conducted a study on the determinants of repayment performance among small-scale farmers in Ethiopia. In the study, they found that borrowers with larger farms, higher numbers of livestock and farms located in a rainfall area had a higher capacity to repay loans, since all those factors increased the farmers' productivity and income. The study also found that borrowers who had extra business income and were experienced in using agricultural technology had a good repayment performance

Million, *et al*. (2012) identified factors affecting loan repayment performance of smallholder farmers in East Hararghe, that smallholder farmers within the study area sourced their credit from both formal and informal credit institutions. The results also indicated that the agro-ecological zone, off-farm activity, production loss, informal credit, celebration of social ceremonies, number of contact days of the farm household head with extension agents and loan income ratio, determined repayment performance.

Berhanu (2005) studied on the determinants of loan repayment performance of smallholder farmers in North Gondar, Ethiopia. A total of 17 explanatory variables were considered in the econometric model. Out of these seven variables were found to significantly influence the repayment performance. These were land holding size of the family, agro-ecology of the area, total livestock holding, number of years of experience, number of contacts, sources of credit and income from off-farm activities. The remaining variables (family size, distance between main road and household residence, purpose of borrowing, loan amount and expenditure for social festivals) were found to have insignificant effect on loan repayment performance of smallholder farmers.

Abafita (2003) analyzed the microfinance repayment performance of Oromia credit and saving institution in Kuyu, Ethiopia. According to his finding; sex, loan size and number of dependants are negatively related to loan repayment. On the other hand age was found to be positive, while age squared turned to be negative. Income from activities financed by loan, repayment period

suitability and loan supervision are positively and significantly related to loan repayment performance. Moreover, loan diversion is significant and negatively related to loan repayment rate. The negative sign implies that the use of diverted funds for non income generating purposes.

Bekele (1995) associated loan default problems to three major factors in Ethiopian context. These are: the inability of borrowers to repay the loan as a result of crop failure for various reasons, the unwillingness of borrowers to repay the loan as a grant or political patronage, and institutional and policy problems. He further argued that the dissolution and malfunctioning of producers' cooperatives contributed a lot to increase loan default. Apart from the dissolution of cooperatives, borrowers were reported to develop wrong attitudes of expecting debt rescheduling or write-off and of regarding loans as government grants.

The study by Mulat *et al.* (1997) emphasized that administrative measures that were applied to enforce repayment can also be harsh and ignored farmers' circumstances. For instance, collection of payments that begin immediately after harvest is not convenient to all farmers in all areas. This is associated to the fact that most farmers are forced to bring their produce to the market at the same time (in order to pay their fertilizer debts, taxes, etc.), and as a result, supply exceeds demand, and prices fall sharply. The system does not accommodate the interest of farmers who are willing to incur additional interest costs by delaying crop sales as price rise later in the year.

According to a study made by Bekele *et al.* (2005), the socio-economic factors influencing repayment of agricultural input loan in Ethiopia using the logistic method of analysis were the amount of loan taken by households, total livestock holding, timeliness of input supply, off-farm income by member of the household, yield loss and grain production were became significant variables. Belay (1998) in a case study at Alemegena District (Ethiopia) found out a significant positive relationship of livestock ownership and loan repayment performance of farmers. Accordingly, animal production was found to be important source of cash income during sharp fall of crop prices. Also, Bekele (1995) in his Ethiopian case study using logit model revealed that value of total livestock holding has positive impact on loan repayment performance of smallholder farmers. According to the study, farmers who owned more livestock were able to repay their loans even when their crops failed due to natural disaster.

The study undertaken by Zemen (2005) revealed that there were four important factors which affect the borrowers' timely repayment of their debts in Amhara region. According to his findings, the variables that differentiated the sample borrowers into non-defaulters and defaulters were the size of cultivated land, the loan diversion behaviour, membership condition and the amount of other credit borrowed during the study period.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Description of the Study Area

3.1.1. Regional Overview

Amhara regional state covers an area of 170,152 km2, with a total population of 17,221,976 / 8,641,580 male and 8,850396 female/, (CSA, 2007). The proportion of rural and urban population in the region is 87.7% and 12.3% respectively. According to the agricultural sample enumeration (CSA, 2007) the age structure of the population in the region shows that about 95.9% of the rural and 95.4% of urban households are less than 18 years of age where as persons aged 60 years and above constitute 5.4% and 4.9% in rural and urban areas respectively.

The region has 11 zones and 139 weredas (CSA, 2007). Similar to the country data the agriculture sector is among the leading sources of economy to the region which characterized by small holdings, mostly private peasant holdings, and the separation of cropland holdings, traditional farming and low level of literacy among the holders. The households involved in crop and livestock farms constitute the largest population (73.2%), followed by crop only, which constitutes 19%, and those practicing in livestock are only 8%.

3.1.2. Woreda Overview

Ecological Situations

Libo Kemkem woreda's topography is mostly characterized by plain land and mountainous and has a slope ranging between 0 to 50% (Woreda FEDO, 2010/11). The altitude ranges from 1500 to 3000 meter above sea level. The agro-climate is predominantly Woinadega (mid land), covering 95.9% of the total area, while the remaining land is Dega (highland). The woreda has unimodal rainfall i.e. long rain Kiremt rainy season lasting from mid June to mid September, with average annual rainfall ranging from 900 to 1400 mm. The distribution of rain in the

Woreda is usually erratic and there is tendencies of late beginning and early withdraw of rainy season, which usually end up with failure in crop and livestock production.

Looking at patterns of land use of the Woreda, cultivated land (34,694 Ha), forest land (1,420), bush/shrub land (5,937 Ha), water bodies (38,366), grazing land (8,947 Ha) and other uses 7,633 Ha, (woreda Agriculture & Rural development office, 2014).

Social conditions

Libo kemkem woreda , with an area of 951.49 square kilometres, is one of the 10 woredas of South Gondar Zone of Amhara National Regional State (ANRS) of Ethiopia with the total population of 108,796 male and 105,699 (Amhara, BoFED, 2013). The woreda has an average of 4.5 household sizes. Majority of the population in the woreda are Orthodox Christians (95.9% %) followed by Muslims (3.9% %) and protestants (0.2%) (WoFE, 2010).

Addis Zemen is the capital of the woreda situated at 82 Km North of the regional city-Bahar Dar and 645 km from Addis Ababa. The woreda has a total of 29 rural and 2 urban kebeles (WoFEO, 2014) including Taragedam, Ginaza, and Yifag Zuria Kebeles, which this study is targeting. All of the Kebeles have rural road facilities which link them with the main asphalt road stretched from Addis Ababa-Bahardar-Gondar. Debre tabor, 63 km away from Addis Zemen, is capital of south Gondar zone which Libo kemkem woreda is part of it.

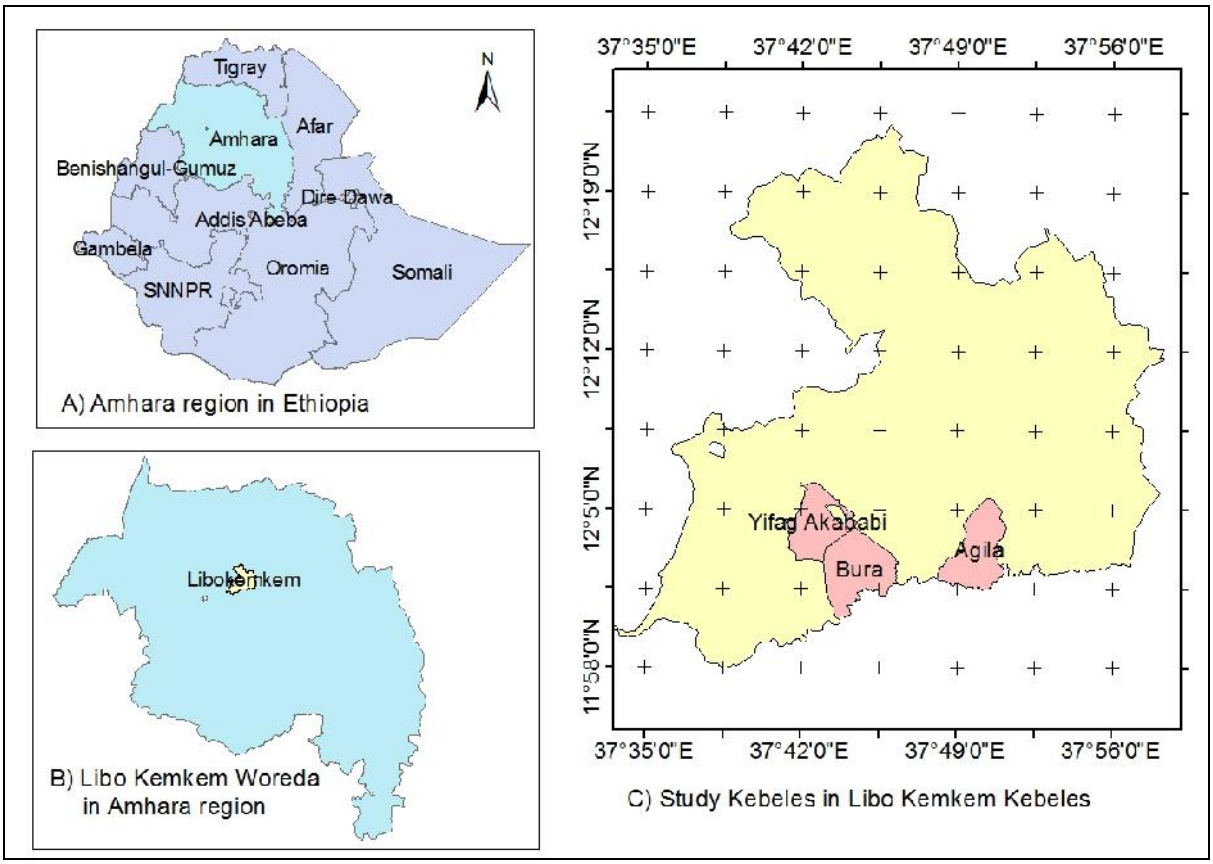
Economic situation and location

Mixed agriculture is the main source of livelihood for 92% of the population living in the rural areas. Crop production covers household`s food needs and helps to raise cash income to buy other food items. Additionally, livestock production is an important component of the local economy. The survey conducted by the project, 2014 shows that the highest proportion of cash income is earned from agriculture (67%) followed by casual labour (27%) and other (petty trade) 6%.

In general, the average land holding size of the woreda is 0.98 ha (woreda Agriculture office archives 2010/11). The livestock population in the project woredas is composed of 122,732

cattle, 52728 small ruminants/shoats, 87,905 poultry and 5845 equines, Woreda office of Agriculture, 2014. As crop production became unreliable for survival; rural communities became dependent on livestock sales to purchase food. There is no adequate provision of supplementary feed and housing as well as veterinary services in the area.

There are a number of primary multipurpose cooperatives in the Woreda which are providing their members various services including distributing agricultural inputs in credit.



Figuer 1: Map of study area

3.2 Sample Size and Method of Sampling

A two-stage random sampling method was used to select the sample respondents. In the first stage, from 15 multipurpose cooperatives (MPC) found in Libo Kemekem Woreda (having 25182 farmer members) three MPC were selected purposively from the sampling frame obtained

from Woreda Cooperative Promotion Office (WCPO). In the second stage, the respondent borrowers were divided into Defaulters and non defaulters, listed from each sample members of Cooperatives. Lastly, probability proportionate to size of sample was used (PPS) in order to select representative sample respondents. Thus 120 sample farmers (60 defaulter and 60 non defaulters) were selected out of the sample MPC randomly from the lists of respective cooperatives taking credit in the year 2013 using probability proportional to size. The samples are taken purposively who have taken credit from the source of the government.

The Lists of the multipurpose cooperatives and their number of members is indicated in the following table.

Table 1 List of multipurpose cooperatives and their membership

S/N	Name of the cooperatives	Number of Members		
		Male	Female	Total
1	Genda wuha	352	43	395
2	Micheal Debir	2178	312	2490
3	Yifag	2053	1228	3281
4	Ambo Meda	2492	627	3119
5	Yabebal Shena	943	399	1342
6	Sediye Yediget chora	398	72	470
7	Libo Ameno	1024	170	1194
8	Tibaga	856	567	1423
9	Metebaber Melkam	396	80	476
10	Kab	1120	573	1693
11	Agela Hana	3929	880	4809

12	Bira	1366	190	1556
13	Agid Kiragna	526	192	718
14	Shehoch Tahera	1016	255	1271
15	Bura	750	195	945
	Total	19399	5783	25182

Source: Libo Kemkem Woreda CPO, 2016

Table2. Sample primary cooperatives and number of sampled households

S/N	Name of sample cooperatives	Total number of borrowers	Total 6% sample respondents	
			Defaulters	Non Defaulters
1	Agela Hana	1,130	34	34
2	Yifag	661	20	20
3	Bura	216	6	6
	Total	2007	60	60

Source: From the field survey

3.3 Data type, Sources and Method of Data Collection

Both primary and secondary data were gathered and used for this study. Secondary data were collected from published and unpublished documents, reports, maps, statistical data, bulletin and audit reports. Secondary data were also collected from Libo kemkem worda cooperative promotion office (WCPO), nongovernmental organizations (NGOs) and others who have relevant information for this particular study. Primary data were collected from the sampled respondents on different issues using structured interview schedule which was pre-tested before

the formal survey begins. Training on methods of data collection and the contents of the questionnaire was given to the selected enumerators. The survey was administered under the continuous supervision of the researcher. The structured interview questioner was developed in English and translated into local language Amharic.

To have detail information useful to draw the right conclusion from the survey work, qualitative information was gathered from the respondent farmers. Collection of primary qualitative information from farmers was managed through holding discussion with focused group and individual farmers. To ensure validity of the qualitative data, information was gathered exhaustively. Moreover, triangulation of information was done to look into the same matter from different angles and also to include the views of the community from different corners.

3.4. Method of Data Analysis

Since the research is descriptive in nature, descriptive data analysis methods were employed. Furthermore, the quantitative data collected from close-ended questions was analyzed using SPSS (statistical Package for Social Science) soft ware; and presented using means, percentages, frequencies and tables. Concerning data from open-ended questions, key informant interviews, field observation and FGD, the analysis was performed through qualitative description.

CHAPTER FOUR

RESULT AND DISCUSSION

4.1. Loan Repayment

In this result and discussion part, various factors which have contribution for loan repayment performance of multipurpose cooperatives have been discussed. These factors are grouped under three major sub groups and discussed in detail. This sub groups are demographic factors, socio-economic factors and institutional factors. Furthermore, status of revolving fund modality and its implementation by cooperatives is discussed.

4.1.1. Demographic Factors

4.1.1.1. Age of the Sample Respondents

The study has revealed that age of the borrowers is one of the factors for loan repayment performance of multipurpose cooperatives. The average age of the sample household heads is 44.15 years (44.06 for non-defaulters and 43.24 for defaulters) with maximum of 60 years and minimum of 20 years. Out of the total 120 respondents, 60 are non defaulters and the remaining 60 are defaulters. As the age progress, farmers acquired experience and knowledge in handling loan that they have received. Regarding to loan repayment, age of household head is believed to be a great source of experience in day-to-day activity of human beings. So, elderly heads of household are expected to have more experience in credit utilization and timely repayment. This study has also identified positive relationship between higher age and loan repayment status of borrowers. The following table compiled from the field survey shows that 35 (58%) of the non defaulters fall in the age category of 32-45 whereas only 43.33% under the same age category are defaulters. On the other hand, majority of defaulters, 19 (31.67%) are found in the age group of 20-31 years and smaller size of the respondents are non defaulters. The possible explanation might be elderly heads of household may accumulate larger wealth and experience in their life time than younger ones. This indicates that non-defaulters are more aged than defaulters implying that through time household heads acquire experience in the farming business and/or credit use. Moreover, older borrowers may accumulate more wealth than younger ones.

Table 3 Age group of the respondents

Age group	Defaulters		Non Defaulters		Total	
	Number of respondents	%	Number of respondents	%	Number of respondents	%
20-31	19	31.67	11	18.33	30	25.00
32-45	26	43.33	35	58.33	61	50.83
46-60	15	25.00	14	23.33	29	24.17
Total	60	100	60	100	120	100

Source: From the field survey

4.1.1.2. Family Size of the Respondents

The total number of family members of 120 sample respondents is 639 with an average of 5.32 per a respondent. The total family size of 60 defaulters and 60 non defaulters is 324 and 288 with average family size of 5.4 and 4.8 per household respectively. 52 (43.3%) out of the total 120 respondents have a family size more than six. The study survey shows that 29.7%, 27.5%, and 43.3% of the respondents have a family size of 1-3, 4-6 and above 6 respectively. It further shows that the smaller size of a family has a higher contribution for loan repayment rate. For example, out of the total 35 respondents with a family size ranging from one to three, only nine (25.7%) are defaulter and the rest majority are non defaulters. One the other hand, 31 (59.6%) of the total 52 respondents with highest range of family size (above 6) are defaulters and only 21 (40.6%) are non defaulters. The average family size of the respondents is 5.32 (4.8 persons for non-defaulters and 5.4 persons for defaulters).The minimum and the maximum family size were 1 and 9 persons per household head respectively.

Some researches (Ojiako and Ogbukwa (2012)) shows that large sizes of the families could serve as a source of labour which will increase the output of agricultural activities and hence positively affect the farmer's ability to repay the loan. The larger the number of family members, the more

the labor force available for production purpose. This is true if the dependency ratio of the household is small. However, this research has revealed there is a negative relationship between the higher family size and loan repayment performance. This implies that the higher the household size related with the higher the dependency ratio for non defaulters. Abafita (2003) has made the same analysis on the negative relationship between family size and loan repayment performance mentioning his study conducted in Oromia credit and saving institution in Kuyu, Ethiopia. According to his finding; sex, loan size and number of dependants are negatively related to loan repayment.

Table 4 Family size of the respondents

Family size	Defaulters		Non Defaulters		Total	
	Number of respondents	%	Number of respondents	%	Number of respondents	%
1-3	9	15.00	26	43.33	35	29.17
4-6	20	33.33	13	21.67	33	27.50
Above 6	31	51.67	21	35.00	52	43.30
Total	60	100	60	100	120	100

Source: From the field survey

4.1.2. Socio Economic Factors

4.1.2.1. Education Status of the Respondents

The importance of education in changing the attitude of people is unquestionable. It contributes positively for development and has a positive impact on household ability to understand and utilize new technological information and also to know their rights and obligations. It can help them to understand their rights to borrow agricultural input credit and also their obligation to

repay their debt on time. But lack of education and poor awareness level thereof may be a bottleneck to manage the input credit and repay on the stated repayment date. This research has led to reach similar conclusion on the topic under discussion. From the total number of sample respondents, 86 (71.67%) are illiterate and the rest 34 (28.33%) are literate who attended at least primary school. The following table clearly shows that out of the total 60 sample defaulter respondents, majority of them who are 49 in number and 81.67% in percent are found to be illiterate while relatively smaller number of non defaulters (37 in number and 61.67 in percent) from the same size of non defaulter respondent samples are illiterate. Therefore, the literate borrowers are well informed and responsible to repay their loan on time than illiterate borrowers. On the other hand, illiterate people did not receive formal education and are likely to have inadequate knowledge of loan management, thereby making them unable to repay the loans given to them.

This research finding is similar with other previous studies which have found that the loan repayment performance of farmers is mainly affected by farmers' characteristics such as years of farming experience and their level of education (Oke, et al., 2007, Oladeebo and Oladeebo, 2008, Afolabi, 2010).

Table 5 Educational level of the respondents

Level of education	Defaulters		Non Defaulters		Total	
	Number of respondents	%	Number of respondents	%	Number of respondents	%
Illiterate	49	81.67	37	61.67	86	71.67
Primary school	10	16.67	21	35	31	25.83
Secondary school	1	1.67	2	3.33	3	2.50
Total	60	100	60	100	120	100

Source: From the field survey

4.1.2.2. Alternative Off Farm Income Generating Activities

The major non-farm income generating activities practiced in the study area were daily laborers, petty trading, retail shops and local drinks. The income generated from off/non-farm activities varies from household to household with minimum and maximum values of Birr 0 and 8, 400 respectively. Non defaulters earned on average Birr 6,102.15 whereas defaulters earned on average Birr 914.52. The survey results also indicated that a larger proportion of those engaged in off farm activities and earning income are non-defaulter households. The following table shows that as the income of farmers from off farm activities increases, the chance of default of borrowers' declines. For example, there are about 39 defaulters when the income from off farm activities is small (ranging from 0 to 1,000 Birr). On the other hand, when the income reaches to the range of 6,000-9000 Birr the number of defaulter reduced down to 4 and non defaulters reached 16.

Table 6 Size of off farm income

Income from off farm activities (Birr)	Defaulters		Non defaulters		Total	
	Frequency	%	Frequency	%	Frequency	%
0-1,000	39	65	11	18.33	50	41.67
1,000-3,000	11	18.3	14	23.33	25	20.83
3,000-6,000	6	10	19	31.67	25	20.83
6,000-9,000	4	6.67	16	26.67	20	16.67
Total	60	100	60	100	120	100

Source: From the field survey

4.1.2.3. Saving Habit of the Respondents

Saving money is an advisable practice that needs to be implemented by everyone. Even the poor should develop saving habit from their meager amount of income. Unfortunately, this field survey has found that there is very poor saving habit among the respondents. The finding shows

that among the total 120 respondents, only 26 (21.67%) practice saving and the rest do not. This will be attributed to some factors such as inadequate income to save, lack of information on the importance of saving and other factors. The more the amount of savings is the greater the capacity to invest properly and repay on time. The following table shows that from the total 60 defaulter only 4 (6.67%) have saving habit and the rest do not. On the other hand, out of the total 60 non defaulter respondents, majority of them (38 (63.33%)) have saving habit. Therefore, it cab ne conclude in this research that saving has a paramount contribution in loan repayment performance of borrowers.

Table 7 comparison of defaulters and non defaulters in their saving habit

Nature of saving	Defaulters		Non defaulters		Total	
	Frequency	%	Frequency	%	Frequency	%
Those who practice saving	4	6.67	22	36.67	26	21.67
Those who do not practice saving	56	93.33	38	63.33	94	78.33
Total	60	100	60	100	120	100

Source: From the field survey

4.1.2.4. Total Livestock Ownership of the Respondents

The number of livestock is one of the most important factors that has direct relationship with economic and social positions of Ethiopian farmers. Greater number of livestock is a guarantee for farmers at the time of economic shock due to some factors such as, for example, reduction of crops due to crop diseases. Livestock is the most important asset for rural households in Ethiopia next to land. The maximum number of livestock of respondents is three oxen, three cows, two heifers, five calves, 12 sheep, six goat, one mule and 16 chickens and the minimum is a cow and two chickens. It is important to convert the number of livestock to Tropical Livestock Unit

(TLU) to make the comparison of loan repayment performance of respondents easier. Based on this, the maximum TLU of respondents is 12.4 and the minimum is 1.026. The average number of livestock unit (TLU) of the total sample households was 2.933. The average TLU of defaulters and non defaulters is 2.211 and 3.24 respectively. Table 8 below shows that 44 (73.33%) of defaulters have a TLU of 1-2.5. The survey shows that as the number of livestock increase, the number of defaulters decreases accordingly. The survey found that among the total 11 respondent households who have TLU above, none of them are found to be defaulters. On the other hand out of 51 respondents who have relatively smaller size of TLU, majority, 44 (73.33%) are found to be defaulters. This result indicates that the non defaulters have better livestock ownership compared to defaulters and help to properly utilize their credit and repay their debt on due date. The implication is that, Livestock are sources of cash in rural Ethiopia and serve as security against crop failure. Farmers who owned more livestock are able to repay their loans even when their crops fail due to natural disaster. In addition, as a proxy to oxen ownership the result suggests that farmers who have larger number of livestock have sufficient number of oxen to plough their field timely and as a result obtain high yield and income to repay loans.

Table 8 Size of livestock of respondents in TLU

TLU	Defaulters		Non Defaulters		Total	
	Number of respondents	%	Number of respondents	%	Number of respondents	%
1-2.5	44	73.33	7	11.67	51	42.5
2.5-4.5	15	25	18	30	33	27.5
4.5-6.5	1	1.67	24	40	25	20.83
Above 6.5	-	-	11	18.33	11	9.17
Total	60	100	60	100	120	100

Source: From the field survey

4.1.2.5. Land Size of the Respondents

Land is the source of livelihood and income in the rural areas. The size of the land determines the social as well as the economic positions of farmers. The fertility status, location and other attributes of land, in association with its size, made it a binding resource in agriculture. The average size of land of the respondents is 0.97 ha, which is nearly equal to the average size of the Woreda 0.98 ha. The maximum size of land of sample respondents is 5 ha while 0.13 ha is the minimum. Among the total 60 non defaulter sample respondents, 57 (95%) have a farm size of more than 0.5 ha and only 3 (5%) have less than 0.5 ha of land. On the other hand 22 (36.67%) of the total defaulters have a farm size less than 0.5 ha. None of the two respondents whose farm size is more than 1.5 ha are found to be defaulters. This shows that it is those farmers whose farm land size is more than 0.5 ha are non defaulters as compared to those whose farm size is less than 0.5 ha. This also implies that access to larger size of land size help farmers to produce enough amount of produce and enables to use the loan properly and repay their debt in time as compared to defaulters. Larger size of the land ownership has a positive influence on loan repayment for farmers because the land is an asset and a major source of capital in conducting their farming activities. A farmer with more hectares of land is better off in loan repayment performance.

Table 9 Landholding size of respondents

Landholding size	Defaulters		Non Defaulters		Total	
	Number of respondents	%	Number of respondents	%	Number of respondents	%
0.13-0.5	22	36.67	3	5	25	20.83
0.5-1	27	45	32	53.33	59	49.17
1-1.5	11	18.33	23	38.33	34	28.33
Above 1.5	-	-	2	3.33	2	1.67
Total	60	100	60	100	120	100

Source: From the field survey

4.1.2.6. Credit Experience of the Respondents

Learning lessons from experience is one of the factors which differentiate the loan repayment status of borrowers. The field survey shows that the respondents have various experiences to exposure of credit management from formal lending institutions. In this research study, experience is related to the number of rounds that a borrower have got loan from formal lending institutions. The minimum round is found to be one and the maximum is three rounds. 49 (40.83%) respondents out of the total 120 sample respondents have got loan for a round and the rest 35 (29.17%) and 36 (30%) have exposure to loan for two and three rounds respectively. It can be inferred from this research finding that trust has been built between lending institutions and those borrowers who have totally repaid their initial loans and the risk of defaulting would be lower if a lending institution issue loan for those who have accumulated experience in handling loan.

Out of the total 60 non defaulters, majority of them (24 in number and 40 in percent) have well experience in handling previous credits for three rounds whereas the rest 15 (25%) and 21 (35%) have exposure for one and two rounds for credit exposure respectively. On the other hand majority of the defaulters (34 (56.67%)) among 60 have access to loan only once in their life

time. This indicates that the farmers who had more experience with formal credit from the same institute/different institute were more likely to repay their loans than, those with less credit experience.

Table 10 Experience in credit management

Number of rounds a borrower get loan from the cooperative	Defaulters		Non Defaulters		Total	
	Number of respondents	%	Number of respondents	%	Number of respondents	%
1	34	56.67	15	25	49	40.83
2	14	23.33	21	35	35	29.17
3	12	20	24	40	36	30
Total	60	100	60	100	120	100

Source: From the field survey

4.1.2.7. Expenditures on Social Ceremonies of the Respondents

Libo kemkem Woreda is just one of the areas like any other part of Ethiopia where the community practice some traditional ceremonies. Wedding, funeral ceremonies, ceremonies related to the death and birth of individuals etc are among them. Therefore, people who practice such kinds of ceremonies have to incur some costs out of their income. According to this field survey, all of 120 sample respondents participated in traditional ceremonies in one way or the other and incurred an average of 1,150 Birr pet head per year. The maximum cost incurred in 2008 E.C for such ceremonies is found to be 6,700 Birr and 320 Birr is the minimum. It is important to discuss here about the average amount of loan that the respondents have taken from their respective cooperatives in order to relate with the amount of cost incurred for traditional ceremonies. The maximum amount of loan taken by respondents is 7,000 Birr and the minimum is 1,200 Birr. The social ceremonies have their own negative impact on the loan repayment performance of borrowers and force the household to use the borrowed money for consumption.

The following table shows that the number of non defaulters is higher than the defaulters when expense for social ceremonies is lower. On the contrary, the number of defaulters is higher than the non defaulters when the expense for social ceremonies is higher. The number of non defaulters among 45 respondents who incurred money for social ceremonies with the range of 300-100 Birr, which is less than other ranges, is 33 (73.33%) as compared to 12 (26.67%) defaulters. This result shows the amount of money spent by the non defaulters was less than the amount of money spent by defaulters.

The possible explanation is that, celebration of one or more of such social ceremonies require more material and financial resources, beyond what the borrowers could afford. This means that the money which should have been used for repayment might have been used for the celebrations.

Table 11 Involvement of respondents in social ceremonies

Expense for social ceremonies	Defaulters		Non Defaulters		Total	
	Number of respondents	%	Number of respondents	%	Number of respondents	%
300-1000	12	20	33	55	45	37.5
1000-2500	17	28.33	16	26.67	33	27.5
2500-4500	17	28.33	8	13.33	25	20.83
5000-7000	14	23.33	3	5	17	14.17
Total	60	100	60	100	120	100

Source: From the field survey

4.1.3. Institutional Factors

4.1.3.1. Supervision by Management Bodies of Cooperatives and Experts

Supervision and monitoring are important management function deployed by various institutions for their smooth and efficient functioning. Similarly, timely supervision of lending institution is very important for efficient utilization of credit. Such supervision prevents the misuse of credit for non productive purposes and hence facilitates regular loan repayment. Utilization of credit for the intended purpose in turn ensures increase in production and income and ultimately for the agricultural development. Commonly loan collection in the study area is performed by loan committee of the cooperatives. Moreover the committee has a responsibility for timely supervision and to follow up the credit utilization of borrowers at their locality. According to the survey result, supervision of borrowers by the committee members before the due date of loan repayment was found to be important. From the total 120 borrowers 37 (30.83%) of the sample households responded that they are supervised by loan committee before the due date of loan repayment whereas 83 (69.17%) of the respondents reported that they were not supervised by any loan committee and experts. From which the result shows 32 (53.33%) non defaulters and 5 (8.33%) defaulters were supervised and 28 (46.67%) non defaulters and 55 (91.67%) defaulters were not supervised. Therefore, the results shows supervision and close follow up after disbursement of the loan is very fundamental to ensuring efficient utilization and repayment of loan. It further shows that majority of the defaulters 55 (91.67%), out of the total 60, shows that they have never been supervised by any concerned bodies and believed that lack of supervision did not initiate them to pay their debt. Therefore, supervision by any concerned body is important.

Table 12 Supervision by management bodies

Age group	Defaulters		Non Defaulters		Total	
	Number of respondents	%	Number of respondents	%	Number of respondents	%
Got supervision	5	8.33	32	53.33	37	30.83
Did not get supervision	55	91.67	28	46.67	83	69.17
Total	60	100	60	100	120	100

Source: From the field survey

4.1.3.2. Training

Awareness creation before the commencement or during credit provision by a lending institution will help borrowers what they should in the future do in order to be effective in loan management and repayment. Agela Hana and Yifag cooperatives have taken some initiation in this regard before they disburse credit to their respective members. However, since there is financial problem to give training to the whole borrowers, the cooperatives have provided training to some selected borrowers on loan management. The following table compiled from the field illustrates the number of borrowers who have taken training on loan management and status of loan repayment in relation to defaulters and non defaulters. The survey shows that out of the total 120 sample respondents, 48 (40%) have got training on loan management and responsibilities of the borrowers before issuing the loan where as the rest 72 (60%) did not. Out of the total 48 respondents who have got training on the topic under discussion, only 13 of them (27%) are found to be defaulters and the majority 35 (63%) are non defaulters. Among the total 60 sample non defaulter sample respondents, 35 (58.33%) of them have got training before loan provision and loan repayment status is relatively higher as compared to those another 60 sample defaulter respondents who did not get the training. Therefore, training plays a paramount role in

better loan repayment status of borrowers and lending institutions should give due attention in creating awareness among borrows in advance.

Table 13 Provision of training

Age group	Defaulters		Non Defaulters		Total	
	Number of respondents	%	Number of respondents	%	Number of respondents	%
Got training	13	21.67	35	58.33	48	40
Did not get training	47	78.33	25	41.67	72	60
Total	60	100	60	100	120	100

Source: From the field survey

4.1.3.3. Adequacy of Credit

The sufficient amount of credit means that the supply of credit equivalent to the amount of demanded, On the other hand if the households get enough amount of loan, it may be safe from the exploitative nature of informal lenders. The survey results reveal that 54 (45 %) of the borrowers acquired sufficient amount of credit whereas 66 (55%) borrowers not received sufficient amount of credit. 18 (30%) of the non-defaulters and 36 (60%) of the defaulters reported that they received sufficient amount of credit. In the study area if the households acquired sufficient amount of loan, it might enable them to utilize properly and repay their loan timely.

Table 14 Adequacy of loan

Adequacy of loan	Defaulters		Non Defaulters		Total	
	Frequency	%	Frequency	%	Frequency	%
Adequate	36	60	18	30	54	45
Not adequate	24	40	42	70	66	55
Total	60	100	60	100	120	100

Source: From the field survey

4.1.3.4. Lack of Accountability

The cooperative societies have their own organizational structures which are responsible to the day to day activities of the cooperatives and. Among such structure is loan repayment committee whose main duty is collecting loan from borrowers based on the loan agreement. Beside that, Keble administration has its own separate committee whose main duty is collecting Safety nt loan. Besides these roles in collecting loans, they should supervise how borrowers are using their loan for the intended purpose or not. Based on the this field survey (as indicated in the following table), majority of the respondents (86 in number and 71.67 in percent) believe that weakness of the cooperatives and Kebele administration in taking administrative as well as legal action on those loan committee members who are not accountable to their respective institution exacerbate the loan repayment problem. 47 (78.33%) of the defaulters as well as 39 (65%) of the non defaulters also believed that the loan committees are not questioned by any government as well as non government organizations for their failures in implementing their responsibilities in the area of loan repayment.

Table 15 Accountability of loan committee

Do you thinks that loan committee feel accountable on loan repayment	Defaulters		Non defaulters		Total	
	Frequency	%	Frequency	%	Frequency	%
No	47	78.33	39	65	86	71.67
Yes	13	21.67	21	35	34	28.33
Total	60	100	60	100	120	100

Source: From the field survey

4.1.3.5. Lack of Incentives

The focus group discussion participants have raised the issue of incentives for loan repayment committee members. This comment was also strongly raised from Libo Kemkem woreda cooperative promotion office. According to them, the main cause of committee members for their lack of enthusiasm in collecting loan from borrowers is that they are not rewarded morally as well as financially in a meaningful way for their effort in the collection of loan from the cooperative borrowers. 92 (76.67%) respondents out of the total 120 sample respondents believed that adequate incentives must be given for loan committees to strengthen their effort.

4.2. Revolving Fund

The secondary data obtained from Libo Kemkem Woreda Cooperative Promotion Office has revealed that there are three multipurpose cooperatives that were given to manage a revolving fund. They were supposed to distribute farm technologies to their member on credit base with the assumption that the credit will be collected and redistributed to other members in subsequent years. The sources of these credits are nongovernmental organizations. The following table

illustrates the name of cooperatives which distributed revolving fund, source of the fund and status of loan collection & revolving.

Table 16 Revolving fund status of the cooperatives

S/N	Name of the cooperative	Source of the fund	Purpose of loan	Number of borrowers	Loan Distributed (Birr)	Loan Collected (Birr)	%
1	Agela Hana	EOC-DICAC	Improved seed	145	33,500	-	0
2	Yifag	MEDA	Farm tools	36	36,770	-	0
3	Bura	World Bank	Milk cows	120	665,000	-	0
	Total			301	735,270		0

Source: Libo Kemkem Woreda CPO 2015 report

From the total of 60 defaulter samples, 15 samples have got credit originated from NGOs and channeled through their respective cooperatives. All of these 15 defaulters said that they did not repay their loan because they believe that NGOs fund is donation unlike government loan. The focus group discussion held with various participants said that there is less attention from the cooperative as well as government side in insisting borrowers to pay their loan originated from NGOs as compared to government loan.

CHAPTER FIVE

SUMMARY, CONCLUSION and RECOMMENDATION

5.1. Summary

Ethiopia is one of the largest countries in Africa and second most populous country in Sub-Saharan Africa, with population of 91 million and growing at 2.9% per year (World Bank Report 2012). The agriculture sector is important to the Ethiopian economy; contributing 46.4% to Gross Domestic Product (GDP), at an annual rate of 7%, and employing roughly 85% of the labour force (Ministry of Agriculture Report, 2012). The sector generates 90% percent of export (foreign currency) earnings and accounts for 85 percent of rural employment. Hence, agriculture is the backbone of the economy from which 80 percent of the population derives its livelihood (Haile and Assefa, 2006).

Provision of loan to farmers is one of the strategies of government of Ethiopia through which self reliance is intended to be achieved. Cooperatives are one of the channels that credit services are delivered to their member farmers.

Libo Kemkem Woreda 2015 annual report shows that a total of 34,342,481 Birr is not collected so far from the borrowers. Libo Kemkem Woreda stood first among the six food insecured Woredas in South Gondar Zone in its poor loan collection performance. Some steps, though not satisfactory, have been taken by the government as well as non government organizations in order to improve loan repayment status of the woreda. For example, charity organizations by the name Ethiopian Orthodox Church Development and Inter Church Aid Commission (EOC_DICAC), Organization for Rehabilitation and Development in Amhara (ORDA), and Mennoite Economic Development Association (MEDA) have trained management committees of the cooperatives on loan management. Furthermore, EOC-DICAC has taken some selected participants from various woreda`s government offices and management committee members of cooperatives to North Gondar zone in Metema woreda to share some successful experiences. Kokit multipurpose cooperative (MPC) was visited by these participants in the year 2014.

This cooperative was awarded at national as well as regional level for its excellent performance in loan recovery (Libo Kemkem Woreda Communication Affair Office Annual Report, 2014).

Therefore, this study was undertaken with the overall objective of assessing the loan repayment and revolving fund status of farmers` cooperatives. The study was conducted in Libo Kemkem Woreda which is located in South Gondar Administrative Zone of Amhara National Regional State. Both primary and secondary data were used. Primary data were collected through household surveys, using structured interview schedule. Focus group discussion and key informants interview were used. Secondary data were collected from relevant sources to supplement household survey data. Data analysis was carried out using descriptive statistics. A two-stage random sampling method was used to select the sample respondents. In the first stage, from 15 multipurpose cooperatives (MPC) found in Libo Kemekem Woreda (having 25182 farmer members) three MPC were selected purposively from the sampling frame obtained from Woreda Cooperative Promotion Office (WCPO). In the second stage, the respondent borrowers were divided into Defaulters and non defaulters, listed from each sample members of Cooperatives. Lastly, probability proportionate to size of sample was used (PPS) in order to select representative sample respondents. Thus 120 sample farmers (60 defaulter and 60 non defaulters) were selected out of the sample MPC randomly from the lists of respective cooperatives taking credit in the year 2013 using probability proportional to size.

Descriptive statistics were used to analyze the data collected from sample household heads. In descriptive analyze such as mean, frequency, and percentage were used to analysis all relevant explanatory variables. The result showed that demographic, socioeconomic and institutional factors including age, family size, educational level, land size etc positively or negatively affects the loan repayment status of borrowers.

Furthermore, there is also a misunderstanding among the borrowers that loans originated from Non Governmental Organizations is simply a donation and need not to be repaid as a revolving fund. This finding is also strengthened from the viewpojt of focus group discussion participants who said there is less attention from the cooperative as well as government side in insisting borrowers to pay their loan originated from NGOs as compared to government loan.

5.2. Conclusion

Generally, the loan repayment performance of Agela hana, Yifag and Bura Multipurpose Cooperatives is found to be very poor. The following demographic, economic, and institutional factors have contributed for unsatisfactory loan repayment performance of the cooperatives where this field survey was conducted.

Age of the household head was found to be an important factor in affecting loan repayment performance of cooperatives. The reasons why younger borrowers in this study are relatively higher defaulters is their limited experience in handling loans and are not fully conscious of social as well as economical impact of loan default. On the other hand, those farmers who are in the higher age come through various situations in their life and acquired some relevant lessons and accumulate basic knowledge on handling difficult financial problems. They relatively recognize the consequence of loan default better than their youngsters and are not interested to face the deleterious effect of loan repayment failure before the deadline of loan repayment expire.

This filed survey also shows that there is a negative relationship between higher family size and loan repayment performance of borrowers. This is because as the number of family members of the household increases, that family is expected to incur additional expenses for food, shelter, schooling, clothing and other related obligations all these issues compel the borrowers to shift their loan to unintended purposes.

This field survey has also further identified that there is a positive relationship between higher educational level and loan repayment performance of borrowers. Education helps borrowers to get some useful information and experiences and lessons from publications so that they can adapt in their own context. On the other hand illiterate people are found to be highly defaulters due to the fact that they lack some numerical skills and information on loan management. They could not grasp recently published findings on loan management and they may decide on their loan haphazardly.

Larger plot of land means higher production which will lead to higher income. This field survey shows that there is a positive relationship between larger size of land owned by a borrower and the loan repayment status. On the other hand, those farmers who have smaller plot of land gets

proportionately smaller agricultural produce from their farm and eventually lead to smaller income. Therefore, since farmers generate inadequate income from their smaller plot of land, diverting loan for other unintended purposes to solve immediate problems is inevitable which will finally put them under the category of loan defaulters.

Those farmers who have ample number of livestock are not found to be defaulters in this study. This is because, beside to generating income from the product of livestock such as milk, egg, egg etc, farmers sell livestock and get money so that they can supplement their income at the time of, say, crop failure and can cover their loan obligations. However, those farmers who have no or smaller number of livestock do not have any alternative source of income and the risk of loan default is relatively higher.

This study has also revealed that farmers engaged in alternative income generating activities have economic strength and enhance their loan repayment status as compared to those who are not involved in alternative income generating activities. Farmers sometimes engaged in some alternative income generating activities such as fattening of oxen, weaving and selling of fire wood to augment their income and support their family.

It is found in this research that the probability of occurrence of loan default has reduced among sample respondents who have got supervision from management committee members of the cooperatives and woreda experts. It helps borrowers to remember the due date that the loan is to be returned and get advise not to divert the loan that they got. In this way supervision alerts borrowers to stick firmly on loan agreement that they have entered.

Those respondents who have got training in relation to loan management, responsibilities, and due date of loan repayment have shown better loan repayment performance compared to those who did not get the training. Therefore, training in relation to various aspects of loan management and repayment contributes to encouraging loan repayment performance of borrowers.

Based on this research survey, adequacy of the loan has a direct relationship with loan repayment status. Borrowers simply divert their loan to other unintended purposes if they think that the loan size is not sufficient to fully involve in for the intended purpose.

This study shows that there is no clearly indicated accountability guideline which force loan repayment committees of cooperatives to collect the loan from the borrowers within the time frame indicated on loan agreement. No one asks the committee for their failure not to collect the loan. There are no binding rules for loan collection and the loan committees are not responsible for the failure of loan collection.

Incentive is a driving force to take a certain action. For example, the government of Ethiopia has adopted a strategy of paying incentives in rural areas for those who collect land tax from the farmers in rural areas. However, such strategies are lacking in loan collection in the two sample multipurpose cooperatives. The loan committee are not rewarded for their effort in loan collection and simply set aside loan collection as secondary activity. Therefore, lack of moral as well as financial rewards for loan committee members has contributed unsatisfactory loan collection of cooperatives.

Furthermore, although adopting revolving fund modality in cooperative is vitally important in strengthening the cooperatives themselves and addressing credit demand of cooperative members, it is not working in the desired manner. Funds originated from nongovernmental organizations passed through cooperatives as revolving fund are not managed properly. The nongovernmental organizations themselves did not evaluate how their money is used by the cooperatives.

5.3. **Recommendations**

Based on the conclusions reached in this field survey, the following recommendations are given by the researcher.

- This field survey has revealed that those borrowers whose family size is relatively higher are found to be relatively higher defaulters. This is probably attributed to higher dependency ratio and the associated higher expenses for household consumption. Therefore, the government as well as non government organizations needs to focus on such families and involve them in

alternative income generating activities. Family planning programs need to be strengthened as a long term solution for the problem.

- Monitoring and supervision are important tools in controlling loan utilization of borrowers. There should be continuous contact between borrower and government as well as cooperative officials and the loan utilization trend of the borrowers must be checked regularly. This will help to advise borrowers if they show some symptoms that might lead them to default. Therefore, the cooperative administration bodies as well as government structures should enhance the capacity of loan committees in supervising the loan utilization performance of borrowers.
- It is found from this research survey that almost all of the sample respondents, both defaulters and non defaulters perform traditional ceremonies once in a year, although the amount of loan incurred varies among them. Therefore, awareness creation through print as well as mass media should be made so that farmers should be refrained from such unnecessary activities. Non Governmental Organization should also inculcate a project or program to eradicate harmful traditional practices. Since most of the traditional ceremonies are more of religious in nature, awareness creation should also be given to religious leaders so that they in turn preach their fellow on the evil nature of incurring unnecessary cost for traditional ceremonies.
- Natural hazards have a direct negative impact on loan repayment. These are rare events that occur beyond the capacity of the borrower. Therefore, means has to be sought to tackle such problems in advance such as insurance, compensation mechanism, like write- off the agreement of the loan if death of their animals and lose of crop might be happened by unforeseen events.
- The managerial as well as the numerical skill of borrowers should be enhanced through formal as well as informal education. If farmers are educated, they analyze situations critically and take sound decision based on the available information. Therefore, government as well as nongovernmental organizations should strive in improving the educational level of borrowers as

it will have positive relationship with appropriate loan utilization and repayment.

- Various development actors need to focus on improving the production, productivity and genetic makeup of livestock in order to ensure farmers could get maximum benefit from the enterprise. Farmers` loan repayment performance would be enhanced if they get the chance to get involved in livestock production. It is, therefore, important that more attention be given to the livestock sector at least in the following areas: feed resource improvement and management; genetic resource improvement; control and/or prevention of animal diseases and parasites; and development of marketing facilities for animal and animal products. But this demands concerted efforts and integrated task of the government, cooperatives, NGOs and the farmer himself.
- As borrowers get the chance of getting repeated rounds of loan from their cooperatives, they develop their experience on how to utilize the loan properly and pay their loan accordingly. Therefore, there is direct and positive relationship between experience and loan repayment. This might be because of the fact that those farmers that have utilized loan for longer period of time developed skills and experience how to use the loan wisely for productive purpose and income generating activities. This ultimately improves the loan repayment performance of farmers. In addition, those farmers that are regular customers of formal credit institution have a better knowledge in the rules and regulation of financial credit institutions and more aware of the consequence of loan default on the availability of credit for the next year and are likely to make conscious decision to repay loan timely. This may indicate that the need to mobilize more poor farmers to become customers of formal financial institutions. This is possible by strengthen the financial and managerial capacity of these institutions in order to provide service as it required. Therefore, the government as well as nongovernmental organizations should technically support farmers to approach cooperatives for loan as many as possible until they get experience and develop confidence on their own cooperatives.

- It was mentioned in the conclusion part above that those farmers who have engaged in alternative income generating activities have shown better economic strength compared to those who have not involved. This has a direct and positive relationship with loan repayment performance of borrowers. Since this result enables us to recommend that as land is getting smaller and smaller with higher population increase, then diversification of non-farm and off-farm activities for additional income of the family in rural areas was the best and most chooses in now days. Various institutions must be established and the existing one must be strengthened to create new areas of employment in the field of off farm activities. This may mitigate two basic rural problems such as rural unemployment and shortage of cultivable land. Therefore, the government as well as non government organizations need to device different strategies so that farmers could involve in various profitable income generating activities.
- This field survey has concluded above that the amount of loan that the borrowers have received from their respective cooperatives determine the success of their objective for which the loan was taken. Some respondents have mentioned that they are not interested to do with the loan if the loan size is not adequate. Individuals who took large amount of credit had better repayment performance than those who took smaller ones. Therefore, government should create conducive environment to provide timely and adequate credit services to farming households through cooperatives at a competitive price to enhance agricultural product. The government as well as the cooperatives themselves needs to thoroughly evaluate the actual demand of borrowers as it will have negative effect in the later loan repayment performance of borrowers and low agricultural production.

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Annex 1
Conversion factors used to estimate the households` Livestock Ownership in Tropical Livestock Unit

Animals	TLU-equivalent
Calf	0.25
Heifer & Bull	0.75
Cows & Oxen	1.00
Horse	1.10
Donkey	0.70
Sheep & Goat	0.13
Chicken/poultry	0.013

Source: Strock *et al.* (1991)

Annex 2

Data showing Capital of the Cooperatives in Libo Kemkem Woreda

S/N	Name of the cooperatives	Liability	Capital	Total	Fixed asset	Current asset	Total	
1	Genda wuha	469,273	147725	616998	25738	591260	616998	
2	Micheal Debir	7,764,559	599084	8363644	88480	8275164	8363644	
3	Yifag	6366885	899518	7266403	560379	6706023	7266403	
4	Ambo Meda	10073735	630976	10704711	83518	10621193	10704711	
5	Yabebal Shena	966019	570243	1536262	790357	745905	1536263	
6	Sediye Yediget chora	0	0	0	0	0	0	
7	Libo Ameno	3693403	99637	3793040	23574	3769466	379304	
8	Tibaga	677653	147116	824770	58991	765779	824770	
9	Metebaber Melkam	140706	91728	232434	5911	226523	232434	
10	Kab	2195755	302876	2498631	41394	2457237	2498631	
11	Agela Hana	10267733	1880386	12148119	106590	12041528	12148119	
12	Bira	0	0	0	0	0	0	
13	Agid Kiragna	1071342	113040	1184382	35260	1149122	1184382	
14	Shehoch Tahera	895960	81884	977844	29040	948804	977844	
15	Bura	1795992	352476	2148468	11774	2136694	2148468	
	Total	46,379,015	5,916,689	52,295,704	1,861,006	50,434,698	52,295,704	

Source: Libo Kemkem Woreda CPO report, 2016

PROFORMA FOR SUBMISSION OF M.A (RD) PROPOSAL FOR APPROVAL

Enrolment No: ID1216869

Date of Submission:

Name of the Study Centre: ST. MARY`S UNIVERSITY COLLEGE

Name of the Guide/Advisor:

Title of the proposal: ASSESSMENT OF LOAN REPAYMENT AND REVOLVING FUND STATUS OF FARMER`S COOPERATIVES: THE CASE OF LIBO KEMKEM WOREDA, SOUTH GONDAR ZONE, AMHARA NATIONAL REGIONAL STATE, ETHIOPIA.

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School Of Graduate Program

Assessment of Loan Repayment and Revolving Fund Status of Farmers` Cooperatives: The Case of Libo Kemkem Woreda, South Gondar Zone, Amhara Region

M. Sc. Thesis Research Proposal

By

Kifle Worku

August 2016

ABBREVIATIONS

ACSI	Amhara Credit and Saving Institute
ANRS	Amhara National Regional State
BoFED	Bureau of Finance and Economy Development
CBE	Commercial Bank of Ethiopia
CSA	Central Statistical Agency
FAO	Food and Agriculture Organization
FEDO	Finance and Economy Development Office
GDP	Gross Domestic Product
ICA	International Cooperatives alliance
MOARD	Ministry of Agriculture and rural development
MPCs	Multi-purpose Cooperatives
NBE	National Bank of Ethiopia
NGO	Non Governmental Organization
WCPO	Woreda Cooperative promotion Office
WoFEO	Woreda Finace and Economy Office

TABLE OF CONTENTS

1. INTRODUCTION

1.1 Background

Ethiopia is one of the largest countries in Africa and second most populous country in Sub-Saharan Africa, with population of 91 million and growing at 2.9% per year (World Bank Report 2012). The agriculture sector is important to the Ethiopian economy; contributing 46.4% to Gross Domestic Product (GDP), at an annual rate of 7%, and employing roughly 85% of the labour force (Ministry of Agriculture Report, 2012). The sector generates 90% percent of export (foreign currency) earnings and accounts for 85 percent of rural employment. Hence, agriculture is the backbone of the economy from which 80 percent of the population devices its livelihood (Haile and Assefa, 2006).

It is obvious that if the problem of poverty is to be tackled further among the rural households in Ethiopia, there has to be fundamental transformation of small-scale production system to a more modernized agriculture, which would make use of improved farm inputs and modern technology. Provision of credit services to the poor has been considered as one of the strategies carved to reduce poverty and promote rural entrepreneurship. Increasing access to financial services hold the promise to help reduce poverty and improve development outcomes by enabling the poor to smooth consumption (in cases of adverse shocks such as poor rain, plant diseases, increase food price), start or expand businesses, cope with risk and increase/diversify household income. Having access to and acquiring financial services by the rural poor farmers is one way of improving productivity in the agricultural sector (Irz et al., 2002). Credit has been increasingly accepted as a powerful instrument to lift the rural poor out of abject poverty. It plays a crucial role in increasing agricultural productivity via building up production assets (Amha, 2000). It also enables smallholder farmers to invest in land improvements and thereby adopt new agricultural technologies such as high yielding seeds and fertilizers that increase their efficiency and income (Zeller and Sharma, 2000).

Financial services for the poor can be a powerful tool to fight poverty. Access to a well functioning financial system can empower individuals both economically and socially, allowing

them to integrate more successfully into the economy of their countries, actively contribute to their development, and protect themselves against economic shocks.

The development of the agricultural sector calls for, among others, the introduction of modern technologies. However, with the introduction of new production technologies, the financial needs of farmers increase manifold. Moreover, there exists no significant margin of income that can be channeled into the agricultural sector to undertake developmental activities. Thus, here comes the importance and significance of the availability of rural credits to bridge the gap between owned and required capital (Singh et al., 1985).

As Wolday (2004) stated, in Ethiopia, among other things, lack of finance is one of the fundamental problems impeding production, productivity and income of rural and urban households. Since access to institutional finance is very limited, the majority of the poor obtain financial services through informal channels, such as money lenders, 'Ikub', relatives and others. In Ethiopia, there is a wide gap between owned and required capital to finance the agricultural activities of small holder farmers since the income from subsistence agriculture does not provide much surplus beyond family consumption and other social obligations. The lack of access to capital in rural areas is one of the major factors which hinder the development of agriculture. The price of inputs is going up every year. Consequently, the dependence of the subsistence farmers on financial institutions for credit has become substantially higher now a day (Tefera, 2004). In Ethiopia, the importance of agricultural credit in the development of the sector has been underlined strongly by various authors (Sisay, 2008; Gebrehiwot, 2006; Tsegaye, 2006; Wolday, 2003). All these authors had concluded that credit helps to bring about the required productivity and food self sufficiency through the adoption of new technologies.

Steady agricultural development depends up on the continuous increase in farm investment. Most of the time, large investment cannot be made by the farmers out of their own funds because of their low level of incomes. Thus, here comes the importance and significance of the availability of rural credits to bridge the gap between owned and required capital (Gebrehiwot, 2007). Agricultural lending involves giving out of credit (in cash and kind) to small scale farmers for the purpose of farming. There is no doubt about the crucial roles of credit in economic

development. But the increasing default rate is one of the major problems of the lending institutions (Mohammad, 2009). A loan may be taken for productive reasons, but may be used for other purposes (such as consumption) that cannot be easily transformed to money repayment. A loan may be put into risky activities that might fail to repay the loan. These create a problem of involuntarily default. Voluntarily or strategic default can arise when the legal system of loan enforcement is weak, or probability costly (Woldehanna et al., 2002).

Increasing defaults in the repayment of loans may lead to very serious implications. For instance, it discourages the financial institutions to refinance the defaulting members, which put the defaulters once again into vicious circle of low productivity. Therefore, a rough investigation of the various aspects of loan defaults, source of credit, purpose of the loan, form of the loan, and condition of loan provision are of utmost importance both for policy makers and the lending institutions (Kelly, 2005). In Ethiopia, the current agricultural loan repayment performance is not promising.

Similarly, increasing default rate is one of the major problems of farmers' multipurpose cooperatives in Libo Kemkem Woreda. The past studies that were conducted on the factors contributing to loan default in different regions are not similar and the issues that were identified as problems in the previous studies may not issue today. This is because changes are in a continuous process that are bringing new challenges in terms of the conditions of credit supply, production technology, costs of production, the relative prices of the associated inputs and outputs, which could have impact on the general profitability of enterprises. In addition to these, factors affecting loan repayment performance of smallholder farmers even in the good harvesting years are not yet studied in the study area. Therefore, this study will be conducted with the following specific objectives.

4. To assess the extent of loan repayment of farmers` cooperatives
5. To assess the effectiveness of revolving fund modality
6. To identify major factors affecting loan repayment and revolving fund

1.2. Statement of the Problem

Provision of loans channeled through various institutions is one of the strategies of Ethiopia to alleviate poverty. This helps farmers to avoid challenges facing severe scarcity of financial resources and apply improved agricultural technologies to boost agricultural production and productivity. The adoption of modern technologies is relatively expensive and small farmers cannot afford to self finance. As a result, the utilization of agricultural technologies is very low. It is argued that enhanced provision of rural credit would accelerate agricultural production and productivity (Briquette, 1999).

Majority of the rural households could not borrow from the formal credit sources due to lack of access to these sources. The big share of credit covered by the informal sources of finance indicates that there is a huge unmet demand of credit.

In subsistence agriculture and low income countries like Ethiopia, where the smallholder farming dominates the overall national economy, small peasant farmers often face scarcity of capital (saving) due to low level of production to adopt new agricultural technologies. Hence, short and medium term credits with favorable terms for seasonal inputs like fertilizer, improved seeds, pesticide and herbicides would generally be favored because better return would be achieved quickly within the cropping season.

Amhara Credit and Saving Institute (ACSI) and farmers cooperatives are the two major institutions through which credit services are provided to the farmers in Amhara region. Cooperatives are expected to serve farmers by providing agricultural inputs, output marketing and providing credit services to their members.

Cooperatives are the main channels through which agricultural inputs are distributed to farmers in credit in Libo Kemkem Woreda with the assumption that the loans would be repaid in cash or kind. Furthermore, there are some loans passed through cooperatives with the assumption that the loan would revolve. However, the loans are not returned in the desired manner and even the meager repaid loan is not revolving properly. Various factors could affect loan repayment and revolving of the fund.

Hence, this study aimed at assessing the socio-economic, human and institutional factors affecting loan repayment of those farmers who have got loan from their cooperatives. Moreover, it tries to investigate factors contributing to the malfunctioning of revolving fund system.

1.3. Objective of the Study

- General Objective

The general objective of this study is to assess loan repayment and revolving fund status of farmers` cooperatives in Libo kemekem Woreda of Amhara Region, Ethiopia

- Specific Objectives

4. To assess the extent of loan repayment of farmers` cooperatives
5. To assess the effectiveness of revolving fund modality
6. To identify major factors affecting loan repayment and revolving fund

1.4. Significance of the Study

Funds extended for the purpose of augmenting capital of smallholders should be used for the intended goal and finally be repaid to the lending institution in order to have viable, strong and sustainable credit schemes and efficient operation mechanisms year after year. Contrary to this fact, it has been reported in various literature that loan default is a critical problem of Farmers` cooperatives in Ethiopia. Nonetheless, little has been attempted in identifying specific important factors that should be treated to reduce this national problem.

Therefore, the study will generate information on diverse set of issue related to loan repayment and revolving fund managed by multipurpose cooperatives in the study area. This would give direction for policy makers in order to design appropriate policy interventions. It further helps them to recognize the necessity of detailed study of root causes of differences in loan repayment status and also help stakeholders, including research, to design appropriate mechanisms for the effectiveness of loan provision and repayment based on micro level information.

2. REVIEW OF LITERATURE

2.1. Concepts and Definitions

Credit: - The Concise Mc Graw-Hill Dictionary of Modern Economics defines credit as an exchange of goods and services for a promise of the future payment. It also indicates that credit is necessary in a dynamic economy because of the time that elapses between the production of a good and its ultimate sale and consumption and credit bridges this gap. The risk in extending credit is the probability that future payment by the borrower will not be made (Greenwal & Associates, 1983).

Loan repayment: - The time that a borrower or debt holder to repay his dept or loan, the minimum payment that has to be made in a period or penalties levied for late payment (Graw-Hill Dictionary).In the study loan repayment refers to the period which member borrowers repay their agricultural input loan to their cooperatives.

Cooperative: - The International Cooperatives alliance (ICA) defined cooperatives in 1995 as a cooperative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise (ICA, 1995).

Agricultural Multi-Purpose Cooperative Societies: -multipurpose cooperatives unlike single purpose cooperative undertake diversified activities. Multipurpose cooperatives, which functions on the basis of a fully integrated framework of activities, planned according to member.s requirements identified at the grass root level, taking the socio-economic life of the farmer members in its totality.

Default and non default: - Default is defined as failure to pay a debt or a loan at the right time. On the contrary, non-default is defined as payment of a debt or a loan at the right time. Hunte (1996) defined credit worthy (synonymous to non-defaulter) borrowers as those who satisfy the entire loan contract conditions and repay their loans without ever going into arrears. Non-credit

worthy (defaulters), as opposed to non-defaulters, are those who breach their loan contracts and have repayment problems.

Agricultural input credit: -In the study, Agricultural input credit refers to short term credits extend to farmers for purchase of agricultural inputs like fertilizer, chemicals, seed etc**.**

2.2. The Need for Credit

Credit is the key input in every development program; this is particularly true for rural development because so long as sufficient credit is not provided to the development programs of poor sections of the society, the goal of development cannot be achieved. Access to capital in the form of either accumulated savings or a capital market is necessary in financing the adoption of many new agricultural technologies (Feder et al., 1985).

The importance of credit facilities to smallholders of less developed countries has been underlined by several authors (Adams and Graham, 1981; FAO, 1996; Gonzalez-Vega, 1977; Pischke, 1980). Governments of less developed countries and aid agencies have extended a large amount of money in the form of agricultural loans. The motivation has been the belief that loans are an essential part of various input packages that are prescribed as part of agricultural investment projects designed to introduce modern technologies and thus stimulate change and growth in agriculture.

According to Shahidur and Rashid (2003) Credit is important for development. It capitalizes farmers and entrepreneurs to undertake new investments or adopt new technologies. It helps smooth consumption by providing working capital and reduces poverty in the process. Both formal and informal lenders are active in rural credit market. Collateral-free lending, proximity, timely delivery and flexibility in loan transactions are some of the attractive features of informal credit. However, informal finance may not be as conducive to development as formal finance because; (i) it is expensive; (ii) it is short-term and largely used for consumption; and (iii) it is not generally large enough to spur investment and growth.

Recent theoretical and empirical work in economics has established that credit markets in developing countries work inefficiently due to a number of market imperfections. The literature cites a number of market imperfections which lead some potential borrowers to be rationed out of the credit market. These imperfections include: (1) interest rate ceilings usually imposed by the government; (2) monopoly power in credit markets often exercised by informal lenders; (3) large transaction costs incurred by borrowers in applying for loans; and (4) moral hazard problems. In many cases a number of these imperfections combine to ration farmers out of the loan market (Jeremy, 2004).

Foder (1985) as quoted in Belay (2002) stated that credit is Important in every development program; this is particularly true for rural development because, so long as sufficient credit is not provided to the development programs of poor sections of the society, the goal of development cannot be achieved. Access to capital in the form of either accumulated savings or a capital market is necessary in financing the adoption of new agricultural technologies. Studies undertaken in Ethiopia show that credit provision to small farmers increases their productivity and improves their standard of living. For instance, Assefa (1987) reported the need for the expansion of rural credit to all areas of the country. Likewise, Berhanu (1993) and Getachew (1993) pointed out the need for agricultural credit to increase productivity and accelerate adoption rates.

Generally, credit removes a financial constraint and helps accelerate the adoption of new technologies, increases productivity, and improves national and personal incomes. In addition, it constitutes an integral part of the process of commercialization of the rural economy and a convenient means of redressing rural poverty (MOA, 1995)

2.3. Agricultural Credit in Developing Countries

Fertilizer consumption in developing countries is closely linked with access to input credit. 70-90% of the annual fertilizer sales in these countries is on credit bases as compared to less than 30% in the developed nations (K.Wierer & J.C.AbboTT, FAO, 1995). Among other measures,

unless otherwise input credit is made available for farmers, the low level of fertilizer consumption will not be improved as required.

In developing countries there are a number of credit sources. Government banks (commercial and Agricultural), farmer cooperatives, credit and saving institutions, fertilizer retailers etc. are among the major ones. Though, public banks are the main sources of credit in many of the developing countries, unfortunately, in the greater number of cases, small farmers do not have easy access direct to bank credit as they lack land titles or other acceptable collateral. In the eye of banks, loans to small holders are too risky and costly to supervise (Zemen, 2005). Thus, banks to serve the small holders would have to lend to farmers cooperatives, rurally based micro credit and saving institution, fertilizer traders etc. since, these institutions are rurally based, they have the potential to reach small farmers that do not have access to the formal financial institutions (FAO, July 1995).

In countries where fertilizer distributors/ retailers play a prominent role in the marketing of agricultural inputs, they also provide efficient credit service to farmers. Unlike banks, they are mostly well placed to evaluate and judge the credit worthiness of farmers and to follow up repayment. Usually they are more flexible than institution in providing credit quickly and without bureaucratic procedures. Fertilizer distributors/ retailers in order to extend sufficient credit to farmers; they should have been also financed by banks or fertilizer manufactures /importers.

Agricultural cooperatives established to perform a variety of activities are also one of the main sources of input credit for the small holders. Contribution of members, saving and income obtained from other activities of the cooperatives are the main source of credit funds. Some cooperatives also depend on external fund sources like the agricultural or commercial banks. Although, cooperatives in the developing countries have a mixed record regarding their performance in input credit administration, they can efficiently administrate input credit extension activities at the gross root levels if bottom-up planning and decision making approach is followed; run by educated members, resolve organizational problems, ensure adequate infrastructure, management, and avoid government interference (FAO July 1995) Like

cooperatives, institutions established by share holders specifically to extend credit and to mobilize saving in the rural areas of developing countries can also perform credit extension activities for the small farmers from own fund sources or from external sources. In general cooperatives, fertilizer dealers and micro credit and saving institutions are well placed in the rural areas as compared to banks to evaluate and judge the credit worthiness of farmers to follow up repayment, to work with minimum overhead costs and to avail input credit timely especially for the small holders in the developing countries. In fact, these institutions should have reliable fund source, managed by educated personal, have good organization structure etc. to perform their duties efficiently.

Repayment generally takes the form of periodic payments that combine part of the principal sum and interest in each payment. The amount of each instalment is usually calculated as the principal sum and interest due, divided by the number of instalments. Alternatively, a lump sum with interest is repaid at maturity. In group-lending schemes, payments are generally collected in a group meeting with the help of loan officers. The personal and regular collection of instalments by bank staff is one of the key procedures of microfinance that is widely believed to reduce the risk of default in the absence of collateral and to make lending to the poor feasible. On the other hand, personal collection enables the drastic reduction of financial transaction costs and improves the matching of the loan size to the clients' needs and repayment ability (World Bank, 2004).

Maturity periods are determined on the basis of how the loan is used and in some instances by the capacity of the borrowers to make repayments. In case of repayment failure, an appropriate penalty or rescheduling of the instalments is proposed by the financial institutions. A punishment interest of 30% or higher may be imposed on borrowers who are unable to pay back their loans within the maturity period (Izumida, 2003). In case of unintentional repayment failure caused by natural disasters, fires, contagious disease, changes in state policy or fluctuations of the market price, the losses may be absorbed by the financial institutions' risk reserve fund and the debt will be frozen or rescheduled (Izumida, 2003).

Derban et al. (2005) classified the causes of non-repayment into three main categories. First, the inherent characteristics of borrowers and their business that makes it unlikely that the loan will be repaid. Second, the characteristics of the lending institution and the suitability of the loan product to the borrowers; and third, the systematic risks from external factors such as the economic, political

and business environment that may influence the borrowers' operations and performance. In this study, I focus on the first set of influencing factors, and farmers are considered as a particular group of rural borrowers.

Previous studies have found that the loan repayment performance of farmers is mainly affected by farmers' characteristics such as years of farming experience and their level of education (Oke, et al., 2007, Oladeebo and Oladeebo, 2008, Afolabi, 2010). Moreover, loan repayment is found to be influenced by social relations, responsibilities of the borrowers (Ugbomeh et al., 2008) as well as loan characteristics such as interest rates and the amount of money borrowed (Ugbomeh et al., 2008, Afolabi, 2010). Furthermore, the level of livelihood diversification with the relative importance of non-farm and off-farm income of farm households seems to be important for credit repayment by both poor and non-poor households (Hamza, 2007). Brehanu and Fufa (2008) suggested that the loan repayment rate of the households was significantly affected by the agro-ecology, total landholding size, total livestock holding, experience in the use of agricultural extension services, contact with extension agents and income from off-farm activities. Finally, market characteristics, such as price stability of the agricultural commodities produced, are found to influence repayment (Ugbomeh et al., 2008). Generally, the repayment levels of farmers were lower compared to those of non-farmers.

Several studies suggested that repayment rates of group-based credit might be higher than those of individual borrowers, which is mainly explained by the fact that in group-based credit schemes the functions of monitoring, screening, and enforcement of loan repayment are to a large extent transferred from the bank's agent to the group of the credit taker (Ghatak, 2000, Laffont and N'Guessan, 2000). In group-based systems, borrowers have better information on each other, can monitor each other's investments and activities more easily, and may be able to impose powerful non-pecuniary social sanctions at low cost. Even if the loans are officially obtained individually by each member of the group, the risk of default by one member will be equally shared by the entire group (Ghatak, 2000, Laffont and N'Guessan, 2000).

A study on the repayment performance in case of individual lending to farmers by Koopahi and Bakhshi (2002) suggested that repayment was influenced by socio-economic characteristics of the borrower (i.e. income level, educational level, years of farming experience) and loan characteristics (i.e. transaction costs, amount of loan obtained, length of repayment period, bank supervision of credit use, the waiting time for loan reception). In addition, levels of physical capital (i.e. the use of machinery) and community characteristics (i.e. prevalence of natural disaster, seasonal and risky

activities) were found to be significant (Koopahi and Bakhshi, 2002). Finally, also characteristics of the lending institutions seem to affect the levels of repayment (Adams and Mehran, 2003) (as also suggested above).

Al-Azzam et al. (2011) suggest that peer monitoring, group pressure, and social ties are likely to improve repayment performance of group-based credit. In addition, Rai and Sjostrom (2004) show that repayment performance of group-liability contracts depends on the truthful exposure of each group member to the success of the peers' projects. The repayment performance of group lending has been found to be affected by the weekly sales and distance between the members (Wydick, 1999, Karlan, 2007), cultural similarities and gender differences (Kevane and Wydick, 2001, Bhatt and Tang 2002, Armendariz and Morduch, 2005, Karlan, 2007), the role of group leaders, peer monitoring and social ties (Hermes et al., 2005), and group size (Madajewicz, 2005). With respect to the latter, Impavido (1998) suggested that group size affects both the ability to impose punishments as well as the level of monitoring. Large groups are more difficult to manage than small ones. Yet, conversely, Madajewicz (2005) suggested that a credit institution benefits more from lending to larger groups even if these include a risk of low repayment rates. However, it is also argued that group liability and social collateral by borrowers are not a panacea to secure repayment.

In fact, Chowdhury (2005) has shown that joint liability alone cannot diminish an ex-ante moral hazard problem. Van Tassel (2004) used a household bargaining model to explain that a group member may invest credit in uncertain business projects beyond his or her ability to pay back the loan even though other members are also responsible for repaying the debts. The rationale of the borrower may be that he/she assumes that the other members would be willing to repay the loan in order to secure their future loans.

3. RESEARCH METHODOLOGY

3.1 Description of the Study Area

Libo Kemkem woreda's topography is mostly characterized by plain land and mountainous and has a slope ranging between 0 to 50% (Woreda FEDO, 2010/11). The altitude ranges from 1500 to 3000 meter above sea level. The agro-climate is predominantly Woinadega (mid land), covering 95.9% of the total area, while the remaining land is Dega (highland). The woreda has unimodal rainfall i.e. long rain Kiremt rainy season lasting from mid June to mid September, with average annual rainfall ranging from 900 to 1400 mm. The distribution of rain in the Woreda is usually erratic and there is tendencies of late beginning and early withdraw of rainy season, which usually end up with failure in crop and livestock production.

Looking at patterns of land use of the Woreda, cultivated land (34,694 Ha), forest land (1,420), bush/shrub land (5,937 Ha), water bodies (38,366), grazing land (8,947 Ha) and other uses 7,633 Ha, (woreda Agriculture & Rural development office, 2014).

Libo kemkem woreda , with an area of 951.49 square kilometres, is one of the 10 woredas of South Gondar Zone of Amhara National Regional State (ANRS) of Ethiopia with the total population of 108,796 male and 105,699 (Amhara, BoFED, 2013). The woreda has an average of 4.5 household sizes. Majority of the population in the woreda are Orthodox Christians (95.9% %) followed by Muslims (3.9% %) and protestants (0.2%) (WoFE, 2010).

Addis Zemen is the capital of the woreda situated at 82 Km North of the regional city-Bahar Dar and 645 km from Addis Ababa. The woreda has a total of 29 rural and 2 urban kebeles (WoFEO, 2014) including Taragedam, Ginaza, Yifag Zuria and Tibaga Kebeles, which the project is targeting. The project kebeles are adjacent to each other and all of them have rural road facilities which link them with the main asphalt road stretched from Addis Ababa-Bahardar-Gondar. Debre tabor, 63 km away from Addis Zemen, is capital of south Gondar zone which Libo kemkem woreda is part of it.

There are a number of primary multipurpose cooperatives in the Woreda which are providing their members various services including distributing agricultural inputs in credit.

3.2 Sample Size and Method of Sampling

A two- stage sampling procedures will be followed to select PAs and sample respondents. At first stage, farmers` multipurpose cooperatives will be selected randomly from the total cooperatives which provide credit to their members in the woreda. In the second stage, sample respondents who are members of the cooperatives will be selected following systematic random sampling based on probability proportional to size of members who have taken loan from their respective cooperatives.

3.3 Data type, Sources and Method of Data Collection

Both primary and secondary data will be gathered and used for this study. Secondary data will be collected from different stakeholders particularly from Libo kemkem worda cooperative promotion office (WCPO), NGOs and others who are supposed to have relevant information for this particular study. Primary data will be collected from the sampled respondents on different issues using structured interview schedule which is pre-tested before the formal survey begins. Training on methods of data collection and the contents of the questionnaire will be given to the selected enumerators. The survey will be administered under the continuous supervision of the researcher.

To have detail information useful to draw the right conclusion from the survey work, qualitative information will also be gathered from the respondent farmers. Collection of primary qualitative information from farmers will be managed through holding discussion with focused group and individual farmers. To ensure validity of the qualitative data, information will be gathered exhaustively. Moreover, triangulation of information will be done to look into the same matter from different angles and also to include the views of the community from different corners.

4. WORK PLAN

This work plan outlines activities to be carried out in the specific period of time. Hence, the proposed research work is scheduled from starting to the completion date accordingly.

Activity schedule

SN	Activities	Duration
1	Questionnaire development	September 2016
2	Preparation of list of farmers from the study area	September 2016
3	Pre-test and exploratory survey	September 2016
4	Recruitment and training of enumerators	October 2016
5	Conducting the formal survey	October-November 2016
6	Collecting of secondary data	November 2016
7	Data cleaning, coding and entering	December 2016
8	Literature review	December 2016
9	Final thesis submission	December 2016

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Questionnaire

Indira Gandhi National Open University

School Of Graduate Program

Rural Development Department
Survey Questionnaire

1. General Information

1.1 Date of interview_____

1.2 Name of Enumerator_____ Signature_____

1.3 Name of Woreda _____

1.4 Name of PA _____

1.5 Respondent's name_____

1.6 Sex:- 1. Male 2. Female

1.7 Age _____ Years

1.8 Total family size:- a) 1-3 b) 4-6 c) 7-10 d) >10

1.9 Level of Education:- a) Illiterate b) grade 1-8 c) grade above 8

1.10 Religion:- a) orthodox b) Muslim c) catholic d) protestant e) others (specify)

1.11 What is the name of the cooperative that you are belonging to?_____

1.12 For how long you have been a member of the cooperative? _____

1.13 What is your current status in the cooperative?

a) Member b) member of board of director
c) Other committee members d) employed staff

2. Socio-economic Status

2.1 Are there any family members who are engaged in off farm activities?
1. Yes 2. No

2.2 If yes, how many of your family members are engaged in off farm activities?
Male-_____Female _____

2.3 What are the main sources of off farm income?

(a) Wage
(b) Selling fire wood

(c) Selling local drink
(d) Handicraft
(e) Petty trading
(f) Others

2.4. Please list your average cash income raised from farm and off farm activities in the year 2016

a) Income from farm activities_____

b) Income from off-farm activities per year_____

2.5. How many holy-days do you have within a month (excluding Saturday and Sunday)_____Days

2.6. Do you have your own land? 1) Yes 2) No

2.7. Total land holding of the household ___ Timad (__ hectare)

2.8. How many livestock do you own? Please fill in the following table

S/N	Types of Livestock	Number
1	Cows	
2	Oxen	
6	Mules	
7	Horse	
8	Donkey	
10	Goats/Sheeps	
11	Poultry	
12	Others	

2.9. Do you celebrate social festivals?

1. Yes 0. No

2.10. If your answer for question no 2.9 is yes, in what types of social ceremonies you participate?

1. Wedding 2. Funeral ceremonies 3. Engagement
4. Circumcision 5. Religious 6. Others (specify)

2.11. How much money you spent for such ceremonies in the year 2016 ? _____ Birr

2.12. From where did you get the finance that you spent on those ceremonies?

1. The cooperative's loan 2.Other loan 3. Saving 4. Others

2.13. Are you a beneficiary of safety net program? a) Yes b) No

2.14. If you are not beneficiary of a safety net program what do you think is the reason?_____

2.15. Did the use of credit bring change in your living standard?

a) Yes b) No

2.16. If your answer is yes, in what aspect in order to importance?

a) I owned assets b) I educated my children

c) I build a house d) my production has increased
e) Increase livestock f) improve in consumption h) others

3. Institutional Issues

3.1. Distance from MPC (hrs)_____km

3.2. How did you measure the efficiency of the cooperative in loan provision and collection?

a) Strong b) Fair c) Weak d) I don't know

3.3. If your answer is weak, what are the major credit service problems of cooperative that you believe them affect your loan repayment performance.

a) Credit supply does not keep the right time

b) Loan repayment does not keep the right time of marketing

c) Committee members are not found in their office during time of loan repayment

d.) specify other problems if any. .

3.4. Do you think committee members are working according the bylaw and regulation of cooperative ? a) No b) Yes

3.5. Do you think in general the repayment period is appropriate? a) No b) yes

3.6. If your answer is no, what do suggest the appropriate time?

3.7. What are the managerial weaknesses of the cooperative?

3.8. Do you get extension service since 2013/14? a)yes b)no

3.9. If yes, for how long have you been getting the service?

a)ones b)two-times c)three-times d)four-times

3.10. Who provides the extension service?

a. development agent's b. NGOs c. others, specify___

4. Credit Accessibility, Availability, and Adequacy

4.1. How much did you get loan from your cooperative?

4.2. Do you know the source of credit that you get?

4.3. If yes, which source?

a) NGO b) World Bank c) Government d) Other cooperatives and unions e) Others

4.4. Did you get the loan that you are interested to get? a) yes b) no

If your answer is No, what were the reasons?

1. I do not know 2. Long bureaucratic chain 3. Too many criteria needed

4.5. What was your interest to get?

4.6. When did you get the loan?

4.7. Did you get the loan at the appropriate time to solve your problems?

4.8. If no, what was the impact?

4.9. Was the loan in cash or kind?_____

4.10 What was the interest rate?_____

4.11. What were the obligations that you should fulfill to get the loan?

4.12. For what purposes did you take the loan?

a) Fertilizer b) improved seed c) pesticide d) fattening e) others

4.13. Who initiated you to get credit from the cooperative?

a) Kebele administration

b) Woreda Cooperative promotion office

c) The multipurpose cooperative

4.14. Did you get loan from other sources before?

4.15. From which and how much money did you borrowed?_____

List in the following table.

S/N	Source of credit	Purpose of loan	Amount	Interest	Repaid
1	CBE				
2	Saving& credit cooperative				
3	BOA				
4	Food security				
5	Relative friends				
6	Money lenders				
7	ACSI				
8	Others				

4.16 For what purpose did you get the loan from the above sources?

a) Purchase of seeds b) Purchase of fertilizer c) Purchase of chemicals

d) Purchase of oxen e) Purchase of farm implements f) For family consumption

g) Social obligation h) others (specify)

4.17. Why did you take loan from other sources rather than the cooperative?

a) Less collateral required b) Easier to get loan

c) Seemed more friendly d) Knew persons before hand

e) Get terms to suit situation f) previous business dealings

g) Cheapest source of credit that could be found

h) Other reasons (specify) _____

4.18. Who take more responsibility to make decision on the credit taken?

a) Husband b) Wife c) Both

4.19. What are the main sources of credit accessible in your locality in order of importance?

i)_____ii)_____ iii)_____ iv)_____

4.20. Which one do you prefer the loan?

a) In cash b) In credit c) Both

4.21. How much money did you receive in loan from the cooperative?

S/N	Round 1	Round 2	Round 3	Round 4	Round 5	Round 6
Year						
Amount						

4.22. Was the loan issued timely? 1. Yes 0. No

4.23. If no, what was the impact of the delay?_____

_____

4.24. What is your Attitude towards credit? _____

4.25. What is your suggestion on interest rate of the loan you took?_____

a) Low b) Fair/reasonable c) High d) Very high

5. Capacity Building and Technical Support

5.1. Did the cooperative inform you that the loan is to be revolved?

5.2. Did the cooperative's loan committee or loan officer contacts you to give advice about your business activities in which you engaged by the loan you acquired from this institution?

1. Yes 0. No

5.3. If your answer for question is yes, how many times per month or year the Cooperatives visited you? _____ per month or _____per year

5.4. Who provide you advice rather than cooperative?

a) DA b) NGO c) Others

5.5. Have you been trained/took orientation before loan disbursement about credit, interest rate, and commitments that you need to fulfill? a) No b) Yes

5.6. Did you get any training or education about loan management from any other sources?

a) Yes b) No

5.7. If yes, which sources give you that education/ training?

a) The Woreda cooperative promoters and organizers b) The Union

c) NGOs d) Development agent (DA)

e) Others/ specify_____

5.8. Have you ever been supervised regarding loan utilization and repayment by cooperative staff?

1. Yes 0. No

5.9. If yes, how many times were you supervised?

5.10. If yes, was it adequate in your opinion? 1.Yes 0. No

5.11. Do you think that the training and supervision has an impact on loan utilization and repayment? 1. Yes 0. No

6. Loan Utilization and Management

6.1. Did you spend the entire loan on purposes specified in the loan agreement?
1. Yes 0. No

6.2. If yes, why?
1. I accessed the loan while there was food shortage 2. Peer influence
3. Misunderstanding the loan 4. Others

6.3. Did you use the loan for unintended purpose?

6.4. If yes, what proportion of the credit is used for unintended purpose?

6.5. If, no, what was/were the reason(s) for spending part/entire loan on non intended purposes?
1. The loan amount was not enough for the intended purpose
2. The loan agreement did not coincide with my initial intention
3. Market problem 4. To repay another loan
5. To make a more profitable business 6. Other (specify)_____

6.6. Did you practice saving? a) No b) Yes

6.7. If yes, how much do you save annually in average?

6.8. If your answer is yes, in what form?
a) In kind b) In cash at home c) In cash at bank
d) In cash at saving and credit cooperative e) other (specify)

6.9. If your answer is yes, where do you save? (specify) _____

6.10. If your answer is no, why?
a) Saving and credit cooperative is not available
b) I do not see the benefit of saving
c) My income is not enough to save

6.11. Do you think that saving will contribute to repayment?

7. Loan Repayment and Revolving Fund

7.1. Did you pay your debt? a) Fully repaid b) partially repaid c)Not repaid

7.2. If your answer is fully repaid, at what time did you pay back your debt?
1) Before time of commitment 2) On time 3) After time of commitment

7.3. If you didn`t repay the loan totally, what is the status of the loan?
a) Partially repaid b) not at all

7.4. If fully repaid, which of the following is the most important one in motivating you to repay your loan on time?
a. not to loss collateral
b. to keep social status
c. in expectation of getting another loan
d. knowing that paying loan is my obligation
e. others (specify) _____

7.5. Are you a defaulter?

7.6. If yes, why?

a) due to natural hazard b) bankruptcy c) Health problem d) too many school children

7.7. If you didn`t repay on time, what actions did the lending institution taken on you?

a. no one took action b. prisoned c. fined

7.8. Who would be benefited if there are no defaulters in your cooperative?

a. cooperative members b. only committee members of the cooperative members

c. only kebele administration d. government officials e. others

7.9. What are the benefits of repaying loan to the cooperatives?

7.10. Who will be benefited from the revolving fund?

a. cooperative members b. only committee members of the cooperative members

c. only kebele administration d. government officials e. others

7.11. What did you suggest on the interest rate of the loan you took from cooperative?

a) Low b) Fair/reasonable c) High d) Very high

7.12. If your answer is high/very high; did it makes you not to repay loan? a) No b) Yes

7.13. In your opinion what are the main reasons for some households to be a defaulter for loan? And rank according to their significance.

Reasons	**Rank**
a. Unwilling to pay	_____
b. Lack of market for the produce	_____
c. Inappropriate repayment time	_____
d. Inefficiency of the cooperatives in collecting timely	_____
e. In appropriate delivery system	_____
f. Natural hazards	_____
g. Other (specify) _____	_____

7.11. For which source of loan did you give priority to repay?

a) Cooperative's loan b) Bank's loan

c) From relative and money Lender's loan d) Food security's loan

e) World Bank and FAO's loan e) Other specify

7.12. Why? State your reason

a) Due to high penalty b) Due to high interest

c) I do not need to repay other's loan d) Due to the existence of collateral

e) Other specify

Checklist for discussion with Libo Kemkem Woreda CPO and FGD

1. How do you evaluate loan repayment performances of multipurpose cooperatives in the woreda?
2. What are the major problems of MPC in loan provision and loan collection?
3. How do you rate the rank of the performance of your organization in loan repayment compared to other woredas in south Gondar zone?
4. What are the measures taken by your organizations in order to improve loan repayment performance of the cooperatives of the woreda
5. What are the administrative as well as legal action taken against the defaulters
6. What are the administrative as well as legal actions taken against those loan committee members who are responsible to loan repayment failure
7. What actions are taken to boost the morale of loan committee
8. List the names of nongovernmental organizations in your woreda which provide revolving fund to the cooperatives
9. How do you evaluate the loan repayment performance of the revolving fund
10. What are the problems associated with revolving funds
11. What is the perception of the farmers on loan originated from the government and nongovernmental organizations
12. What are the problems associated with failure of revolving fund modality, if any
13. What do you recommend to improve loan repayment status and revolving fund modality