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A Study on Loan Recovery Performance of Rural Saving and Credit Cooperatives in Laygaint worda, Amhara Regional State, Ethiopia

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Abstract
In recent years, the growth and expansion of rural saving and credit cooperatives is playing its significant contribution to poverty reduction strategy of developing countries including Ethiopia in solving the financial problem of rural dwellers. The main objective of the study was to assess loan recovery performance of rural saving and credit cooperatives in Lay Gaint Woreda .The study area was selected purposively, due the presence of long established **rural saving and credit cooperatives.** Using simple random sampling method, from four case **rural saving and credit cooperatives**, selected for this study, 112 members were selected at probability proportionate to size. Both primary and secondary data were collected for this study. Semi-structured interview schedule was used to generate primary data from sample respondents. Secondary data were collected from loan portfolio report and audit report of the case **rural saving and credit cooperatives.** Sample cooperatives have extended credit for their members for production purposes such, as purchasing of agricultural inputs, and animal fattening purpose. Moreover, they extend credit for petty trade and social purposes such as medical care and school fee. Between the year 2002 and 2011, the cooperatives extended a total of Birr 2,560,563 for their members for production, petty trade and social purposes. Result of the study indicates that Sampled **rural saving and credit cooperatives**' members still not fully repaid the loan that they took from their **rural saving and credit cooperatives**. The loan policy of the sample cooperatives have clearly stated that the loan committee should conduct a continuous follow up of money utilization of the borrower. But both the focus group discussion and key informant interview results revealed that the loan committee of the cooperatives was not strictly monitoring the loan utilization of the borrower as per the loan policy of the cooperatives. As the loan policy of the cooperatives described, the loan guarantee systems were strict and designed as to have a zero default. But due to lack of strict adherence to the loan policy of the cooperatives, there were defaults. The study recommended in improving the timely loan recovery performance of **rural saving and credit cooperatives**, and woreda cooperative promotion office should have to take strict measures.
Keywords: Loan recovery performance, Cooperatives, Rural saving and credit cooperatives.

Background of the study

Germany was the first country in the world to apply the principles of cooperation in the field of credit. Herr F.W. Raffeisen (1818-1888) and Herr Franz Schulze (1809-1883) were the two pioneers in this field took initiative and started introducing various measures of relief. They started their schemes at about the same time but their field of operation was entirely different. Raffeisen tried to reduce the sufferings of the people living in the rural areas while Schulze adopted the new measures for giving relief to the people living in the urban areas (ibid).

The history of saving and Credit Cooperatives in Ethiopia began during the Regime of Emperor Haile Selasie. According to Daniel (2008) the first urban saving and credit cooperative in Ethiopia was established during the Regime of Emperor Haile Selasie in 1966 by the Ethiopian Road Authority workers and followed by the Ethiopian Air line workers in 1972. At that time, saving and credit cooperatives union called as National Cooperative association was also established by 16 member primary saving and credit Cooperatives. These cooperatives were established under proclamation No.241/66.

During the Derg Regime the promotion and regulation of saving and credit cooperatives were given for National Bank of Ethiopia. Proclamation No.147/98 is a better proclamation that incorporated the basic principles of cooperation and it has been given the responsibility of promotion and regulation of all types of cooperatives under one umbrella (Federal Cooperative Agency). This gives an ideal condition for the development of all types of cooperatives in general and for saving and credit cooperatives in particular.

Statement of the Problem

According to Arega (2007), improving access to financial services is an important development tool, because it helps in creating employment opportunities for the unemployed and increases their income and consumption, which would in the final analysis reduce poverty. Access to financial services to the poor also facilitates economic growth by easing liquidity constraints in production, by providing capital to start-up new enterprises or adopt new technologies, and by helping producers to assume production risk.

In this regard Rural Saving and Credit Cooperatives (RUSACCOs) help those who have no access to the financial services of formal financial institutions. They contribute a lot to reduce the negative impact of local money lenders in areas they operate in.

The basic function of a rural saving and credit cooperatives is financial intermediation. That is bringing savers and borrowers together in a system that covers all of the costs of doing business and is useful to both parties.

Even though rural saving and credit cooperatives s are very crucial to those who have no access to the financial services of formal financial institutions, there are problems which hinder the cooperatives to achieve their objectives. One problem is concerning the requirement that has to be provided for receiving a loan. The other one is the interest rate that the cooperatives charge. The cost of funds can sometimes exceed the interest earned on loans and investments, resulting in a loss to the sector. This in turn discourages members' motive to deposit as well as to borrow. Another key problem is the cooperatives' ability and, in practice, its failure to initiate projects for increasing revenues, both via the use of accumulated savings and by acting as a channel for transferring outside sources of finance to its members, and again recover all of the loans on due date with interest.

Therefore, the study is intended to assess loan recovery performance of rural saving and credit cooperatives in Laygaint Woreda, South Gonder Zone, Amhara National Regional State.

Objectives of the Study

General objective

The general objective of the study is to assess loan recovery performance of primary rural saving and credit cooperatives in Layigaint woreda.

Specific objectives

- To assess the loan operation of primary rural saving and credit cooperatives
- To investigate the factors that affect loan recovery performance of the cooperatives
- To suggest possible recommendations on loan recovery performance of the cooperatives

REVIEW OF RELATED LITERATURE

Empirical studies on loan recovery performance

A study conducted by Diribsa (2010) on determinants of members' loan repayment in Ambo Farmers' Cooperative union revealed that educational level, livestock ownership , interest rate, distance of market ,experience with credit use, sources of income, land ownership and sex of member were important factors influencing loan repayment in cooperatives.

Bekele (1995) reports on 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.

Belay (1998) in his case study at Alemegena District 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.

Studies done so far as mentioned earlier concentrated more on agricultural cooperatives loan recovery performance. This study therefore tries to narrow the research gap paying particular attention to rural saving and credit cooperatives loan recovery performance and factors that lead members to be defaulters.

RESEARCH METHODOLOGY

Selection of the study area

Laygaint Woreda as a study area is selected purposively the reason is being that among the 15 Woredas of the zone, the area is the one in which no prior research concerning cooperatives was conducted so far and availability of more saving and credit cooperatives.

The sampling design

According to the data obtained from LayiGaint Woreda cooperative promotion bureau there are 30 registered primary saving and credit cooperatives and one saving and credit cooperative union in the woreda .From those 30 primary saving and credit cooperative 4 are found in urban and 26 are in rural. This study is about rural saving and credit cooperatives.

Sample Frame

In the study area, there are a total of 26 primary rural saving and credit Cooperatives. From the total rural primary saving and credit cooperatives found in the woreda only 4 cooperatives having a life span of nine years and above from the time of establishment were selected as sample frame of the study, because considering a longer life span cooperative as a sample frame able to examine the loan recovery performance of the cooperatives.

The sample size of the study or the number of member respondents was determined by using Kothari (2004) sampling design formula.

$$n= \frac{z^2\, p\, q\, N}{e^2\,(N-1) + z^2\, p\, q}$$

According to this formula, the number of respondents was 112. Their selection was conducted by using systematic random sampling method by considering its proportionality to the number of members of sample cooperatives.

Sources of Data and Methods of Data Collection

Sources of Data

Data are the basic input to any decision making process. And the processing of data gives statistical importance of the study, so that both secondary and primary data were collected to meet the objectives of the study. The major sources of secondary data were collected from the records and audited financial statements of the rural saving and credit cooperatives' i.e. from the portfolio reports, income statement and balance sheet of the rural saving and credit cooperatives for the study periods from 2002 up to 2011.The primary sources of data were collected from members. Besides, the management committee of the rural saving and credit cooperatives and key informants (loan committees, control committees and woreda promoters) were the other major sources of primary data on loan recovery performance of rural saving and credit cooperatives.

Tools and Techniques of Data Collection

The data required for assessing loan recovery performance was collected by administering interview schedule and focus group discussion among sample respondents of the selected rural saving and credit cooperatives. Data were collected from members through the use of semi structured interview schedule that contain both open and closed ended questions. Interview was also prepared and administered again to management committee, loan committees, control committees and woreda promoters.

RESULTS AND DISCUSSION

Loan Disbursement and recovery of sample cooperatives

In rural areas, financial institutions including banks were not accessible due to high operating costs to administer their operation. Due to this fact, rural people had no access to save money in financial institutions. Moreover, they had no opportunity to get credit when they needed. In order to overcome this problem, rural people have an opportunity in their hands that is establishing user owned financial institution known as rural saving and credit cooperatives. rural saving and credit cooperatives could extend credit for their members with reasonable interest rate by mobilizing saving from their members with the collateral of their savings as well as the saving of other members. In the study area sample rural saving and credit cooperatives have extended credit for their members for production purposes such, as purchasing of agricultural inputs. Moreover, they extend credit for petty trade and social purposes such as medical care and school fee.

Between the year 2002 and 2011, sample cooperatives extended a total of Birr 2,560,563.20 for their members for production, petty trade and social purposes. Out of the total loan extended for members, Birr 1,569,696 (75.46%) was for production, Birr 444,551(21.37%) for petty trade and Birr 65,893(3.17%) was for social purpose.

Based on the information explored from key informant interview, sample rural saving and credit cooperatives provide credit to some members without collateral. This discrimination makes some members to withdraw from membership and facilitates loan default. The loan that was given without guaranty was funded by CPR Gaint project.

Loan Disbursement and recovery of sample cooperatives

Year	Amount of loan disbursed			Amount of loan recovered on due date		
	Production Purpose	Petty trade purpose	Social purpose	Production purpose	Petty trade purpose	Social purpose
2002	61695.20	15113	5042	51207.15	14125	5042
2003	33792	6433	4125	26019.85	6355	3725
2004	57762	17553	8675	51408.20	15500	7852
2005	121015	23185	3125	105283.05	23178	3010
2006	53135	12739	10000	47290.15	11453	8547
2007	195000	48074	2450	161850	45216	2349
2008	390132	53204	9415	308204.30	46554	90143
2009	744091	89952	12359	625036.25	78750	11450
2010	208897	72054	3650	173384.50	69050	3552
2011	319029	111609	45125	283935.80	97547	39250
Total	2126786.20	449916	94551	1810209.25	410728	83920
	(57.63%)	(39.09%)	(3.28%)	(65.11%)	(79.29%)	(78.76%)

Source: Sample rural saving and credit cooperatives' loan portfolio report

Results of Multiple Regression Model

Extent of factors that affect loan recovery performance

Multiple regressions are techniques that allow additional factors to enter separately so that the effect of each can be tested. It is valuable for quantifying the effect of various simultaneous influences up on a single dependent variable.

For this study multiple linear regressions was employed to come across the relationship between loan recovery performance in rural saving and credit cooperatives and independant variables like: family size, land size, lending interest rate, coordination of committee ,loan size, saving and mode of delivery.

Multiple linear regressions model was fitted to estimate the potential factors for the success or failure of loan recovery performance. The correlation between independent variables as factors affecting loan recovery performance were strong with the value of R=0.802.More over, these variables explained 58.6 % of the change in rural saving and credit cooperatives loan recovery performance.

At the beginning nineteen variables were hypothesized as they were influencing the loan recovery performance of rural saving and credit cooperatives. But those variables which were insignificant were not entered in the model, only variables which were significant were entered in the model..

The result revealed that 58.6 % of the variation of the dependent variable brought by the effect of seven independent variables, but the remaining amount was influenced by other factors which were not included in this study. According to the model, the equation for the amount of loan recovered is:

$Y = ß0 + ß1x1 + ß2x2 + ß3x3 + ß4x4 + ß5x5 + ß6x6 + ß7x7 + ß8x8$

Amount of loan recovered= (Constant) + Family size (FSIZE) + land size(LSIZE) + mode of delivery (MOD)+ loan size(LOSIZE) + saving(SAVING) + lending interest rate(SACCO. LIR)+ coordination of committee(COCM)

Y =1571.845+ 0.150 family size+ 0.201 lending interest rate+0.234 coordination of committee+ 0.582 mode of delivery+ 0.137 Saving+ 0.123 loan size+ 0.174 land size

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.802[a]	.643	.583	343.126

ANOVA[b]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	2.013E7	16	1257878.348	10.684	.000[a]
	Residual	1.118E7	95	117735.218		
	Total	3.131E7	111			

a. Predictors: (Constant), prior default, saving, mode of delivery, sex of the respondent, lending interest rate, loan size, ge of the respondent, land size of the respondent, off-farm income, family size, coordination of committee, legal procedure, purpose for credit, repayment period, level of education, experience

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	1571.845	283.660		5.541	.000
	Age of the respondent	-4.388	3.212	-.095	-1.366	.175
	Sex of the respondent	71.428	101.541	.046	.703	.484
	Level of education	-45.930	32.077	-.113	-1.432	.155
	Family size	40.980	19.131	.150	2.142	.035**
	Legal procedure	83.766	192.964	.033	.434	.665
	Lending interest rate	213.242	91.492	.201	2.331	.022**
	Coordination of committee	277.034	94.566	234	2.930	.004***
	Off-farm income	-8.074	35.371	-.017	-.228	.820
	Mode of delivery	3273.989	416.580	.582	7.859	.000***
	Purpose for credit	65.233	69.420	.073	.940	.350
	Saving	76.765	41.648	.137	1.843	.068*
	Repayment period	232.935	151.930	.120	1.533	.129
	Experience	-31.207	40.006	-.062	-.780	.437
	Loan size	166.219	93.954	.123	1.769	.080*
	Land size of the respondent	171.416	68.444	.174	2.504	.014**
	Prior default	-14.687	104.555	-.010	-.140	.889

a. Dependent Variable: Loan recovery

Source: Computed from field survey (2012)

Note: ***, **,* Significant at one, five and ten percent respectively.

Family size (FSIZE): It is a continuous explanatory variable defined as the number of family members of member of a cooperative. It was expected that member of a cooperative having larger family size have an opportunity to engage more labor on his farming activities that increases the income of the member. As expected, family size influenced positively and significantly the loan repayment performance of the households (significant at 5%). Each additional labor force increases the probability of loan recovery by 15 percent. A unit increase in labor force also increases the rate of loan repayment by 0.035. This result shows that households with larger family size avail more labor force for production purpose, so that the probability of repaying loan is higher.

Coordination of Committee Members (COCM): This was another important factor which was expected to crucially influence amount of loan recovered. Coordination of committee members would directly improve recovery performance and the result of MLR showed that this variable had a strong effect for the loan recovered and it was significant at 5% probability level.

Lending interest rate (SACCO.LIR): It was expressed as the lending interest rate of the cooperative approved by the general assembly**.** It was assumed that as the cooperatives lending interest rate is low; the loan recovery of the cooperatives increased in amount and the MLR showed that this variable had a strong effect for the increment of amount of loan to be recovered from members and it was significant at 5 % probability level.

Saving (SAVING): Saving behavior of the household influenced the loan recovery performance positively and significantly (significant at 10%). Respondents who developed saving habit increases loan recovery performance by 0.137 .This implies that members who save their money gave more emphasis to credit repayment .

Mode of delivery (MOD): It refers to the way of extending credit. Cooperatives provide credit in group or individually. It was expected that individual lending makes borrowers' more responsible to repay loan on time than group lending. The result of multiple regression showed that mode of delivery had an effect on the magnitude of loan repaid by the members in their RUSACCOs and it was significant at 1 % percent probability level and its influence was stronger than other variables.

Loan size (LOAN.S): increasing the loan size would increase the production capacity leading to better repayment. Loan size is significant at 10% level. This shows that the higher the loan size, the higher the probability of repaying the loan.

Land size (LS): This variable is a continuous variable and it refers to the total area of farmland that individual member of a cooperative owns in hectares. It was assumed that a member having larger total area of farmland could produce more output and could repay loan on time to his/ her cooperative. This variable was found to influence positively and significantly (at 5%) the amount of loan recovered. The result of multiple regression showed a unit increases in hectare of land, increases loan recovery by 2.504.

CONCLUSION AND RECOMMENDATION

Ethiopia's Agriculture Development led industrialization strategy has the basic objective of reducing rural poverty, increasing agricultural production and productivity in rural Ethiopia. To meet these objectives rural financial service has its own tremendous role.

But in rural areas, financial institutions including banks were not accessible due to high operating costs to administer their operation. Due to this fact, rural people had no access to save money in financial institutions. Moreover, they had no opportunity to get credit when they need. In order to overcome this problem, rural people have an opportunity in their hands that is establishing user owned financial institution known as RUSACCO. RUSACCOs could extend credit for their members with reasonable interest rate by mobilizing saving from their members with the collateral of their savings as well as the saving of other members.

The loan policy of the sample cooperatives have clearly stated that the loan committee should conduct a continuous follow up of money utilization of the borrower. But both the focus group discussion and key informant interview results revealed that the loan committee of the sample cooperatives was not strictly monitoring the loan utilization of the borrower as per the loan policy of the cooperatives.

Sample cooperatives did not have a loan provision plan before the beginning of the physical year. They were extending credit for the members as the loan application was presented to the cooperatives without prior arrangement of what amount, when and for what purpose the loan will be extended.

Of sample rural saving and credit cooperatives, all of the respondents have taken loan at least once from their rural saving and credit cooperatives. Loan size by individual borrowers ranges from Birr 100 to 5,000 and loan repayment period covers from 8 months up to 36 months depending on the credit policy of each rural saving and credit cooperatives.

In the study area sample rural saving and credit cooperatives have extended credit for their members for production purposes such, as purchasing of agricultural inputs, and animal fattening purpose. Moreover, they extend credit for petty trade and social purposes such as medical care and school fee. Between the year 2002 and 2011, those cooperatives extended a total of Birr 2,560,563.20 for their members for production, petty trade and social purposes.

Regarding to loan recovery, the cooperatives did not collect all loans on due date. The loan recovery performance of the rural saving and credit cooperatives was not as intended.

The multiple linear regressions result of loan recovery performance also confirmed that family size, mode of delivery, lending interest rate, coordination of committee, loan size, land size and saving are variables that had a significant influence on the loan recovery performance of rural saving and credit cooperatives.

Recommendations

The loan recovery performance of any financial institutions including rural saving and credit cooperatives should be good unless otherwise their sustainability fall under question. Even though the loan recovery performance of rural saving and credit cooperatives was better, still the loan recovery performance of the rural saving and credit cooperatives was not as intended. As the loan policy of the cooperatives described, the loan guarantee systems were strict and designed as to have a zero default. But due to lack of strict adherence to the loan policy of the cooperatives, there were defaults. Therefore, in order to improve the loan recovery performance, rural saving and credit cooperatives and woreda cooperative promotion office should have to take strict measures.

The collateral type to get loan in all rural saving and credit cooperatives is dependant only on the saving amount of the borrower. If rural saving and credit cooperatives continue in this way without developing additional collateral system they will be in a problem. Therefore, they have to develop additional collateral system.

Sample cooperatives did not have a loan provision plan before the beginning of the physical year. They were extending credit for the members as the loan application was presented to the cooperatives without prior arrangement of what amount, when and for what purpose the loan will be extended. In this regard the cooperatives should have loan provision plan before the beginning of the physical year. They have to extend credit for the members as the loan application is presented to the cooperatives with prior arrangement of what amount, when and for what purpose the loan will be extended.

In the sampled rural saving and credit cooperatives there is problem regarding guaranty. There are members who took credit and are guarantor for some other members. This case is very risky. To solve this problem members need extension service form concerned bodies.

Sampled rural saving and credit cooperatives still not fully repaid the loan that they took from Lidet union, World Bank and CPRGaint due to the reason that their members refuse to repay their loan to their respective rural saving and credit cooperatives. This will make loss of reputation. Therefore, committee members should do their best to recover loan that is not collected still and repay back to the lenders. The cooperatives should avoid laissefair loan collection system.

The result shows that the majority of the respondents save 10 birr per month. This implies that the saving culture of members is not well developed. In this regard members should get training about the benefit of saving. This in turn would improve loan recovery performance of cooperatives.

It is undisputable that self-financing of rural saving and credit cooperatives from mobilized savings is compulsory for their healthy operation. However, the demand for loans cannot be solved from their internal source only. Therefore, an external credit is required to meet the loan demand and development needs.

With regard to loan monitoring, an appropriate & timely technical support is required for effective utilization of loans by borrower. Hence, loans should be supervised regularly for increased out come and proper utilization of resources.

Even though, the repayment condition of rural saving and credit cooperatives is encouraging, this should be strengthened with changing conditions to meet the required standard i.e. to have zero default.

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