

RURAL CREDIT AND PEASANT INDEBTEDNESS: A CASE STUDY IN NORTH SHEWA¹

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I. INTRODUCTION

The vast majority of the Ethiopian rural population have low incomes largely derived from farming activities, the average annual household income, according to the results of the Ministry of Agriculture (MOA) 1983/84 General Agricultural Survey, being Birr 435, with considerable regional variation. Arsi has the highest average income of Birr 935 per household while Gamu Gofa, with its average income of Birr 259 per household, has the lowest. Peasant households in Arsi, Bale, Gonder and Hararghe have average incomes higher than the national average while all the rest have incomes below it [MOA 1983/84].² There is enough reason to believe that the income situation today will not be better, if not worse, than it was in 1983/84. The effects of the 1984/85 major drought, the 1987/88 minor drought, the expansion of the conflict in the north to other parts of the country, etc., would all but affect the incomes of the peasants in these areas negatively. With such income level it is hardly possible to support a household, which is usually large (the average family size in the peasant sub-sector is 5.6), all year round and meet other obligations such as taxes and other contributions. Added to this was the notorious Agricultural Marketing Corporation (AMC) quota which, until very recently, used to heavily tax peasant producers through a compulsory grain delivery system at government fixed prices which, in all cases, were far below the open market prices and in most cases below the costs of production. Thus a large number of peasant households usually fail to support themselves with what they are left with after fulfilling tax and other obligations, and hence look for other means. One, and probably the most commonly used, means of bridging the gap between the household's net income and its consumption and other requirements is borrowing (not to speak of free assistance).

Rural people are known to resort frequently to credit of some kind [Umalele 1974; Assefa 1987] for consumption and/or production purposes long before institutional credit systems were introduced. In Ethiopia, according to the 1983/84 General Agricultural Survey, a farm household takes an average annual loan of Birr 20 mostly coming from non-institutional sources. Even today, three or more decades after institutional credit was introduced in the country, most rural households depend on non-institutional sources of credit since, among other things, rural institutional credit is not always available to all who are in need and definitely will not be available to finance consumption. In the 1983/84 General Agricultural Survey it was estimated that institutional credit accounted for only 20 per cent of total rural credit, with non-institutional credit accounting for the remaining 80 per cent [MOA 1983/84]. Not only has rural institutional credit been insufficient compared to the need for it but has also failed to reach those who need it most, because institutional

credit sources by their nature are not well-suited to cater to the needs of small farmers in that their highly bureaucratized operation, timely unavailability, high overall cost of borrowing, discrimination on the purpose of loan, collateral requirements which the poor can not offer, etc. all combined end up effectively excluding the poor farmer from their credit services (for a detailed discussion on these issues see Gebrehiwot 1989). Added to this is the agricultural policy the government has been pursuing which, among other things, gave disproportionate priority to state farms and peasant producer cooperatives in terms of access to resources, including credit, to an almost complete neglect of the masses of private peasants who actually operate about 89.6 per cent of the total farmland under cultivation and produce 89.9 per cent of agricultural production (computed from National Bank of Ethiopia 1988/89). For instance, over the thirteen-year period from 1975 to 1987, the share of private and individual farmers was 0.1 per cent of the total agricultural loan of the Agricultural and Industrial Development Bank (AIDB). Even this negligible amount was used to finance dairy and fattening projects [Haimanot 1990] which, in the Ethiopian context, are not poor-peasant undertakings. Studies indicate that the credit policy of the AIDB (by far the main financial institution responsible for agricultural credit in the country until 1988)³ failed to effectively consider, leave alone satisfy, the needs of small farmers and, in some cases, had accentuated income inequality [Teshome 1978, Kebede 1982; Bekry 1983; Assefa 1987].

There is a growing consensus and sufficient evidence that development in developing countries can not be achieved without the full participation of the "poor", particularly the rural poor (no matter how one defines poor) who in most cases constitute the majority [World Bank 1989; UN/ECA 1989 and 1990]. The experiences of many developing countries, including Ethiopia, are living testimony to this. In Ethiopia, the post-1974 efforts to bring about development by concentrating on large-scale state farms and cooperatives totally neglecting, and often harassing, smallholder producers proved to be grand failures as was the pre-1974 effort to bring agricultural development by expanding large-scale commercial farms. Real participation of the poor, in as much as it is necessary and desirable, can not be achieved without, among other things, giving them ensured access to resources. One way of providing the poor with access to resources is credit. This, though, has not been done so far in Ethiopia. As noted earlier, that institutional credit accounted for only 20 per cent of total rural credit and that private peasant producers have been practically excluded from the credit services of institutional sources for various reasons imply that the actual role of institutional credit in the peasant household economy has been insignificant. This raises questions like: in the absence of institutional credit, what alternative source(s) do the so-much neglected peasant farmers have to make ends meet and under what terms and conditions? Won't borrowing from non-institutional sources, where the interest rates are allegedly high and exploitative, lead the peasant household into a kind of debt bondage and thereby to permanent poverty? How indebted are peasant households and what are the development implications? Empirical work on these and other related issues is

lacking in Ethiopia. This study was launched as an effort to, at least partly, fill this gap.

II. OBJECTIVES

The specific objectives of the study are:

- 1) to examine the role of credit in a peasant household economy;
- 2) to identify the sources of credit and their eligibility criteria, costs of borrowing as well as means and time of repayment;
- 3) to look into the degree of peasant household indebtedness and analyze its implications on the household's future prospects as well as on agricultural development;
- 4) to analyze the credit utilization of peasant households.

III. DATA SOURCE AND METHODOLOGY

The study is mainly based on primary data collected by the researcher through a detailed questionnaire prepared for the purpose as well as an interview. 'Key' informants such as traditional village leaders and elder persons as well as officials of governmental and non-governmental organs were interviewed in order to capture information which respondents lack or fail to divulge. The questionnaire was pre-tested on 30 peasant household heads in the study area and was adjusted before it was used for the actual data collection.

In line with the objectives of the study, the household is taken as the unit of analysis. However, the data is obtained from the household head. This is because, in rural Ethiopia in general and the study area in particular, the head of the household (be it male or female) is the main decision-maker on all important matters concerning the household, and other members of the household in general abide by his/her decision. Besides, it is the household head directly, or at least with his/her knowledge and approval, that the household gets into important transactions, including borrowing. Thus the household head is probably the most appropriate source of information concerning his/her household.

A sample of six peasant associations (PAs), namely, Gedelgie, Saramba, Mengeta, Argagana Enchenie, Merye and Ensertu, was selected from the former Yifat *awraja* in North Shewa. Ensertu is adjacent to Shewa Robit town, the capital of Yifat *awraja*, while Merye is located at about seven km east of Shewa Robit. Mengeta is located northeast of Debresina at a distance of approximately 21 km while Argaga is found at about the same distance, but north of Debresina. Gedelgie is 18 km west of Debresina. Saramba is located along the Addis-Dessie main road at about 14 km north of Debresina.

At the second stage, a total of 211 households were selected from the six PAs. The number of households selected from each PA was proportional to the size of the

PA in terms of membership. As a result, 48 households from Argaga, 39 households from Saramba, 34 from Merye, 31 from Ensertu, 31 from Mengeta and 28 from Gedelgie PAs were randomly selected and the questionnaire was administered to the selected households. Of the selected 211 households, 81.5 per cent are male-headed and 18.5 per cent female-headed.

IV. THE CASE STUDY

4.1 Loan Size

Over the eight-month period between *Sene* 1981 and *Tir* 1982 (Ethiopian Calendar (EC)), 80 (37.9 per cent) of the 211 households took loans. Of these, 17 (21.3 per cent) are female-headed and the rest male-headed. As of *Tir* 30, 1982 (EC) 59 (28.0 per cent) households had outstanding loans. The size of the loan per transaction ranged between one and Birr 1,000, the average and standard deviation being 190.1 and 231.4 Birr respectively. The median loan size is Birr 100. Forty one of the 59 households (69.5 per cent) had loans below the average and the rest above it. The amount of borrowing per household is by far larger than the MOA average figures of Birr 20 for the country as a whole and of Birr 29.8 for Shewa. To be specific, the amount of household credit is far above Birr 20 in 86.4 per cent of the cases, as can be seen from Table 1.

Table 1: Distribution of Borrower Households by Size of Loan

Amount (in Birr)	< 20	> 100	> 250	> 500
Per cent of cases	13.6	50.8	27.1	13.6

It can be seen from Table 1 that 13.6 per cent of the borrower households took loans of Birr 500 or more, whilst 27.1 per cent and 50.8 per cent have loans of Birr 250 or more and Birr 100 or more respectively.

The degree of indebtedness of borrower households is better seen by comparing the loans to household income than from the absolute magnitude of borrowing. Borrower and non-borrower households do not differ much in terms of their average income⁴ which is Birr 554.7 for the former and Birr 588.8 for the latter. It should be noted, however, that the variation of income among non-borrower households is much larger than among the borrower ones. Income ranges between 46 and 1,500 Birr for borrower and between 46 and 3,105 Birr for non-borrower households. Judged by the relative amount of loans, borrower peasant households are highly indebted. The proportion of loan to household income is high. In 12.2 per cent of the cases the amount borrowed in the eight-month period from *Sene* 1981 to *Tir* 1982 (EC) was larger than the households' total income for 1981 (EC). This means that these households have loans which they cannot repay even with their

entire annual income. For 20.4 per cent of the borrower households, loans amount to more than 50 per cent of their income.

Only 12 of the 55 households who borrowed between *Sene* 1981 and *Tir* 1982 had fully settled their loans as of *Yekatit* 1982 (EC). Thirty two (74.4 per cent) of the 43 households who had not settled their debts were contacted again by the end of *Genbot* 1982 (EC) and by then all but one had not repaid due to, as reported by them, lack of ability. In fact, six of the households had to take additional loans, leave alone repay, and as a result, loans accumulated putting the households into higher debt and probably into a debt bondage. This affects their future economic prospect in at least two ways : first, by claiming more and more of their income for repayment of loans and second, by limiting their chance of getting loans in the future not only from the same creditor but also from other potential lenders.

Variations were observed between PAs regarding the degree to which peasants use credit, as shown Table 2. It can be seen from the table that peasants in Merye resort to credit (i.e., participate in the credit market) more than those in the other PAs while participation is least in Saramba PA. The average household income is also the lowest in Merye.

Table 2 Percentage Distribution of Respondent Households by Borrowing Status and by PA
(*Sene* 1981 - *Tir* 1982 EC)

Status	Argaga	Ensertu	Gedelgie	Merye	Mengeta	Saramba
Borrowed	10.4	29.0	25.0	58.8	35.5	17.9
Not borrowed	89.6	71.0	75.0	41.2	64.5	82.1
Total	100.0	100.0	100.0	100.0	100.0	100.0

A considerable variation in household loan size was observed both between and within PAs. The average loan in Merye was more than six times than in Gedelgie. A comparison of the minimum and maximum amount of loans by PA, given in Table 3, gives an indication of the extent of the within PA variations of household credit size. From Tables 2 and 3 it appears that peasants in Merye have better access to credit than the rest.

4.2 Sources and Terms of Loans

The loan agreements were concluded verbally and without witness in 92.9 per cent of the cases whilst there were two cases of written agreements and one case of oral-with-witness agreement. Thus, lending in the study area is to a very large extent based on mutual trust and understanding between lender and borrower than on formal documented agreements. Moreover, no collateral or third-party guarantee was required to back up the loans in 81.4 per cent of the cases. Such trust is mainly the result of the blood relation or the intimacy between lender and borrower that

evolved over long years of neighborhood/ friendship, etc. Of the borrower households, 86.4 per cent had known their lender(s) for ten years or more.

Table 3: Average, Minimum and Maximum Loan Size by PA
(*Sene 1981 - Tir 1982 EC*)

Loan size (Birr)	Argaga	Ensertu	Gedelgie	Merye	Mengeta	Saramba
Average	93.8	94.0	62.2	416.2	63.4	63.7
Minimum	49.0	10.0	4.0	1.0	10.0	5.0
Maximum	170.0	250.0	111.5	1000.0	140.0	200.0

Fifty-two (88.2 per cent) of the 59 borrower households got the loans from relatives and/or neighbors/friends whilst five households (8.5 per cent) borrowed from institutional sources (MOA/Bank, producer/service cooperatives (PCs/SCs)) and only two households (3.4 per cent) from money lenders. Of the five households who borrowed from institutional sources, four have positions in the leadership of their respective PAs or PCs/SCs. Thus non-institutional lenders account for more than 96 per cent of the total credit in the study area. Eleven of the twelve female-headed borrower households borrowed from relatives or neighbors/friends and one from a money lender. None of the female-headed households borrowed from institutional sources. These show that informal lenders play a crucial role in meeting the credit needs of peasant households and, within that, the most important are relatives and friends/neighbors in that order. The role of the money-lender as a source of credit is very limited.

An interesting point here is that a large proportion (89.6 per cent) of the loans involved no interest charges. Besides, no delinquency interest is charged on loans overdue. Theoretically, informal market loans are supposedly believed to carry hidden interest charges (over and above the explicit interest) of various forms such as requiring the borrower to provide labor service to lender, to repay loans taken in kind in terms of a higher quality product which fetches higher price, requiring repayment of loans taken when prices are high (usually the rainy season) during low price periods (usually the harvest season), etc. According to responses received, however, labor service was neither requested by creditors nor provided by borrowers. A comparison of the type of loan taken with the type of repayment used also indicates that all of the credits in kind were repaid in kind of the same type and quantity. All cash loans were paid in cash. Hence, the loans carry no hidden interest charges. Considering inflation, which was 7.8 per cent in 1988/89 [National Bank 1988/89] and the opportunity cost to the lender, the loans actually had negative real interest rates. Even in those cases involving interest charges, the rates are 10-30 per cent, and the sources were relatives or friends/neighbors and money-lenders (only two cases). Of the 156 respondent households who had not borrowed during *Sene 1981 to Tir 1982 (EC)*, 48.7 per cent did so because they did not want to borrow

while 22.4 per cent and 18.6 percent cited fear of getting into debt and lack of lender, respectively, as the main reasons for not borrowing. None of the respondents mentioned high interest rate as a factor for not borrowing. Another point that is worth mentioning is that there is a religious dimension to the interest charge issue. Almost all of our muslim respondents (20.9 per cent of the sample) mentioned that charging an interest on loans is *haram* which, roughly translated, means something that a Muslim should not do.

Equb -- a voluntary rotating savings-credit club -- is one important source of credit in most urban and some rural areas of Ethiopia. Even in places like Majetie in North Shewa, *equb* is often used as a source of credit, some times of large sums of money (tens of thousands of Birr). I was told that a number of individuals in this area have bought trucks with *equb* money. It is true that such big *equbs* are beyond the reach of most peasant households because (1) they can not afford the contributions and (2) such big *equbs* are found in relatively better-off areas like Majetie.

However, peasants in the study area participate in *equb* to some extent. Thirteen of the 211 households were participating at the time of the survey. There was, however, no case of borrowing from *equb*. Of course, credit from *equb* is accessible to members of that *equb* only, hence how important *equb* is or can be as a source of credit partly depends on the degree of participation of people in such an association. Only four of the 80 households who borrowed from *Sene* 1981 to *Tir* 1982 (EC) had *equb*. It is interesting to note that even these households failed to report *equb* as credit source. This seem to imply that they do not consider the *equb* money they receive when they get their lot as a credit. Whether people (both rural and urban) participating in *equb* recognize the credit aspect (especially those who get their lot first) as much as the saving aspect (for those who get last) of *equb* needs to be studied.

The items borrowed include cash, fertilizer and improved seeds as well as grain for food and seed. Asked to indicate the form(s) of credit they would prefer most, 27.9 per cent of the 197 valid cases cited that they would like it to be in kind and 26.9 per cent in cash while 45.2 per cent stressed that it should not be one or the other, but some combination of both is desirable and essential.

Borrowers took loans from multiple sources. The survey results indicate that 44.1 percent of the households who borrowed from *Sene* 1981 to *Tir* 1982 (EC) borrowed from two or more sources. Some had to borrow from as many as five lenders. They are not, however, doing this out of choice. Rather they are forced -- forced by the fact that a borrower cannot get a single lender who meets his/her credit requirement. Faced with this reality, peasants go around to different potential creditors and try to get as much as they can from each. This, however, should not and does not imply that borrowers have access to *alternative* sources of credit, because for the borrower they are rather more of *complementary* sources.

Most borrower respondents reported that they were unable to satisfy their credit needs from a single lender. The main reason, as reported by respondents, was lender's lack of enough loanable resources. There are indications, according to responses received, that the 1974 land reform has brought a noticeable decrease of credit supply, if not a "credit famine", in the rural areas. On being asked whether the chance of getting a lender(s) has improved after 1974 compared to the pre-1974 period, 80.9 per cent responded negatively. They clearly stated that it has deteriorated considerably and listed a number of reasons, the most common ones being decrease in lending capacity and number of lenders due to the levelling-down effect of the reform, decrease in the will to lend and lack of trust. Whether these are really outcomes of the reform remains to be answered through in-depth, and perhaps multi-disciplinary study. But, it is interesting that contrary to expectations, none of the respondents mentioned increase in the number of people requiring credit, and hence competing for the limited loanable resources, as a factor influencing the chance of getting a lender.

4.3 Time of Borrowing, Loan Duration (Maturity) and Default

It can be seen from Table 4 that most of the loans were taken either during the rainy season (the months of *Sene*, *Hamle* and *Nehassie*) or the immediate pre-harvest period (*Meskerem* and *Tikmt*). This is consistent with expectations because these are the very months during which agricultural output of the previous crop year gets depleted for the poor farmer while the current crops are not yet harvested. Farmers, thus, borrow to meet their seed and consumption requirements.

Table 4: Distribution of Loans by Time (Month) of Borrowing

Months loan was taken	<i>Megabit - Genbot</i> (1981)	<i>Sene - Nehassie</i> (1981)	<i>Meskerem - Tikmt</i> (1981)	<i>Hidar - Tahisas</i> (1982)	Total
Per cent of cases	7.6	62.1	22.7	7.6	100

As far as repayment is concerned, 56.1 per cent of the loans were scheduled to be repaid during the harvest or post-harvest months whereas in 15.2 per cent of the cases no specific repayment time was fixed; it was a kind of pay-when-you-can agreement. But, of course, there were also loans (10.6 per cent) scheduled to be repaid during the months of *Hamle* to *Meskerem*; the very time poor farmers have the least capacity to repay.

The agreed-upon duration of loans ranged between one and 17 months, not to speak of those loans with no fixed repayment time. The modal duration is six months. Fifty per cent of the loans were for six months or less and 75.8 per cent for a year or less. If one excludes the loans for which no specific repayment time was fixed, the loans are basically of short-term nature (one crop year or less) which seem

to confirm the argument that rural credit from informal sources are basically short-term loans. But it should also be pointed out that most of the large loans (Birr 200 or more) are scheduled to be paid in more than six months time. It does not, however, necessarily mean that all borrowings were repaid as scheduled. In fact, overdue loans are common. Of the 59 households with outstanding loans as of *Tir* 1982, 24 had all or part of their loans already overdue. Yet none of them are asked to pay delinquency charges. The "worst" action or measure that most lenders took on a borrower who failed to pay on time was to decide not to lend him in the future. There are only two cases where lenders tried to go to the extent of suing.

The overdue loans, though, do not indicate defaulting. Long time personal relations with the lender and the various forms of sanctions that community imposes on defaulting borrowers make defaulting a very difficult decision to borrowers. Almost all of our respondents consider failure to repay loans as a shameful act and indicated that a defaulting borrower will suffer consequences, including destroying his social standing and credibility (which can not be repaired easily), his chance of getting loans in the future both from the current creditor and other potential lenders, and possible exclusion from local traditional associations (for a discussion on the importance of traditional associations to the poor see Desalegn 1990). The discussion we had with respondents and other elder persons in the area revealed that often peasants go to the extent of selling their hard-earned assets and livestock, including oxen, in order to repay loans rather than default and face the consequences (social and economic) therefrom. Incidentally, it is important to note that it may be an idea for formal credit institutions to investigate ways and means of incorporating these elements into their credit activity instead of adhering to the use of collateral which in most cases is ineffective and leads to undesirable consequences [Gebrehiwot 1989]. Some of our respondents, however, indicated that the resettlement programs and military recruitment had their negative effect in terms of eroding the mutual trust that traditionally existed in the local community.

The survey has revealed that a fairly large number of respondents (about 40.0 per cent of those who gave information on this issue) had at one time or another resorted to credit in times of crisis. Such practice is particularly common among peasants in Merye, Ensertu and Mengeta PAs, in that order. The most important sources of support used were traders in the nearby town of Robit and farmers from other unaffected or less affected *kebeles*. Respondents strongly emphasized the role credit plays in distress periods, especially localized ones, not only in mitigating their effects on the victims but also in terms of helping the affected people come out of the crisis to 'normal' situations through provision of seed credit, cash credit for the purchase of oxen, etc.

4.4 Credit Utilization

A simple dichotomy of the uses of rural credit, especially by poor peasant households, into productive and non-productive (as was, for instance, done in MOA's 1983/84 General Agricultural Survey) is neither easy nor correct. Traditionally, in

the literature, consumer credit used to be categorically considered as unproductive. Lately, however, this started to be questioned particularly after the World Bank's empirical study in Brazil concerning the effects of proper nutrition and health on productivity came up with the conclusion that: Malnutrition reduces workers' ability to work by weakening them physically, results in increased apathy and therefore decreases their willingness to work, causes a higher incidence of illness and prolonged illness and therefore increases absenteeism and diminishes the desire to take advantage of new ideas" [quoted in Shariff 1986:557].

In light of such findings, could the borrowing a poor peasant household uses to purchase food be regarded as non-productive? Should money spent on medical treatment of, say, an able-bodied household member, without whom the household will have not only less labor (a very important resource for a peasant household) but also one more dependent, be taken as unproductive? What about loans used to settle previous loans which might have been used productively? Cognizant of these points, no attempt has been made in this study to classify the uses that borrowed resources have been put to as productive and non-productive.

It is found out that loans from informal sources have no strings attached as to how and for what purpose(s) they should be used. Respondents stressed that decision concerning the utilization of loans is solely that of the borrower. Credit was used by the borrower households to finance a large variety of expenditures. The reported list of uses that peasants have put borrowed resources to includes food for household members, purchase of oxen and other livestock, payment of taxes and contributions, medication, purchase of fertilizer, improved seeds, farm equipments and clothing, repayment of previous loans, payment for wage labor, housing construction and maintenance, preparation of food and drinks served to *Debbo* participants, education for children, and drinks. Of all these purchase of food and oxen, payment of taxes and contributions, purchase of clothing, and medication figure out most prominently. From these one could conclude that most loans are used in ways that contribute to production.

V. SUMMARY AND CONCLUSION

No institutional credit service worth the name is available to ordinary peasants in the study area. The only source they depend on in time of credit needs is the informal source. Informal lenders provide the poor what formal lending institutions cannot. Informal credit is so vital in the life of peasant farmers and any serious rural development and rural credit policies should take this fact into account. The policy towards this "sector" should by no means be hostile. Any policy aimed at suppressing or eliminating non-institutional credit activity will have a negative impact on the rural poor by making them devoid of the only available and accessible credit source they can fall back to make ends meet. Besides, the fact that non-institutional credit is based on domestic or, perhaps more accurately, on local loanable resources implies that it is capable of mobilizing local resources which formal financial

institutions have failed to do so far. Hence, ways and means of using this in the domestic savings mobilization effort should be sought.

The position of the money-lender as a source of loanable resources is insignificant. The most important sources are relatives and neighbors/friends. The arguments that informal lenders charge exploitative interest rates, that non-institutional loans carry various forms of hidden interests which, together with the nominal interest, make the actual cost of borrowing much higher than that of institutional credit, and that non-institutional lenders undermine development efforts by making resources available for non-productive purposes since they do not discriminate borrowers on the purpose of credit and erode credit programs by discouraging potential borrowers from going to institutional credit sources are not supported by our empirical study. Contrary to expectations and common belief, most of the loans are interest-free (hidden or otherwise). In fact, it can be argued that they actually carry negative real interest rates if one considers inflation, which was about 7.8 per cent per year for 1988/89, and the opportunity cost to the lender. Even for the loans involving interest, the maximum nominal rate is 30 per cent. It should be noted that they are lending at such low interest rates in the absence of competition from institutional credit.

It may be true that non-institutional lenders are not interested in how borrowed resources are used. But it does not necessarily follow that loans will be used non-productively. Nor does making credit purpose-specific ensure that it will actually be used for the stated purpose(s), since it can be diverted to other uses. This was what happened in Ethiopia when the Development Bank of Ethiopia (now AIDB) tried to encourage agricultural development by extending agricultural credit [Mamo Bahta and Robinson 1969, cited in Assefa 1987: 22 - 23].

Considering the purposes for which most of our borrower respondents spent their borrowed resources, it can hardly be said that loans are used non-productively. In fact, the borrowers (with few exceptions) have used all borrowed resources in the best possible rational way they could, given the circumstances they were in. Faced with problems of basic needs and other obligations such as lack of food and clothing, payment of taxes and contributions, getting medical treatment, etc., it is neither surprising nor irrational that some borrowers allocated part of their loans to cover such expenses. As to the argument that non-institutional loans are short-term loans and hence are good enough only to temporarily relieve the borrower from his immediate problems, again our empirical results do not seem to support it. While a good proportion of the loans were scheduled to be repaid within six to twelve months, there are also loans whose maturity period goes up to 17 months and some with no fixed repayment date, and, hence, could be regarded as, at least, medium-term loans. Moreover, in a good number of cases, loans have been used in ways that contribute towards basic improvements in the economic status of the borrowers such as purchase of oxen and other livestock, farm equipments, improved seeds and fertilizers, etc.

Borrower peasant households are deep in debt. About 32.6 per cent of them have loans amounting to 50 per cent or more of their income.

Social sanctions play a key role in non-institutional credit, discouraging borrowers from defaulting. In view of the ineffectiveness and possible undesirable consequences of the use of collateral to secure loans by institutional lenders, it is worth considering ways of incorporating this element into their lending operation.

Last but not least, in view of the proposed new economic policy which gives due emphasis to private peasant agriculture, the lending criteria and procedures of formal credit institutions, which are not basically suited to the conditions of the poor private peasant, need to be studied and revised. Unless changes are made, the majority of the Ethiopian peasants will not be reached by the credit services as they will not be able to meet the conditions.

NOTES

1. The study was financed by the Peasant Production and Development in Ethiopia (PPDE) research project -- a joint research project between the Institute of Development Research (IDR) of Addis Ababa University and the University of Trondheim (Norway). This paper is a brief summary review of my research report entitled "Rural Credit and Peasant Indebtedness in North Shewa: A Case Study of Six Peasant Associations" submitted to the PPDE/IDR, Addis Ababa, 1991.
2. Tigray and Eritrea are not included. The situation, however, will not be any better given the decades of political instability and consequent disruption of normal economic activity.
3. Though the Commercial Bank of Ethiopia (CBE) has been extending agricultural credit, its share has remained insignificant; it was less than 5 per cent of the total agricultural credit for the period 1984-89, the rest covered by the AIDB. The Revised Rural Credit Policy, NBE/CR/7/88, however, stipulates that the CBE and the Ethiopian Insurance Corporation (EIC) are to play a more robust and active role in agricultural development through credit and insurance.
4. Household income here refers to income from production of crops, vegetables and fruits computed using local prices and non-farm income as reported by respondents. It does not include income from livestock and livestock products.
The income figures would be taken only as rough approximations and not as accurate ones. We expect under-reporting of both farm and non-farm income by respondents for several reasons of which respondents' expectation of *aid* and *oxen credit* are major ones.

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