# Harresaw site-specific topic: credit and debt

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**Kebele officials in charge of credit services and packages**

The main objective of the credit services is to support the community get agricultural inputs, to get finance for buying necessary items in improving their lives and build assets. The credit services provided to the community are in kind or in cash. The credit that is provided in kind includes improved seed, fertilizer, motor pumps, and treadle pumps. They take credit in cash to buy milk cows, to buy items for trading and to buy livestock for fattening.

With regard to credit, there is nothing called a target group because it is needed to involve all the community members in the credit packages. However, the poorest part of the community needs to have more participation in the credit packages. Dedebit started to provide the credit service in the kebele in 1997 and the cooperative started in 2000.

With regard to the coverage of the credit institutions, Dedebit has better service than the cooperative in terms of capital size, modern management, and staff training, follow up on the ground, advice on loan management, and amount of credit. The multi-purpose cooperative has better coverage in providing improved seed and fertilizer. The limitation that is seen in both credit services is that a person can’t take credit if he/she has debt.

People who can’t get credit service are those who have lived in the kebele less than 6 months, those who don’t have an ID card of the kebele, those who are known for misusing money (which means those who couldn’t get a support letter from the associations and the kebele administration) and those who have debt. Others who are above 18 years old can get the credit service without any distinction concerning their physical status, gender, and economic status.

There are people who request to get credit but they don’t get it. This happens if these people need to borrow money from one institution before they pay their debts to the other institution.

Currently, the number of people who pay their debts is increasing; especially those who have children in Saudi Arabia or those who went to Saudi Arabia are paying their debts. Those who have not yet started to pay their debts are those who are poor and physically weak. It has been started to accuse those people who have not paid their debts and their time limit (deadline) is over. Additional time/opportunity is given to pay their debts.

Generally speaking, as there are many people who have benefited from the credit services, there are also people who have negatively been affected. As a result, many people have migrated abroad.

## People who have benefited from savings and credit services

The respondent who has benefited from saving and credit services is a 40 year old man. He has not attended formal school but he had participated in the adult literacy programme. He has 6 family members who live together - husband, wife, three children and one daughter of his sister. He has middle class economic status. He participates in PSNP FFW programme. He borrowed 600 birr from Dedebit in1996 EC. He borrowed the money on his own initiative to buy sheep for fattening. When he started the business, he paid the debt within one year and had 8 extra sheep as profit. The type of credit he took was livestock fattening package. He took the credit in cash. To take the credit, first the association signs and then the kebele administration writes a letter that confirms that he has had no other credit previously and that he can borrow money. This was the criterion which he fulfilled to take the credit. At that time saving was not compulsory to get credit. But he started to save after he took credit which had 9% interest rate which was paid within one year. It was given to people organized into groups. At that time, as the 5th group member was not able to pay, the remaining four paid his debt. There was no restriction on how to spend the money; but people could use it for the purpose which they want to use. Now, the purpose of taking money should be clearly stated and it should be spent only for the intended purpose. At that time, the minimum amount of money to borrow was 300 birr and the maximum was 1000 birr. The credit system had many administrative problems. They were asking a person who already paid his/her debt to pay. He was accused three times that he didn’t pay his debt when he had already paid. But he already had the receipt at hand by which he did win. Due to such inconveniences, he didn’t take credit again from the institution. Despite this, he has been able to improve his life with the amount of credit he took.

In 2007 he borrowed 1500 birr from the multi-purpose cooperative to buy a milk cow because it was possible to borrow that much money only to buy a milk cow. But as he already had the knowledge and experience about the business and its profitability before, and he used the money for fattening sheep. He didn’t get any counselling about how to use the money other than directing him to buy a milk cow. The criteria to take credit were just to have a letter from the kebele administration that he had no debt from Dedebit and the signature of both partners (his and his wife’s signatures). Saving was not taken as a criterion to take credit. The interest rate was 9% and it had to be paid within three years. The minimum amount of credit was 500 birr and the maximum was 1,500 birr. He has not yet completed paying his debt because he is working with the money to expand his business to fattening oxen. He said that he is left with only 700 birr debt; he plans to pay it soon and he will no longer need any credit because he has saved enough money with which he can do his business. When he decided to take a loan the first time, it was because he had nothing at hand; so he took the credit and was able to buy 2 oxen, 2 donkeys, 2 cows, and over 20 sheep with his profit. He said that he would have continued to live in poverty if he hadn’t been able to get the credit service. He didn’t have difficulties to pay his debt because he was paying it soon after he earned profit. In fact, the drought of 2008 affected him because 6 of the 8 sheep died due to famine. So, he shifted his business to keeping oxen rather than sheep because the livestock feed that was provided by the government was only for cattle.

According to him, many community members have benefited from the credit service; but there are also people who failed or who misused the money to buy food items, drink and who go abroad. When they were unable to cross the borders to Saudi Arabia, they came back home with empty hands. Others were affected by the credit as they bought livestock and kept them (thinking that they couldn’t make trade with livestock) instead of doing business with them. Most of the people in debt are youths because they don’t forecast for their future; while those who are married, have land and children don’t want to leave debt to their children and families and put them in trouble. They don’t want to sell property due to debt. Most people migrate to Saudi Arabia to pay back their debt. Many of these have died due to shortage of food and illness and being exhausted when they try to cross the borders through illegal ways. They still are dying from the same problems. Recently, people have started to rent out their land and pay their debts. This has affected them to lose the products that they could have got from their own land.

Finally, he suggests that it would be helpful for people to be given a chance to get another credit by which they can pay the first debt (this is because those who already have debt can’t take another credit). But giving a second chance would help them to learn from their experiences and pay their debt. Moreover, as the amount of debt increases over time due to the interest rate, it would be helpful if considering the interest would be stopped from now onwards for those who have taken credit at the beginning. This is because, at first, many people were not serious about paying debt on time and they didn’t understand its consequences after time. But as many people have learnt from experience, they would able to cope with the debt from now onwards.

## People who failed and are in debt

The respondent is a 41 year old man. He had participated in the adult literacy programme. He is married and has four children. He is among the economically poor people in the community and he is included in the PSNP-FFW programme. He borrowed 5000 birr from Dedebit in 2005 with his interest. He intended to keep milk cow and beehives and fatten sheep. He got the credit after he was included in the livestock package. He was given a support letter from the kebele administration to get the credit. He took the credit by cash. He bought a cow and sheep and had started livestock trade. He then sold the cow and bought an ox. There was no need for collateral at that time; only the kebele’s support letter was enough. Although he was advised to use the money for the intended purpose, he used it for another function. The interest rate was 9% and it had to be paid within 4 years. He took the credit individually. The limit of the credit, at that time, was 1500-5000 birr. He received counselling service on using the money properly by the experts at Dedebit. He also had follow up and supervision and he was repeatedly been reminded to start paying his debt. But he was unable to pay on time; he was accused in December 2010, at the social court. Then, it was decided that he had to finish paying his debt within one month. He was informed that the 5000 birr has been increased to be 8000 birr at this time when the interest rate was added.

The reason why he couldn’t pay his debt on time was because he lost the livestock which he had bought with the money he borrowed, due to the famine in 2008. And he was not able to work because he was severely sick in 2010. He didn’t ask the court for additional time to pay his debt because the debt has created tension for him and for his family members. There are people who have similar problems like him. Those who have fertile land, especially irrigated land, and those who are able to go abroad with their children are able to pay their debts. But people like him who lost their livestock by drought and who don’t have fertile land are negatively affected by the debt. He has no information about how many people in the community have debts because he doesn’t participate in public meetings due his work. He went to Afar for daily labour work and had saved some money. But he used the money for his daughter’s medical treatment as her eye was infected by a cactus thorn. As he had no money to take her to a clinic in time, her eye (one) has gone blind. Now, he is searching a person who can rent his land so that he can pay his debt. He said that the credit service has benefited some people and has affected others. Those who are engaged in different business and trade are among the beneficiaries. Those who have bought livestock after the drought was over are also getting benefit. Those who have fertile farm land and get animal feed are benefiting from the credit service.

He suggests that to reduce the negative impacts of credit, the people who take loans should use the money properly. Besides, they have to do an assessment first about how to use the money and what business can be more profitable. The community has also to develop support mechanisms to help people who fall into trouble when natural disasters occur.

## Heads of credit service institutions

### Dedebit Credit and Saving Institution Expert assigned to the kebele

The objective of the credit is to build assets and it is provided in cash and in kind. There is no specific target group but priority is given to the poor people. Women and landless individuals are among the people who are given priority. However, it is open to everyone who is willing to work hard and who believes can change his/her life by taking some credit.

When it is compared with the credit service of the cooperative at the kebele, there is a great difference because Dedebit has better coverage and better management, staffing, capital size, and control system (auditing).

The institution would like to give more credit services to women and to farmers than to youths because women don’t drink and do not misuse the money. But the youth don’t use the money properly and they escape if they are not successful with their business. But all the community members need equal service. Recently, there are more youth beneficiaries because they want the money to go to Saudi Arabia and to pay back their parents’ debt

In 1995/96 EC, the credit was given by force because there were few beneficiaries. As the kebele leaders wanted to use it as a measurement for their performance, they were putting a lot of pressure on the community to take credit. The ones who refused to take it were asked to put their signatures that they had enough to support themselves and they didn’t need aid. So, to avoid exclusion from aid, most people took credit unwillingly.

Now, most people, especially those youths who went to Saudi Arabia, are paying their debts. Those who face difficulty to pay the debt are those who lost their livestock due to drought, those who misused the money, and those who borrowed much money. The solution can be to provide advice repeatedly, mobilize the community, give warning letters, collect the debts step by step through the development groups, and accuse them at the social court.

There are some people who refused to pay and died on their way to Saudi Arabia. Most people rent their land, borrow money from relatives, and migrate to Saudi Arabia to pay the debt. There are also some people who send their children to school and get support to pay their debt after these children have completed their education and got jobs.

Debt has caused stress and migration in the community. The debt that is paid to Dedebit has better progress because the institution has better staffing that follows up the debt repaying process.

It is suggested that the credit should be given only to those who can repay, after their background is assessed. It shouldn’t be given only because the person is poor because the debt causes further poverty. Besides, it is good to lend money to those who have collateral.

In general, credit service has benefited the community, especially those people who live around the places which are emerging as towns. Moreover, the people who take credit have to pay it as soon as possible because the amount of debt increases in time because of the interest, which may cause worse problems.

### Leader of the multi-purpose cooperative

The main objective of the cooperative is to support the community to get oxen for farming and to build assets. Previously, it was given in cash. Since 1996 EC, it is given in cash and in kind. It includes fertilizer, treadle pumps, motor pumps and drips. The credit service was started in 2002 and 70%-80% of the community are beneficiaries of the service.

In the past, the coverage by Dedebit was greater; now the coverage of the cooperative is more. It lends about 150,000 birr/year. There is about 500,000 birr which is not paid. The management structure of the cooperative is the chairman, cashier, vice, finance officer and secretary. Counselling service is provided when people take credit. Most of the beneficiaries are youths because they want to make a business or to go abroad with the money. People who have previous debt can’t take credit. If people refuse to take fertilizer with credit, they are asked to sign at the kebele that they don’t want any support from the government. So, they are forced to get the credit. This pressure comes from the kebele administration and not from the cooperative. The trend of repaying debt is increasing. The youth that went to Saudi are repaying their debt. In addition, those who are engaged in production with milk cows are repaying their debs and improving their lives. The people who used the money for celebrating weddings and funeral ceremonies and for drinking, are now in trouble because they can’t repay the debt. There are about 500 people who have not yet paid their debts. Now, most of the people who borrowed from Dedebit are paying because the interest rate is high and there is pressure from the administration. The cooperative provided the credit when the interest rate was 9% for cash and 18% for fertilizer.

Generally speaking, credit has a positive effect on the life of the community because many have been able to buy livestock and to produce better production from farm land. It is suggested that the community would get better benefit if it gets education about how to use money and if the interest rate could decrease. People are now choosing not to take credit because the interest rate is high.