WOLKITE UNIVERSITY

COLLEGE OF AGRICULTURE AND NATURAL RESOURCE

DEPARTMENT OF AGRICULTURAL ECONOMICS

FACTORS AFFECTING ON THE PARTICIPATION OF RURAL HOUSEHOLD IN INFORMAL FINANCIAL INSTITUTIONS IN CASE OF CHEHA WEREDA

A SENIOR RESEARCH PROJECT SUBMITTED TO DEPARTMENT OF AGRICULTURAL ECONOMICS, COLLEGE OF AGRICALTURE AND NATURAL RESOURCES

STUDENT NAME	**ID NO**
PREPARED BY;	
1. YINGES BEYENE	AGR/332/09
2. WUBSIRA MOLLA	AGR/320/09

ADVISOR: Mr. TADELA ALEMAYEHU (MSc)

MAY, 2019

WOLIKTE, EHIOPIAT

ACKNOWLEDGMENT

First, we would like to thank GOD for his miraculous time to let us accomplish everything we start and for his help to go through every event successfully up to this minute. We convey our deepest thanks to our advisors, TADELA ALEMAYEHU (M.Sc.). The Completion of this work may not have been possible without his generous devotion to the Design of the research. Thus, we thank him for his genuine and energetic encouragement, Suggestion, insight and guidance to complete this research paper. We further extend our gratitude to Wolkite university faculty of agriculture in providing computer services and other facilities for the accomplishment of our research work.

LIST OF ACRONYMS AND ABBREVIATIONS

CBE	Commercial Bank of Ethiopia
CBO	Community-Based Organizations
DBE	Development Bank of Ethiopia
FFI	Formal finance institution
IFIS	Informal finance institutions
NGOs	Non-governmental organizations
ROSCAS	Rotating and non-rotating savings and credit associations
SMEs	Small and medium enterprises

Table of Contents Page

LIST OF TABLE

ABSTRACT

Informal financial sector provides revenue for savings and credit facilities for farmers in rural areas and for low-income household and as well as small and medium enterprises (SMEs) in urban areas. They are poorly developed and managed to the extent that they are limited in reach. So This study show that to analyze the factor affecting on participation rural household in informal financial institution from a total of 50 (18 male and 32 female) smallholder farmers from 2 out of 41 kebeles selected for sample in case of cheha woreda in gurage zone in SNNP. Under this we are to assess the factors that affect rural household participation in informal financial institution and to examine the contribution of informal financial institution on rural household. We are used randomly sampling method since selection of a sample is very convenient and is cost and time efficient. The selected design to conduct this research is not experimental or laboratory research design rather it is survey. Both primary and secondary sources were used to gather the data's. Qualitative data were collected using structured interview and questionnaire. Both descriptive and econometric data analyze methods are using to analyze the data. The descriptive results show that household's perception for why they are participating and for what purpose they use the service they get from informal financial institution. The logit regression analysis results show that among 8 explanatory variables which were included in the model. From this variable four variables (age of households, marital status, education status and access to formal credit) were statistically significant. The remaining four variables (sex of household, extension contact, non-farm activities and religion) was less powerful in explaining the variation for participating in informal financial institution. Among those significant variables age of household, marital status, education status affects negatively. The rest of other variables affects positively. Finally, we recommended as, government and other stakeholders should have give emphasis for those informal financial institution and they have to interfere and encourage and appreciate informal financial institution in terms of giving training how to hold their money and on how to maintain books of accounts.

***Key words**;- participation, informal institution, formal institution and cheha woreda*

1. INTRODUCTION

1.1. Back ground

Informal financial sector provides revenue for savings and credit facilities for farmers in rural areas and for low-income household and as well as small and medium enterprises (SMEs) in urban areas. Informal financial sector is made up of the institutions that are not integrated with the formal financial sector and virtually out of the control of the legal framework. They are poorly developed and managed to the extent that they are limited in reach. These informal financial players include the local money lenders, thrift and credit associations, and cooperative societies, among others (Chude Nkiru Patricia, 2016).

In developing countries, about 70% of adults have no access to financial service (Richter, 2011) and this could be higher in rural areas, while about 90% of the rural sector financial needs are satisfied by informal rural finance providers (World Bank,2000). The report specifies that the informal sources provide the bulk of rural dwellers' financial needs for five active occupational groups, namely: farmers, artisans, market women, traders and local manufacturers.

As different reports shows there are different types of informal finance providers in the world; some of these operate in groups as associations and unions within a particular community, profession, clan and companies. The informal finance providers in India are the traditional money lenders, pawn brokers and trade specific lender (Singh, 2004). Nathan (2004) reported that the informal finance providers in Uganda include cooperative and credit societies, government credit scheme, NGO, money lenders, commercial firm's employers, relatives and friends.

Akingunola and Onayemi (2010) identify informal rural finance providers in Nigeria as trade and input supply financing, cooperative societies, nongovernmental organizations (NGOs), esusus, families, friends and money lenders. These informal finance providers provide their savings and loan services on favorable terms and at cheaper cost (Oloyede, 2008).

According to (Negussie, 2004) there are informal financial institutions which are known as Community-Based Organizations (CBOs) in both rural and urban areas in Ethiopia which are organized by neighboring households. The nature of the CBOs highly varies from social,

religious and financial concerns, but are all aimed to address the needs of the people. The most common informal financial institutions are iddirs, iqqubs and others.

In comparison to formal financial institutions, informal lending is by far, the most important source of finance for the rural and urban population. In recent years, the informal sector has continued to assume an increased prominence mainly due to the restrictive rules and regulations of the formal financial sector. Also, the fact that collateral is rarely used in the informal sector enables the sector to flexibly satisfy the financial needs that cannot be met by the formal financial institutions (Yohannes, 2000).

The informal financial sector often embraces a wide group of individuals and institutions whose financial transaction are generally not subject to direct control by the country's key monetary and financial policy instruments. Individual economic entities in the informal sector include moneylenders, money-keepers, tradesmen, friends and relatives, and neighbors (Million Sileshi Haile, 2012).

Informal financial institutions in the study area are present as a means for saving their money and for insurance service. This informal financial institution offered loans to members and the majority of these loans are used when members faced some events/shocks such as destruction of the family home, illness, fire shock and death of cattle. This indicates the roles of iddir to meet the economic needs of poor households by providing them credit services in study area. There is also iquib which is formed by on voluntarily bases to save their money and the money is taken by each members on a voluntarily bases.

1.2. Statement of the problem

Informal credit source serves as a catalyst in the overall development process in African countries. They are an empowering agent and an enabling element in the development of socio-economic conditions of the poor who have been kept outside the formal credit system (Kongolo, 2007).

Wolday (2002) also added that formal systems are the least well adapted to poor populations because of their geographical, cultural, economic and/organizational remoteness. The basic problem in providing credit to poor people, as formal credit institutions tend to see it, is the high

risks and the high transaction costs. In Ethiopia, where the vast majority of the rural population lives in poor conditions, the people have to find a way to survive. Hence, especially among the poorest segments of the rural population, informal financial sectors including informal cooperative societies have become a high priority. Such traditions have existed for a long time, and continue to the present day, primarily because they have been successful in achieving their objectives (Shimelles Tenaw, 2009).

Through these informal financial institutions, rural people can articulate their needs, protect their interests, manage resources and have access to various kinds of services (Adal, 2000, as sited by Tessera, 2006),But there are factors that inhibit peoples from participating. So these factors need to be identifying in order to make people successfully join this informal financial institution to solve their problem that is not solving through formal financial institution due to its complex procedure.

As for money saving, in Ethiopia, it is only 1% of rural house hold that maintains bank accounts. Thus the informal financial sector is one of the most important sources of rural finance and accounts for about 78% of total agricultural credit (Dejene Aredo, 1993).

Thus according to Dejene informal financial sector seeks more attention as 78% of agricultural credit is providing by it. The long distance between this informal financial institution and formal institution and government bodies create some problems for peoples who want to participate in this financial institution. So it is important to narrow the gap between this financial institution and government bodies so as to make peoples to participate fully in informal institution. The local informal financial institutions helping the poor during adverse shocks and enable those to spring back quickly into their previous condition (Tessera, 2006).

1.3. Objective of the Study

1.3.1. General objective

The general objective of the study was to analyze the factor affecting on participation rural household in informal financial institution in case of cheha woreda.

1.3.1. Specifically the objective of the study is:

1. To assess the factors that affect rural household participation in informal financial institution.
2. To examine the contribution of informal financial institution on rural household.

1.4 . Research questions

- What is the contribution of informal financial institution on rural household in study area?
- What are the factors that affect household participation in informal financial institution in the study area?

1.5. Significance of the Study

This study was providing information on the factors that determine household participation in informal financial institution for governmental bodies and for all persons that participate in informal financial institution. This study also opens roads for governmental bodies that are standing to improve household participation in informal institution.

The study was important for formal sectors in creating awareness regarding with the types of informal financial institution, their characteristics and their roles. In general the study was expecting to identify the main factors that inhibits household from participating in informal financial institution and gives some suggestion in how to governmental bodies and other formal sectors work with those informal financial institutions.

1.6. Limitation of the study

There are few studies especially empirical reviewed literature related with factors affecting household participation in informal financial institution as a result this study was limited to focus more on theoretical literature review on reviewing part. As it deals with informal financial institution in cheha district there is area limitation due to shortage of time and financial problem. Moreover during data collection, some respondents were not willing to cooperate for the study, since they might be considering giving response as wastage of time.

1.7. Organization of the paper

The paper has five chapters. Chapter one deals with introductory part which contains background, statement of the problem, objectives, basic research questions, scope and limitation of the study, significance of the study. The second chapter deals with theoretical and empirical literature review. Chapter three contains methodology which contains description of the study area, type and source of data, method of data collection and sampling procedure and method of data analysis. The fourth chapter includes result and discussion and the last chapter's deals with conclusion and recommendation, in addition to this it includes the reference and appendix.

2. LITRATURE REVIEW

2. 1 .Theoretical Literature Review

2.1.1. Informal Financial Institution in Ethiopia

Formal finance institution (FFI) can be defined as institutions that are regulated by the central banking supervisory authorities for licensing and credit policy implementation. They usually use legal documentation or legal system to enforce their regulations (Green Wald and associates, 1983). On the country people (1994) defined informal finance institution (IFI) as the one that comprises of all law full but unregulated activities such as rotating and non-rotating savings and credit associations (ROSCAs) money lender, money collectors and other providers of retail formal services.

It is well known that the formal financial institution is mostly urban centered and as well as to procedural particularly for the poor and un educated majority of the country's population, therefore, the bulk of the rural households may be reluctant to use the formal institution rather they prefer rely on informal finance institution, that is well adopted or acceptable to their cultures and customs (Solomon, 1996).

In this respect, Solomon (1996) pointed out that the informal finance institution are by far that the most important sources of loan able funds both for the rural and urban populations as compared to the formal financial institution. Similarly Dejene (1993) underlined how inaccessible the formal sector is to the majority of the Ethiopian population makes little or no use of formal use of saving and lending institutions. In a country where more than 80% of the population lives in rural areas, few banks and credits associations that are presently operational are limited to urban areas.

The informal financial sector in Ethiopia comprises mainly of Iqqub (rotating and saving scheme), Iddir (traditional institution scheme), and money lender "arata abedari' etc. Relatives and friends are the other major traditional sources of finance as identified and described by many authors, (Dejebe, 1993). It is estimated that 78% of total agricultural credit in Ethiopia stems from informal finance institution (Dejene, 1999). According to the same sources of the

households survey 66% secured financial services from relatives and friends, 15% from money lenders and the rest of 19% from other sources indicated that only 7% possessed bank account.

2.1.2. Some Types of Informal Financial Institution

2.1.2.1. Iqqub

Eqqub**:-** is an informal institution established voluntarily to collect a specific amount of money from the members on a specific date to be paid on round and lottery basis to the members. According to Dejene (1993) and Aspen (1993) the term Iqqub is simply defined as an indigenous savings association where each member agreed to pay periodically on small sum. In a similar manner Assefa (1993) is also defined it as an association formed by a group of people or individuals who agree to make regular contribution to a fund, which is given in whose or in part to each contribution in rotation.

Moreover, it is possible that the 'Eqqub' pre-dates the emergence of the modern banking system in the country. The Eqqub consists of homogenous groups: people from the same work place, ethnic background trade schooling background or neighborhood. The 'Eqqub' is not limited in urban areas: it is also common in rural areas though perhaps practiced to a lesser degree.

According to Mauri (1987), people prefer 'Eqqub' to the formal financial sector because of the following reasons: the intimate integration between the financial service offered by the 'Eqqub' and the strengthening of the solidarity and friendship in the group, the forced savings of a contractual nature , the provision of credit services particularly suited to the needs of the participants and the flexibility and adaptability of 'Eqqub' to various situations and needs , low risks of default the low or practically non- existent costs of administration and transactions.

All savings and loan associations with a rotating fund 'have savings as a core feature', according to Miracle *et al.* (1980).

2.1.2.2. Iddir – the Social Insurance

Iddir;- is one of the informal local institutions in Ethiopia established voluntarily by the community and involved in self-help and other social activities. Iddir is established primarily to provide mutual aid in burial matters but also to address other community concerns (Pankhurst & Mariam, 2000). Iddir is a type of informal financial institution whose aim is to provide assistance

at times of mourning. As noted by Dejene (1993), iddir as an informal financial and social institution that is almost ubiquitous throughout Ethiopia.

Iddir is also defined by Mauri (1987) as an association made up by a group of persons united by ties of family and friendship, by living in the same district, by jobs, or by belonging to the same ethnic group, and as an object of providing mutual aid and financial assistance in certain circumstances. In practice, the Iddir is a sort of insurance program run by a community or a group to meet emergencies.

According to Salole (1986), the original purpose of Iddir was the burial of the dead. Some Iddir provide assistance in the events of shocking apart from death, such as fire, illness, loss of oxen or other livestock and harvest, destruction of house, weeding and any other events. During such circumstances, Iddir will either given cash transfer or give loan (Hoddinott *et al*, 2005). Iddir is an informal finance institution or association established by the community members to provide social security during certain specified types of crisis occurred to its members (Kejela *et al*, 2006). In this sense, Iddir is a sort of insurance program run by community or a group of people in terms of emergence like death of family members.

In most cases, Iddir institution is open to all irrespective of ethnic background, religion, political affiliation, sex and age. In addition, ethnic or social status, election of leaders and important decision are based on the principle of one-man one vote. Iddir is perhaps the most formalized and democratic institution in Ethiopia. Therefore, Iddir appears to have no restriction on membership beyond playing the necessary dues and fees. All villages have at least one Iddir that could be open to any one (Aspen, 1993).

Today, the Iddir provides a much wider range of services including financial and material assistance and consolation to a member in the event of difficulties as well as entertainment as the case may be. The expansion of Iddir to urban areas is perhaps associated with growing social insecurity. Salole (1986) for example, noted recourse to iddirs and lqqubs as one of the most significant survival strategies or coping mechanisms adopted by the Ethiopia urban populations.

The functions of iddirs are not limited to the provision of insurance and psychological support to its members; iddirs are often involved in community development programmes such as

construction of roads or schools, and installation of public utilities etc. (e.g. see Mekuria Buicha, 1973; Aleme Feyissa, 1973). The iddir is considered an excellent vehicle for the state to gain direct access to the urban population (Sable, 1986).

However, attempts at effective mobilization of resources through iddir for community development have not yet succeeded (Hamer, 1976; Cohen and Koehn, 1980,), although such attempts were initiated as early as 1972 when the first seminar was convened for this purpose by the Community Development and Social Affairs (Mekuria Bulcha, 1973).

Similar attempts by the Insurance Corporation to integrate both iddir and iqqub with the formal sector have not yet succeeded. It has been observed that 'despite the abundance and vitality of these institutions the development agencies appear to have overlooked them as partners or tools in their work' (Sable, 1986).

2.1.2.3. Money lenders

It is one of the most important parts of informal finance institutions in Ethiopia. It is locally known as "Areta abedari" which is refers to traditional money lender, who extends credit at exorbitant or very high interest rates. Money lenders enter in to informal finance market to make business by collecting interest on loans (Kejela *et al,* 2006).

In most cases, money lenders are part – time lenders who supplement their income through money lending; usually they have long standing relationship with their borrowers and the well informed about the borrowers. Mostly the moneylenders are farmers, shopkeepers, salaried employees and business persons. The financial operations of moneylenders are simple cost effective as compared to those of banking systems (Kejela *et al,* 2006).

Furthermore, interest rates are influenced by the extent of relationships, degree of risk involved, availability of funds in the community, length of the maturity periods and extent of competitions from the formal financial market. Cash loan is specifically given for one-market days; principal plus interest is collected at the end of the days. Loan can be obtained with or without collateral, depending upon past behavior of the borrowers, extent of personal relations between the contracting partners, etc (Kejela *et al,* 1987).

2.1.2.4. Credit from Friends and relatives

In Ethiopia where there is long tradition of mutual assistance and reciprocity, individuals who need funds call friends and relatives for help. Acceptance of such help obligates the borrowers to reciprocate by providing non- financial services or by supporting funds in turn when the lender need to borrow. Lending between friends and relatives often carries low interest or no interest charge and oral agreement, confidence, trust and mutuality are frequently all that is needed as collateral or security (G/Yohannes, 2000).

This type of loan source is well known in most part of the country and accounts for a large share as compared with other sources of loan. A needy person can get interest free loan from relatives and close friends (G/Yohannes, 2000).

2.1.3 Characteristics of informal finance institution

2.1.3.1. Informality

The informal finance institution has written rule as formal finance institution. It derives its rule and regulation from society's cultures and customs. This indicated the cost per transaction is less and it involves less bureaucratic procedures, and delays elaborate per workers, (Kejela *et al,* 2006).

2.1.3.2. Collateral

Depending on the relation between the borrower and lender, usually informal finance institution demand assets such as houses, shops, live stocks, lands or personal guarantors. If a good relationship exists between the group lenders, then loan transaction may be executed mutual trust only. In most of the case, informal finance institution is required to bring a guarantor. The guarantor is expected to be dependable and of good reputation and relatively wealthy, (Kejela *et al*, 2006)

2.1.3.3. Flexibility

In general, borrowers believe that the informal finance institution is more flexible than the formal system. The IFI is highly flexible in terms of interest charges and rescheduling of repayment period. Based on the request of the borrowers the loan repayment period can be flexible and rescheduled up on the request of the borrowers and consent of the lenders. It can be

extended for another one or two years. A new agreement is made for the rescheduling of debt repayment (Kejelaetal, 2006).

2.1.3.4. Interest Rates

In rural areas both interest free loans from friends and relatives and interest bearing ones operates side by side. According to a study by Lexander (1968) interest rate varied with in a village depending on the types of relationship between the contracting partners. Those who are closely related to the moneylender or loyal to him pay low interest rate (or even no interest). There could be also inter – regional and temporal variation in magnitudes of interest rate.

2.1.4. Enforcement Mechanism of Loan Repayment

Enforcement may be through the elders and the courts of the laws. As indicated by G/Yohannes (2000) the informal lenders have easy access to information (at reasonable cost) about their borrowers, with whom they have socially relationships. This permits credit contracts to play a major role in enforcing re payment.

2.1.5. The Role of Informal Finance Institution

Informal finance institution plays a great role in rural Ethiopian economy. In general term the role of informal finance institution has for rural society is in poverty reduction. Specifically it play role in households capital accumulation, in encouraging investments and saving, to overcome case of emergence such as death and illness and many other roles(Dejene, 1999).

According to Assefa (1993) Informal finance institution plays a great role in house hold capital accumulation for rural people. Rural people us IFI as bank, it is called rural bank. Money saved in form of informal finance increase from time to time and then brings the capital accumulation. **In general** informal financial institutions plays greet role in working together for the purpose of household capital accumulation and poverty reduction and also increases their relationship and unification.

2. 2. EMPIRICAL LITRATURE REVIEW

A number of factors are that are affecting households participation in informal financial institution as well as factors affecting households in participating from formal financial

institutions are explained by different scholars as follow. These explanatory indicators vary from study to study based on their contextual applicability and specific local condition.

For instance a study by Atieno (2001) indicates that income level, distance to credit sources, past credit participation and assets owned were significant variables that explain the participation in formal credit markets.

A study in Egypt by Mohieldin and Write (2000) indicates that educational level, ownership of land, total assets, and sizes of the household were significant factors affecting household participation in formal credit. Syeda *et al*.(2008) studies also indicates that loan duration, terms of payment, required security of credit had negative Influence on access to formal credit.

A study by Wivine *et al* (2013) indicates factors influencing Rwandan farmers' participation in formal credit markets as borrowers. They found that formal credit market participation by farmers increase with education, off-farm incomes, and agricultural extension, and decreases with the presence of informal financial systems in the neighbor-hood.

According to Hussien (2007), flexibility in rescheduling loan repayments in times of unexpected income shocks highly induced rural households to go for the informal credit sources while gender, education, extension visits, household labor and farm size increases the probability of using the formal credit sources. Hussein (2007), Sissay (2008), Lensink *et al.* (2009) and Tang *et al*. (2010) found that a positive significant influence between farm size and access to credit.

Amare (2005) and Remedan (2008) also says that participation of farmers in non-farm income generating activities is influence access to credit negatively. Sisay (2008) on his part showed farmers with large number of livestock did not use credit than farmers with lesser number of livestock. Similarly, Petrick (2005) found a significant negative relationship between livestock holding and credit access of farmers.

The study by Gunnar (2010) that that with the increase in age, accumulated experience, practical and professional wisdom of the household increased his/her income generating capability and he demanded more credit to explore his capabilities or to spend on consumption. Contrary to this, Mohamed (2003) and Syeda *et al.* (2008) found out a negative relation between age and access to credit.

Atieno (2001) indicated that past credit participation is a significant variable to explain the participation in both formal and informal credit markets positively. In line with this study, Tefera (2004), Sisay (2008) and Tang *et al*. (2010) reported that a farmer having more experience in credit uses will have more tendencies towards using that source. Hussien (2007) reported family labour is the main determinant of access to credit by farmers and he found significant negative relationship between family labour and access to credit.

The study by Hussien (2007) shows that farm households are discouraged to borrow from credit sector if it is located farther. This is because both temporal and monetary costs of transaction, especially transportation cost, increase with lender-borrower distance which arises the effective cost of borrowing at otherwise relatively lower interest rate in the sector.

According to Nwaru *et al* (2011) studies the determinants of informal credit demand and supply among food crop farmers in AkwaIbom state of Nigeria. Their findings identified; education, interest rate, farm income and profit as significant factors that affect the credit demand of farmers. Among these significant factors, only the interest rate was negatively related the rest of the significant variables were positively related with credit demand. Though the study identified some important factors (such as; education, interest rate, farm income and profit) that affect the demand for credit. Bigs ten *et al*. (2003), and fliesig (1995), stated that in developing countries asymmetric information, high risks, lack of collateral, lender-borrower distance, small and frequent credit transactions of rural households make real costs of borrowing vary among different sources of credit.

Additionally, according to Hussien (2007), farm households are discouraged to borrow from credit sector if it is located farther. This is because both temporal and monetary costs of transaction, especially transportation cost, increase with lender-borrower distance which raises the effective cost of borrowing at otherwise relatively lower interest rate in the sector. This was also supported by Padmanabhan (1996), comparing the informal credit sector from the formal stated that proximity, comfortable atmosphere, quick credit, all times access, repayment flexibility and lower transaction costs are the advantages of the informal sector have made them almost indispensable, particularly to small farmers.

A study by the National Bank of Ethiopia (1996) concluded that "CBE and DBE have only catered for insignificant demand for credit of small farmers. The bulk of financial services

provided to small and micro-enterprises in rural and urban areas, therefore, mostly originated from the informal sector such as Eqqub, moneylenders and friends" (NBE, 1996).

Dejene (2003) concludes that the non-formal sources in Ethiopia include relatives and friends, moneylenders, neighbors; Iddir, Eqqub and Mahaber are the major sources of loans include friends and relatives (66 percent), moneylenders (14 percent), and Iddir (7 percent). In other words the bulk of the rural credit comes from informal sources. Every year, the informal sector mobilizes resources equivalent to about 10 percent of deposits mobilized by all banks in Ethiopia. Rural Iddirs mobilized through informal loans alone an amount 3.5 times the total capital of all micro finance institutions in Ethiopia.

Ethiopian cooperative agency (2014) also identifies the percentage share of the number of borrowers by institution as ACSI caters to 22%, co-operatives 9 %, NGOs 3%, Arata Abedari 20% relatives/friends 44% and others 2%. It is argued that informal sources, however, do not generate enough and affordable finance for business to stimulate economic development. In particular, the individual moneylender (the Arata Abedari) is extremely expensive, and is only resorted to in the absence of any alternative. In this case borrowers are required to provide guarantors and the interest rate is excessively high. Until recently the annual interest rates that the money lenders charged was estimated to range from 60% to 120% (Getaneh, 2005).

3. METHODOLOGY

3.1 description of the study area

The description of the study area is important for the decision of investors to invest their resources in the kebele and the most essential issues are described below as follows.

Gassore kebele is found in South West of Gurage Zone of, SNNP regional state of South West part of Ethiopia, which is locating 10km from Wolkite town.

According to the classification used in Ethiopia, the climatic condition of the gassore kebele is characterizing by Woina Degaclimatic zone. The mean annual ambient temperature of this kebele is between 18^{o}c and 32^{o}c. The absolute maximum temperature usually occurs from March to May and the minimum temperature also occurs from June to November. Average annual rainfall is about 1900mm.

According to cheha Woreda administrative office, the total populations of the Woreda have 203,477 out of which 102249 (51%) are males and 101228(49%) are females. From our study area (gassore Kebele), the total population is 3605 in2010E.c population and housing census. Out of this, 1852 are males and 1753 are females. From these, total household in the study area (gassore Kebele) had 721. Then 555 are meal headed and 166 are female headed. From these 721 total households, 401 household were non-participation members and 320 household are participation members. Both these cooperative members and non-members are our target population. The economic sector of Gassore kebele is mainly compos of farm, trade, and urban agriculture, shopping, and cooperatives are major as which characterizing by the kebele.

3.2 Sampling Technique and Sample Size

From the total 41 kebeles, two rural kebele was selected purposively since these kebeles can represent the rest kebeles as there is homogeneous ways of living, as their feeling related with informal financial institutions and their reason for why they are not participate is the same. After that based on probability proportional to size from the respective kebeles the sample respondent is selected by used randomly sampling method since selection of a sample is very convenient and

is cost and time efficient. The list of total household in the selected was obtained from the office of each kebele.

The size of sample depends up on the precision desires and there is no single rule that can be used to determine sample size. But the large sample is much more likely to be representative of the population. So in these cases our total target households of the study area are about 100. The sample size will be determined using the simplified formula developed by yamane (1967) at 90% confidence level. According to this formula the sample size is obtained to be 50 the given significance levels.

$$n = \frac{N}{1+N(e)2}$$

Where; N = target household

e = significance level

Then; $n = \frac{100}{1+100(0.1)2} = \underline{\mathbf{50}}$

3.3. Research Design

Since the study concerned with describing factors affecting on the participation of rural household in informal financial institutions in case of cheha werada. A cross-sectional study was made to investigate the factors affecting on the participation of rural household in informal financial institutions by collected data from respondents. Cross-sectional survey design was selected to collect data from the sample population at specific point in time and based on the results to make generalizations.

3.4. Source of Data and methods of data collection

There are two types of data source. This is primary data and secondary data. For this study the data we used be both primary and secondary data. The primary data is collected directly from respondent through interview; key informants interview and focus discussion. Why the researcher is used interview is due to they are useful to obtain detailing information about personal feelings, perceptions and opinions and they allow more detailing questions to be asking and also they usually achieve a high response rate .The secondary data is collected from office of agriculture.

3.5. Data Analysis Method

Both descriptive and econometric methods are using to analyze the data. Descriptive statistics is used to know the mean, minimum and maximum values, frequencies, percentages and institutional characteristics of house hold in the study area as a result it is achieve the second objective. From econometric methods a binary logit model is employed since it best fits the analysis for factors that affect participation of house hold in informal financial institutions and it achieves the first objective. At the last to achieve the third objectives a qualitative data analysis is applied to assess house hold'

3.6. Model specification

To identifying factor affecting on participation ruler house hold in informal financial institution, Binary logit model was used. This method will be chosed because it is a standard method of analysis when the outcome variable is dichotomous (Hosmer and Lemeshow, 2000), measured as having a value of 1 or 0, where 1 = participation of informal financial institution and 0 = non participation of informal financial institution. Generally, the Binary logit model can be written as: Therefore, the cumulative logistic probability model is econometrically specified as follows:

$$Pi=F(zi)=F(\alpha+\sum \beta ixi) = \frac{1}{1+e^{-zi}} = \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots 1$$

Where, P i is the probability that an individual will participate in formal financial institution or does not participate given X i ; e denotes the base of natural logarithms, which is approximately equal to 2.718; X i represents the i^{th} explanatory variables; and α and β i are parameters to be estimated Logit model could be written in terms of the odds and log of odds, which enables one to understand the interpretation of the coefficients. The coefficient of the logit model therefore represents the change in the log of the odds associated with a change in the explanatory variables. The odds ratio implies the ratio of the probability (P i) that an individual would choose an alternative to the probability (1-P i) that he/she would not choose it.

$$1-pi = \frac{1}{1+e^{zi}}\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots 2$$

$$\frac{pi}{1-pi}\frac{1+e^{zi}}{1+e^{-zi}} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots 3$$

Or there for, to get linearity, we take the natural logarithms of odds ratio equation (4), which results in the logit.

$$\frac{pi}{1-pi}\text{-}\frac{1+zi}{1+e^{-zi}}=e^{(\alpha+\sum\beta ixi)} \;\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots..4$$

$$zi = \ln(pi/1\text{-}pi) = \alpha+\beta 1x1+\beta 2x2+\beta 3x3+\ldots\ldots..+\beta mXm\ldots\ldots\ldots\ldots..\ldots\ldots5$$

If the disturbance term (ui) is taken in to account, the logit model becomes

$$Zi=\alpha+\sum_{i}^{m}\beta ixi+ui\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots...\ldots.6$$

The data covered information necessary to make indices of informal financial institution indicators comparable across different categories of identifying factor affecting on participation rural house hold in informal financial institution. In order to identify factor affecting on participation rural house hold in informal financial institution. Both continuous and discrete variables were identified based on economic theories and empirical studies as follows. Decision to factor affecting on participation rural house hold in informal financial institution: This refers rural house hold participation in informal financial institution that takes value „1" if rural house hold participate in informal financial institution; otherwise „0". It indicated as dependent variable that rural house hold " participation in informal financial institution for agricultural activities can be affected by demographic factors, institutional and other factors.

3.7. Definition of Variables and Working Hypothesis

3.7.1. Dependent variable

The dependent variables for the logit analysis have dichotomous nature representing house hold improving in informal financial institution. This is to distinguish or discriminate between those participation and non participation in the study area. It takes value of "1" for participation "0" for non-participation in informal financial institution.

3.7.2. Explanatory variables of the study

To establish working hypotheses of this study different literatures on factors influencing house hold participation in informal financial institution, past research findings and the author's knowledge of informal financial institutions in the study area are using.

1. Age of the farm household head (AGE): It is a continuous variable, defined as the farm house hold is age at the time of interview measuring in years. According to (Dejene Aredo, 1999) those farmers having a higher age have better knowledge to the importance of informal financial institution due to life experience and they have better association with informal financial institutions .Dercon *et al*. (2009) also says that As age of household is increases household' to participate in informal financial institution also increase. Arega Bazezew **&** Wubliker Chanie (2015) also finds that age and household participation in informal financial institutions are relating positively .as a result it was hypothesizing that household with higher age improving in informal financial institution than others.

2. Sex of respondent (SEX): This is a dummy variable that assumes a value of "1" if that of the household is male and "0" otherwise. Since women's lack of control over economic resources and the nature of their economic activity and also male heading household have mobility, participation in different meetings and have more exposure to information according to Zeidenstein(1979), Solomon (1999) and Castellani (2010) .Therefore it was expected that female sheared households more participate in informal financial institution .

3 Education level (EDLVL): It is categorized in to illiterate and able to read and write or literate, it is a dummy variable. Farmers who can read and write are expected to have more exposure to the external environment and accumulate knowledge. They have the ability to analyze costs and benefits (Dejene Aredo, 1999). The household who is literate can have better communicate and saving skill than the illiterate one. Therefore, it was expected to that those farmers who can read and write will have better participation in informal financial institutions than the illiterate one.

4. Religion is a dummy variable which takes a value "1" and "0" for Christians and Muslim respectively. Informal finance institutions have highly relationship with all religions. Therefore, it was expected to that all religions have great efforts to expand informal finance institutions (Dejene Aredo, 1999).

5. Extension contact (EXECON): This is a dummy Variable which takes a value "1" and "0" for participants' and non-participants' in extension package program respectively. household who is a frequent contact with extension agents will be expected to have more awareness regarding to importance of informal financial institution and will be expecting to use their money efficiently by oppose extravagancy and participating in informal saving institution. Therefore, it is hypothesizing that this variable positively influences household improving in informal financial institution.

6. Non-farm activities (nonfarm): It is categorical variable and takes a value of 1 if a household engaged in non-farm activities during the time of interview and 0 otherwise. According to (Mamo Girma, 2015) Participation in off-farm economic activities serves as a source of diversifying household income. Income from off-farm work may be used in financing household farming activities and therefore reduce the dependence on, or need for, informal credit. Credit may be also needed by the household to finance off farm work since credit helps with the growth of firms. As result nonfarm activities was have a positive effect on household participation in informal financial institution. `

7. Access to formal credit (fomalcred): it is a dummy variable representing by 1 if household get formal credit and 0 otherwise. Households which participate in formal credit are less likely to participation in informal credit since they may not get too much loan in those informal credits. . As a result it was expected that access to formal credit affects household's participation in informal financial institution positively.

8. Marital statuses: It is a dummy variable represented by 1 if the member is married, 0 otherwise. According to Arega Bazezew **&** Wubliker Chanie (2015) married household heads were better participated in iddir than single household heads. On the other hand Chambo, 2009 and Rahman, 2010) assumed that married households can handle many economic activities and expend more than households who are divorced, widowed, or single. Then the expected

relationship between marital status and participation in informal financial institution was negative.

3.8. Statistical Tests of Multicollinearity Problem

Several methods of detecting the problem of multicollinearity have been using in various studies. Two measures are often suggesting in the discussion of multicollinearity are the variance – inflation (VI*F)* factor and the condition number. VIF is defined as:

$$\text{VIF}(\hat{\beta}_j) = \frac{1}{1 - R^2_j}$$

We can interpret VIF (βjˆ) as the ratio of the actual variance of $\beta j\hat{}$ to what the variance of $\beta_j\hat{}$

Would have been if X_i were to be uncorrelating with the remaining X's, it compares the actual situation with the ideal situation. The conditional number is supposing to measure the sensitivity of the regression estimates to small change in the data (Maddala, 1992).

Similarly, the Contingency Coefficient is employed as one of the means to check for association among discrete variables. It is a measure of association from cross-classification data and is coı

$$C = \sqrt{\frac{\chi^2}{n + \chi^2}}$$

Where, $\chi^2 = \frac{(0-E)2}{E}$ and n= total sample size.

The contingency coefficient is relatively easy to compute and satisfies the condition that it equals 0 when there is no association between the variables. However, it does have some disadvantages as a measure of association. For detecting both multicollinearity tests for continuous and dummy variables, SPSS and STATA were used to compute both VIF.

4. RESULTS AND DISCUSSION

4.1. Descriptive Statistics

These results are based on cross-sectional data collected from a total of 50 smallholder farmers from 2 out of 41 kebeles that constitute cheha district. The descriptive statistics presented includes mean, percentage, standard deviation and frequency distribution. In addition, Chi-square test statistics were employed to compare household participation in informal financial institution and non participant groups with respect to the hypothesized explanatory variables.

4.1. 1. Characteristics of Sample Households

Out of 50 interviewed households 39 (78%) participate in informal financial institution and the remaining 11 (22 %) do not. Table 4.1 below shows the proportion of informal financial institution participants and non participants defined across some household categorical variables. It also shows the chi square test of proportion between the two groups.

Table4.1. Frequency distribution of dummy variables and the chi-square test for household participation in informal financial institution. Source stata 11.

Variables	Category	Proportion		Chi square statistics
		Participants	Non-participants	
SEX	Male Female	3 8	15 24	0.0000
Marital status	Single marred	7 4	22 17	
Non-farm activity	Yes No	8 3	8 31	0.0000
Access of formal credit	yes no	8 3	7 32	0.0004

From the Table 4.1, the sample comprised of both male and female-headed households. The differences in terms of gender among the two groups were not statistically significant. For the total households interviewed, the proportion of male headed households was 36% and that of female headed households was 64%. Among the participants in informal financial institution, the number of female headed households was higher than that of male headed households. This probably implies that female headed households are more participated than male headed households.

And also from the above table the proportion of married households from the total interviewed households was 42% and the others 58%. From the total participants in informal financial institutions the proportions of married households are lower than their counterparts. And there is significant difference between in terms of marital status among two groups at 10% significant level .this implies single households are more participated than the married households.

The above table also shows from the total interviewed households the proportion of households who have access to formal credit was 30% and not access formal credit was 70%. There is the 5% are significant difference in terms of access to formal credit among the two groups. But the proportion of non-participants is higher for households who have access to formal credit. This implies that households who have not get access to credit were participated in informal financial institution than others.

Than table also shows from the total interviewed household participation of household who have non-farm activity was 32% and not non-farm activity was 68% there is not significant different interims of non-farming activity among the two groups. But the proportion of non-proportion is higher for household who have non-farm activity this implies the household who have not gat non-farm activity were participatory in informal financial institution than other.

4.2. Econometrics Estimation Results

Test of Multicollineality

There are two measures that are often suggested to test the presence of multicollinearity. These are: Variance Inflation Factor (VIF) for association among the continuous explanatory variables and contingency coefficients for dummy variables Gujarati (2003). From Table 4.2, as suggested by Kennedy (1985) and Gujarati (1995), the hypothesis that there was high degree of association between the variables was rejected. Source stata 11.

Vif

Variable	VIF	1/VIF
Non-farm activities	1.90	0.525440
Access to formal credit	1.76	0.567458
Age	1.56	0.642626
Marital status	1.26	0.796285
Extension contact	1.19	0.843233
Education	1.16	0.864772
Sex	1.14	0.879740
Religion	1.11	0.903513
Mean VIF	1.38	

Table 4.5 shows the VIF for the continuous variables included in the model. According Gujarati (1995) presence of multicollinearity among variables is indicated by a VIF greater than 10. As Such the hypothesis of presence of mulicollinearity among the continuous variables was rejected. Generally, the data was found to have no serious problem of multicollinearity.

Test of Heteroscedasticity

One of the assumptions in regression analysis is that the errors, ui have a common (constant)varianceσ. If the errors do not have a constant variance we say they are heteroscedastic (Maddala, 1992). The problem in this study is minimized by choosing the best functional form and also checks the result using statistic test. Based on the Breusch-Pagan and Cook-Weisberg

test which resulted to chi2 (1) =0.0001 that means fail to reject the null hypothesis, no heteroscedasticity problem in the model.

Ho: Constant variance (homoscedasticity)

H1: Not constant variance (heteroscedasticity)

Therefore we concluded that there is no violation of the assumption of homoscedasticity; that is the variance of the error term is constant.

4.2.1. Determinants of Household Participation in Informal Financial Institutions

Table 4.3: The logit regression of factors influencing participation of households in informal financial institutions

Logit regression estimation				Marginal effect		
Variable	Coef.	Std. Err	p-value	dy/dx	Std. Err.	p-value
Age**	-.1996088	0.0858069	0.020	-.0043854	.0049	0.371
Sex	-1.632634	1.621631	0.314	-.0487445	.05819	0.402
Education ***	-1.718194	1.027708	0.094	-.037749	.04067	0.353
Religion	.1299936	0.6525984	0.842	.002856	.01621	0.860
Extension contact	.4096501	1.40202	0.770	.0089145	.02873	0.756
Non-farm activities	2.111231	1.448056	0.145	.0765427	.08276	0.355
Access to formal credit**	3.645636	1.595151	0.022	.2201769	.20937	0.293
Marital status***	-2.8004377	1.682934	0.096	-.0649757	.07397	0.380
Cons	7.710511	4.489494	0.086			

***, ** Represent level of significance at 10% and 5% respectively.

Logistic regression Number of obs = 50

LR chi2 (8) = 30.25

Prob > chi2 = 0.0002

Log likelihood = -11.218087 Pseudo R2 = 0.5742

Source stata.

Discussion on significant variables

AGE: Age influenced negatively the participation of households in informal financial institution. The effect was significant at 5%. Other things remain equal; result from the marginal effects reveals that the increase in age of households increases the probability of household's participation in the informal financial institution by about 0.43% which confirms the hypothesis of this study. The study have similar results with the finding of Arega Bazezew & Wubliker Chanie (2015) since they finds that age and household participation in informal financial institutions are related negatively.

When households age become higher and higher their level of participation become increases why because the following possible justifications. In informal financial institution household with higher ages can be easily participate than their counterparts since they get acceptance from the informal credit sources because they are considered us good person in terms of repaying the loan they take on time so the borrowers accept them relatively to young ages and they have experiences in borrowing from informal financial institution as a result they have good awareness compared to their counterparts.

And also one of the aim of informal financial institution like iddir is solving social problem whether in bad or good condition through common hand regarding with this older peoples are expected to adopt and accept what those institutions think and what they informs for them and also they are believable compared to the young one. Since older peoples had seen different peoples who have participate in those informal financial institutions through their previous life time as a result they share experience. So the experience they get enforces them to participate compared to younger ages. The other is the old household are good relatively the young one in terms of expending too much for consumption as a result their behavior becomes suitable for and match with the enforced saving nature of informal financial institutions like iquib. Since those institutions strongly discourage consumption relatively the young one are unable to participate than the old.

EDUCATION: From the marginal analyses the ability to read and write decreases the probability of household's participation in the informal financial institution by about 3.77%. The possible reasons are as peoples become more educated they are more likely to participate in macro financial institutions compared with less educated households because they can get modern saving services with interest rate and also they may not face procedural problems since they are literate than their counterparts which cannot be read or write.

Those households who are more educated are unwillingness to take loans from informal financial institutions like money lenders rather they take from the formal ones sisnce they charge high interest rate. The other possible reason is the educated households compared with the uneducated households have access to formal credit as a result they prefer this since they can get loan at any time and in more amount compared with informal financial institutions which cannot give high credit and which have problem of cash liquidity. The other is those peoples who are more educated have no too much confidence in informal financial institutions since there is no government intervention for the sake of their security compared with the uneducated households.

MARTIAL STATUS: The marginal effect analysis shows Martial status negatively affects household's participation in informal financial institutions as the descriptive analysis shows single peoples are more participate than others .

Other things remains constant the probability of households to participate in informal financial institution decreasing by 9.6% as households becomes married. Because of their high family members the married households worry about the future consumption for their family members regarding with this they may assume as price inflation may be happened in the future so to overcome problem of inflation they participate in informal saving than other single households to buy what they want through the collected cash which is driven from informal financial institutions like iquib.

The other reason is households who are single have more problems and expenditures that they cannot solve alone than married one like during weeding they needs weeding materials; during death of family member or death of livestock they need also compensation and also the social risk is high for single households compared with the married one since the whole family is affected it is difficult to recover without the help of informal financial institutions.

The other is compared with married households single households are believable and can get the service from the informal financial institution easily. The single households also needs to participate informal financial institutions like informal money lenders compared with others because they consume and expend more than the married households so they face cash deficits to perform day to day activities so they directly make contacts with money lenders or borrowers without transaction cost.

ACCESS TO FORMAL CREDIT: This the unexpected variables which were hypothesized to affect household's participation in informal financial institution positively but it affects positively. As the marginal effects analysis shows other things remain constant the probability of household participation in informal financial institutions rises by 2.2% as households become more access to formal credit.

The possible reasons are households participate in informal financial institutions even if there is access to formal credit because of the enforced saving nature of informal financial institutions and households cannot keep themselves from consumption if they continue using formal financial institutions unless they are participating in informal financial institutions like iquib which discourage households to consume .The other is households choose those informal financial institutions because they are attracted by the outcomes of informal financial institutions like solidarity, friendship, and mutual assistance among members.

5. CONCLUSION AND RECCOMENDATION

5.1. CONCLUSION

For this study the main objective was to know determinants of household participation in informal financial institutions in cheha district. During the study Secondary and primary data were used. A total of 50 households were interviewed. Data was analyzed using STATA. As descriptive results shows out of 50 households interviewed households 11 (22 %) of the sampled farm households were participants, whereas the remaining 39 (78 %) were non participants in informal financial institution. This implies that most of peoples in the study area participate in informal financial institution.

The descriptive results also show the variation in participation of households in informal financial institutions due to different explanatory variables through Chi-square test. For instance Chi-square test shows there is significance differences between participant and nonparticipant group of households in informal financial institution in terms of marital status since single households are more participated than the married households due to they are believable in informal financial institution actors and they are mostly challenged by cash deficit since they may have high family members than the single one. And for other dummy variables the Chi-square test result shows there is no significant difference between two groups that is participant and non participant in terms of sex of household, education level of household and access of households for formal credit.

This implies that whether households are educated or not and whether they are male or female and also whether they have access to formal credit or not this all are not variables for variation of households in participating in informal financial institution. The last descriptive results show that household's perception for why they are participating and for what purpose they use the service they get from informal financial institution. As described above out of 100% to 78% of respondent households non-participate and 22% participant in informal financial institution even if there is formal credit source due to the enforced saving nature of those informal financial sources.

The logit regression analysis results show that among 8 explanatory variables which were included in the model namely access of formal credit, extension contact, education status, age of

household, marital status, sex of household, non-farm activities and religion. From this variable four variables (age of households, marital status, education status and access to formal credit) were statistically significant. The remaining four variables (sex of household, extension contact, non-farm activities and religion) were less powerful in explaining the variation for participating in informal financial institution. Among those significant variables age of household, marital status, education status affects negatively. The rest of other variables affects positively.

5.2. RECCOMENDATION

Based on the results obtained from descriptive analysis and econometric estimates and also based on personal observation during the study the following recommendations are recommended.

As the descriptive result shows most of peoples are participated in informal financial institution but the government and other bodies have neglected the importance of those informal financial institutions. So government and other stakeholders should have give emphasis for those informal financial institution and they have to interfere and encourage and appreciate informal financial institution in terms of giving training how to hold their money and on how to maintain books of accounts. As one of the problem in informal financial institution like iquib is mostly friendship and their social relation is use as a collateral to be a member so this result in frightening and loss of confidence among members so government should enter to those informal financial institution and have to employ some independent professionals for purpose of money holding and book keeping.

Even if peoples participate in different types of informal financial institution some informal financial institution are not going with the interest of households for instance money lenders and borrowers since they are not require collaterals and have low transaction cost they participate but their interest rate is very high since they charge interest rate based on their personal relations this may affect badly especially the poor households so government should interfere and have to regulate the interest rate to be charged by money lenders.

As the logit regression results shows Formal credit is one of the variables which have positively effect on household's participation in informal financial institution that means the presence of formal financial institution does not contradict with and can work together with informal financial institution. If both sectors work together they may get mutual benefit For instance

formal financial institution may face excess liquidity because of huge collateral requirement of banks if it is linked with informal financial institution like iquib it can get money customers as informal financial institution not require huge collateral. Those informal financial institutions can benefit from the bank when they eject cash from banks to give credit services. So government should have policies that bring efforts and suitable conditions for the joining movement and together working of the two financial sources.

6. REFERENCE

Amare Birhanu, 2005. Determinants of formal source of credit loan repayment performance of smallholder farmers: The case of North Western Ethiopia, North Gondar. Unpublished M.Sc. Thesis submitted to Alemaya University, Ethiopia.pp.75-80.

Arega Bazezew & Wubliker Chanie, 2015. Iddirs as Community-based Social Capital in the Amhara Region of Ethiopia: Case Studyin Gende Woin Town of East Gojjam.

Assefa A. 1993, rural finance in Ethiopia; Assessment of the financial products of micro finance institutions. AEMFI, occasional paper No 12, Addis Abeba.

Aspen, 1993. Financial integration and development in sub- Saharan Africa. A study of informal finance is Gha na, mimco, overseas development institute, London.

Atieno, R. 2001. Formal and informal institutions' lending policies and access to credit by small-scale enterprises in Keya: An empirical assessment. African Economic Research Constortium, Nairobi .

Bigsten, A., P.Collier, S. Dercon, M. Fafchamps, B. Gauthier, J.W. Gunning, A. Oduro, R. Oostendrop, C. Patillo, M. Soderbom, F.Teal, and, A. Zewfack, 2003. Credit constraints in manufacturing enterprises in Africa. *Journal of African Economics*, 12(1): 104-125.

Castellani, D. (2011). *Interaction between risk sharing transfers and formal borrowing*: *A multi- logit approach analysis and evidence from Ethiopia.*

Chude Nkiru Patricia. informal financial sector in Nigeria. "International Journal of Commerce and Management Research" Volume 2; Issue 4; April 2016; Page No. 12-17.

Degu Addis, 2007. Household savings behavior and determinants of savings in rural savings And credit cooperatives: The case of western Amhara region, Ethiopia. Unpublished M.Sc.Thesis. Alemaya University. pp. 18-59.

Dejene Aredo, 2003. Informal financial institutions: The economic importance of Iddir, Equb,and loans, technological progress in Ethiopian agriculture, proceedings of the national workshop on technological progress in

Ethiopian agriculture. Economic department, faculty of business and economics, AAU; Addis Ababa, Ethiopia.

Dejene, A, 1999. The informal and semi – formal financial sectors in Ethiopia; a study of Iqqub, Iddir and saving and credit cooperatives, Africa economic research paper 21.

Dejene Aredo .1993.*The Informal and semi-informal financial sector in Ethiopia:A study of the Iqqub, Iddir and Saving and Credit Cooperatives*. African Economic research cono rtium. Research paper-21.

Dercon, S. Bold, T. Weerdt, J. and Pankhurst, A. (2009). Group-based funeral insurance in Ethiopia and Tanzania. University of Oxford, United Kingdom.

Dessalegn, and Aklilu, K. (1999). consultations with the poor. *World Development*.

Desta, E. (1995). Agricultural Producer Cooperatives: Some Lessons of Experience from Ethiopia. Geo Journal, 353-360.

G/yohannes w. 2000; MF development in Ethiopia, A paper presented at international conference on the development of micro finance in Ethiopia; achievement, problems and Prospect Bahrdar.

Getaneh Gobezie, 2005a. Livelihoods through Micro-enterprise Services; Assessing Supply and Demand Constraints for Microfinance in Ethiopia (With Particular Reference to the Amhara Region); Paper Presented at the 3rd International Conference on the Ethiopian Economy, Organized by the Ethiopian Economic Association June 2-4, 2005. Addis Ababa, Ethiopia.

Gunnar, T., 2010. Regulating for legitimacy: Consumer credit access in France and America: Harvard business school.

Hussien Hamda, 2007. Farm Household Economic Behaviour in Imperfect Financial Markets, Doctoral Thesis, Swedish University of Agricultural Sciences, Uppsala.

Hosmer, D.W. and Lemeshew, S. 1989. Applied Logistic Regression. A Wiley-Inter science Publication, New York.

Kejela S, J.De weerdt, T. Bold and A. Pankhurt, 2006. Group based funerass insurance in Ethiopia and Tanazania. Working paper 227. Oxfored center for the study of African economies, University of oxford

Kongolo, M., 2007.Women and informal credit: Lessons from Moretele, South Africa: J*ournal of International Women studies*, 8(3): 121-132.

Lawal J.O., B.T. Omonona and O.A. Oni, 2009.Determinants of constraints to credit access among cocoa farminig households in Osum state, Nigeria. Division of economics and statistics, cocoa research institute of Nigeria. Pakistan journal of social science 6(3): 15 9- 163.

Mauri, A. 1987.The role of financial intermediation in the mobilization and allocation of house hold saving in developing countries: Interlinks between organized and informal circuits: the case of Ethiopia. International experts meeting on the domestic savings mobilization, east-west center,Honolulu.2-4,June 1987

Million Sileshi Haile,2012. factors affecting loan repayment performance of smallholder farmers in eastern hararghe, Ethiopia. in partial fulfillment of the requirements for the degree of

Master of Science in Agricultural and Applied Economics.

Mohamed, K., 2003. Access to formal and quasi-formal credit by smallholder farmers

Mohieldin S. and Write W. 2000. Formal and informal credit markets in Egypt. Center for economic policy research and University of Nottingham.

National Bank of Ethiopia (NBE), 1996. A Study on the Need for Establishing Rural and Urban Micro-financial institutions in Ethiopia , January, Addis Ababa.

NEGUSSIE, T. (2004) "Social capital and group-based microfinance program: some lessons from accord-Dire Dawa, Eastern Ethiopia" Oloyede B. Principles of Money and Banking, Ado:Forthright Educational Publishers, 2008.

NWARU, J. C., ESSIEN, U. A. & ONUOHA, R. E. 2011. Determinants of informal credit demand and supply among food crop farmers in Akwa Ibom State, Nigeria. Journal of Rural and Community Development, 6.

Padmanabhan K.H. 1996. Rural credit, lessons for rural bankers and policy makers, London, UK.

Pankhurst, A., & Mariam, D. H. (2000). The Iddir in Ethiopia : Historical Development, Social Function, and Potential Role in HIVE/AIDS Prevention and Control, *7*(2), 35-57.

Salole, G.1986. Iqqub Iddir and Meredaja Mahiber as potential development toolin Addis Ababa. in: symposium on the centenary of Addis Ababa, 24-25november, Addis Ababa Universityies.

Shimelles Tenaw &K.M. Zahidul Islam ,2009. Rural financial services and effects of microfi ON Agricultural sproductivity and on poverty.

Solomon Damte. (1999). *Micro credit through community based organizations.* The Experience of ACCORD in Ethiopia. Conference on Poverty in Africa, Centre for the Study of African Economics, University of Oxford, UK.

Solomon Damte .1996. Credit to poor households: The case of financing microenterprises in the Debre berhan town, North shoa, Ethiopia in Bereket Kebede and Mekonnen Tadesse (eds). In: The Ethiopian Economy poverty and poverty alleviation: proceedings of the fifth annual conference on the Ethiopian economy. Addis Ababa. Ethiopia.

Syeda, R. S, A. H. Amara, and T. B. Aqsa, 2008. Deter minants of credit programme participation and socioeconomic characteristics of beneficiaries: Evidence from Sargodha.pp.2 -10.

Tang, S, Z. Guan, and S.Jin, 2010. Formal and informal credit markets and rural credit demand. in china: Paper prepared for presentation at the Agricultural & Applied C Meeting, Denver,olorado. pp.25-27 Economics Association . AAEA, CAES, & WAEA Joint Annual

Tefera Derbew, 2004. Determinants of smallholder farmers demand for non-formal credit, the case of Farta woreda. Unpublished M.Sc. Thesis.

Alemaya University. pp. 57-79. Wivine Muhongayire, Patrick Hitayezu, Oliver Lee Mbatia and Sabina Makhoka Mukoya.

Wangia, 2013. Determinants of Farmers' Participation in Formal Credit Markets in Rural Rwanda. J Agri Sci, 4(2): 87-94 (2013)

Wolday Amha, 2002. Microfinance theory, policy and experience. In Mekelle University, faculty of business and economics (ed.). product development in the Ethiopian micro-finance industry: challenges and prospects. Mega printing press, Mekelle. Ethiopia. pp. 923.

Yohannes .2000. Micro finance development in Ethiopia, in mulat demeke(ed).The development of Microfinance in Ethiopia. Proceeding of the conference on the microfinance development in Ethiopia, Bahirdar.

7. APPENDIX

1. Age of the household head _____

2. Sex of the household head: - A. Male B. Female

3. Educational status of the house holds _____

A. Illiterate B. Read and write C. primary school D. secondary school

E. other specify _____

4. Religion A. Orthodox B. Protestant C. catholic D. Muslim E. Other (specify) ____

5. Occupation A. daily labor B. farmer C. Trader D. Government E. Other (specify)

6. Marital status 1. Single 2. married

7. Extension contact, Is there any extension which gives service or advice? A. Yes B .NO

8. If you yes how much time you get the service per year_____

9. How is far the credit and saving institution from your home? _____ Km _____Hr.

10. Do you participate in informal financial institution? . A. Yes B. No

11. If you yes in which financial institution you participate?

A, iquib B, iddir c. Money lenders D, others

12. For how many years you participate in this informal financial institution?

13. In what kilometer your home is far from the informal lending institutions?

14. Do you participate in nonfarm activities? A yes B no

15. Do you have access to formal credit? A .YES B .NO

16. What the role (importance) of informal financial institution in the study area?

17. What are the factors that affect rural household to participate informal financial institution?

```
Logistic regression                               Number of obs   =         50
                                                  LR chi2(8)      =      30.25
                                                  Prob > chi2     =     0.0002
Log likelihood = -11.218087                       Pseudo R2       =     0.5742
```

ifi	Coef.	Std. Err.	z	P>|z|	[90% Conf.	Interval]
age	-.1996088	.0858069	-2.33	0.020	-.3407486	-.058469
sex	-1.632634	1.621631	-1.01	0.314	-4.299979	1.034711
edu	-1.718194	1.027208	-1.67	0.094	-3.407801	-.0285863
rel	.1299936	.6525984	0.20	0.842	-.9434353	1.203423
ext	.4096501	1.40202	0.29	0.770	-1.896467	2.715767
nonfarm	2.111231	1.448056	1.46	0.145	-.2706098	4.493071
acsc	3.645636	1.595151	2.29	0.022	1.021846	6.269425
marts	-2.804377	1.682934	-1.67	0.096	-5.572558	-.0361965
_cons	7.710511	4.489494	1.72	0.086	.3259509	15.09507

```
. mfx

Marginal effects after logit
      y  = Pr(ifi) (predict)
         =  .02247528
```

variable	dy/dx	Std. Err.	z	P>|z|	[	95% C.I.	]	X
age	-.0043854	.0049	-0.90	0.371	-.013986	.005215		41.92
sex*	-.0487445	.05819	-0.84	0.402	-.162803	.065314		.64
edu	-.037749	.04067	-0.93	0.353	-.117466	.041968		1.84
rel	.002856	.01621	0.18	0.860	-.028919	.034631		2.14
ext*	.0089142	.02873	0.31	0.756	-.0474	.065229		.54
nonfarm*	.0765427	.08276	0.92	0.355	-.08567	.238756		.32
acsc*	.2201769	.20937	1.05	0.293	-.190172	.630526		.3
marts*	-.0649757	.07397	-0.88	0.380	-.209955	.080003		.42

(*) dy/dx is for discrete change of dummy variable from 0 to 1