LAND INVESTMENT FOR TRANSFORMATION (LIFT) – ECONOMIC EMPOWERMENT UNIT (EEU)

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Leveraging improved land security to improve access to credit: how the LIFT project in Ethiopia promotes financial inclusion

An impact story from Amhara

This case study highlights lessons learned from access to finance interventions within the Land Investment for Transformation Programme (LIFT) in Ethiopia. We look at how the programme has enabled the successful design of a new individual loan product by the Amhara Credit and Savings Institution (ACSI).

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1. Context

The UK Aid-funded Land Investment for Transformation Programme (LIFT) works with the Government of Ethiopia (GoE) to deliver Second Level Land Certificates (SLLC) to smallholder farmers and to create a national database to manage and update SLLC data and land related transactions, the Rural Land Administration System (RLAS). The introduction of SLLC and the RLAS is expected to improve both the administration and management of land in Ethiopia.

A better functioning land system creates multiple opportunities for improving the livelihoods of rural dwellers. LIFT works to leverage these opportunities, applying market systems thinking to three intervention areas. One of these areas is access to finance, where LIFT is using SLLC to address a key barrier to lending.

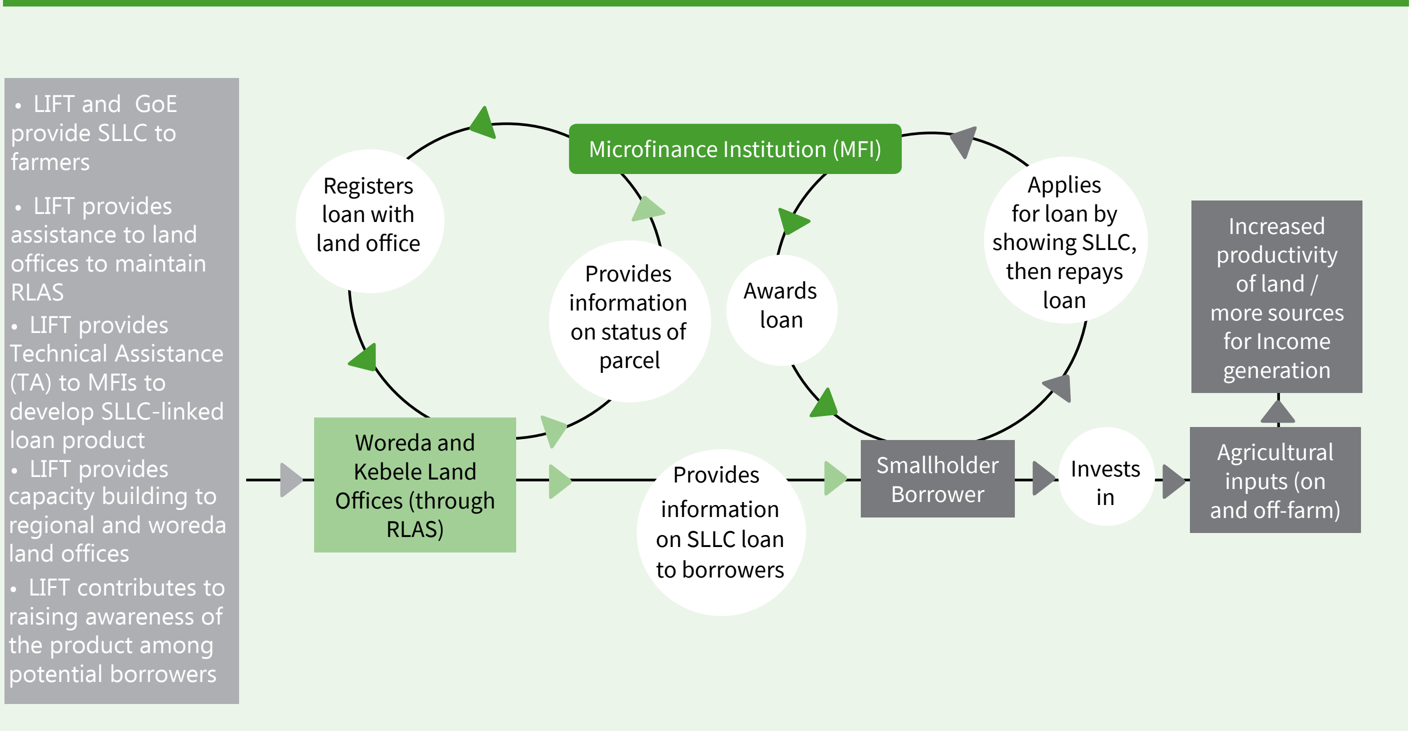
Ethiopian smallholder farmers – much like smallholder farmers worldwide - are underbanked. Microfinance institutions (MFIs) currently serve around 20% of estimated market demand: the majority of farmers have little to no access to formal financial services. Encouragingly, group-lending schemes have been successfully rolled out by both State backed and private MFIs. But there are a number of factors still holding back agricultural lending in Ethiopia: MFIs limit their exposure to credit risk by capping loan amounts at ETB 15,000 (around GBP 470), and granting maximum amounts only to long-term clients. Group lending shifts risk management from MFIs to borrowers and group members are therefore extremely conservative in who they accept, to minimise the risk of default. Many farmers, especially vulnerable groups such as single or widowed women, people with disabilities and elders, get excluded from group lending due to the perception they are high risk. Finally, most farmers have no collateral to offer for loans, as they have few tangible assets and do not own their land.

All of these factors limit the possibilities for farmers to escape endemic poverty. Most struggle to access sufficient credit to invest in productive activities, which in turn means they are reduced to selling their assets to cover cyclical expenses, rendering them vulnerable to shocks such as crop failure, or the death of a family member or of oxen. MFIs are aware of these challenges and many have struggled for years to develop viable alternatives to group lending.

LIFT has worked with GoE stakeholders and partner MFIs to develop an agricultural loan product specifically tailored to farmers with SLLCs, to allow them to access larger loans on an individual basis. The land tenure regime in Ethiopia specifies that land is owned by the State, and farmers have user rights over it through leasing arrangements. This means that land cannot be used as collateral for a loan, as it is not owned by the farmers. The innovation that LIFT and its partner MFIs introduced specifies that the produce of the land can be used as a guarantee to secure a loan.

The SLLC product presented in Figure 1 is currently being piloted in three regions: Amhara, Oromia and SNNP through six MFI partners, namely ACSI, OCSSCO, Wasasa, Aggar, OMO, Peace. As of September 2017, over 3,000 SLLC linked loans totalling Birr 83M (USD 3.54M) have been disbursed, with very positive feedback from clients and MFIs. In this case study, we detail the experiences of MFI partner ACSI, highlighting two key factors behind their successful pilot: stakeholder buy-in and an understanding of customer demand.

FIGURE 1: How the SLLC product works



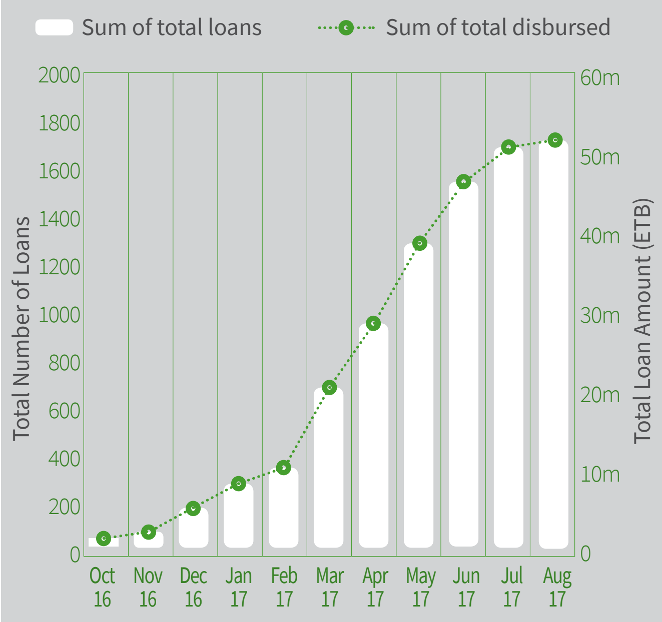
2. Supporting stakeholder buy-in

The LIFT and ACSI partnership goes back to early 2015. Although SLLC loans were first disbursed in September of that year, activities around jointly designing the SLLC product, adapting the disbursement manual, and setting up systems to monitor loan performance started months before. Figure 2 shows the SLLC loan's performance measured in number of loans and total amounts disbursed to date.

Nigusse and Muchie from ACSI Head Office highlight that what makes the pilot of the SLLC-linked loan product different for them is the support they have had from the LIFT team.

With the SLLC-linked loan product, ACSI conducted an assessment before the new product was introduced to ensure it was demand-driven. Similarly, throughout the design phase ACSI and LIFT adopted a bottom-up approach where branch offices were instrumental in providing inputs to help decide loan sizes, terms & conditions, and other features of the product. These contributions were reflected in the operational manual.

FIGURE 2: SLLC-loan disbursement figures for ACSI



Continuing engagement at management level…

Even post launch LIFT has maintained its high levels of engagement with headquarters and branch level staff. An important feature of LIFT's involvement has been placing emphasis on monitoring and evaluation: the team and ACSI management together set initial targets for each branch, and ACSI are managing the product's progress following best practices in performance management.

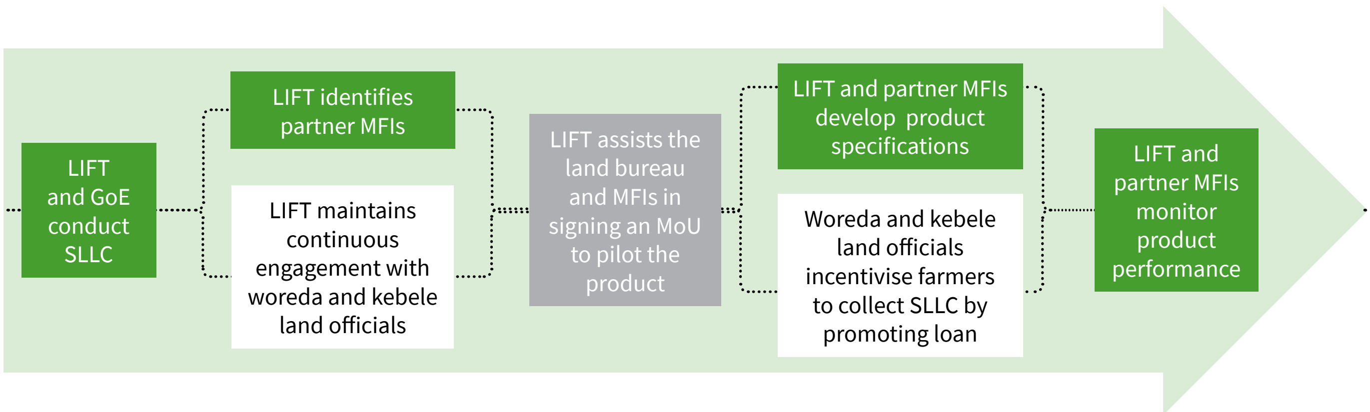
Lessons from on-going monitoring: ACSI management receive weekly updates from branches regarding product progress. Initially, they noticed some branch managers were reluctant to give out SLLC-linked loans. When prompted, it emerged branch managers found the new loan ceiling of 50,000 ETB intimidating, since they were used to a maximum loan amount of ETB 15,000 per client. Senior managers are now exploring ways to address the issue, and stringent selection criteria for identifying clients are a first step towards ensuring that the risk of non-performing loans is minimised.

ACSI has emphasised that the individual loan product has shown success in bringing in those dissatisfied with group lending, as well as attracting new clients who have an entrepreneurial mind-set. They are planning to revise the manual in order to better meet farmer needs in terms of minimum and maximum loan thresholds, and to make the product accessible for farmers who relocate and have not been present for a long time in the community (as they are currently excluded from accessing it, given ACSI officers cannot assess their credit worthiness).

… and at branch level

At lower levels of the MFI hierarchy, LIFT had positive indications of interest from regional and branch managers to promote the SLLC product among potential clients. This is not only because they are interested in meeting general targets set by their head office, but because ACSI has adapted its performance management mechanisms to ensure branch officials have incentives to roll out the individual product. Indeed, an initial difficulty in rolling out the SLLC-linked loan product was measuring branch manager performance: their success was assessed based on the number of loans they disburse. Reaching these targets is easier with group loans, as one agreement with several borrowers contributes more towards achieving the target. Upon understanding this, headquarters developed separate loan targets to better capture performance and ensure branch managers would not be penalised for promoting the individual loan product.

FIGURE 3: LIFT pre-pilot activities



3. Impact and behavioural change

Individual SLLC-linked loans were piloted by ACSI in a select number of branches and woredas (administrative sub-regions in Ethiopia) from September 2016. The initial idea was to test the approach with a limited group of beneficiaries, and based on the results decide whether the product was viable. If needed, the product could then be refined ahead of roll-out. In June 2017, the LIFT team conducted an assessment of the pilot as part of a routine visit to ACSI. Seeking insights from demand and supply side actors, the team interviewed farmers and project partners, including SLLC-linked loan beneficiaries, group lending participants, land officials, woreda MFI branch managers and headquarter MFI staff.

Several interesting indications of behavioural change were identified. As Figure 4 highlights (below), LIFT engages with MFI stakeholders at all levels of ACSI's structure:

Understanding farmer demand

An important factor supporting the SLLC-linked loan pilot has been the joint engagement by LIFT and MFI partners to better understand the MFI client-base. Joint monitoring visits are regularly organised to assess farmer response to and demand for the product and how it impacts on their lives. Findings are systematically relayed to the Head Office of the MFI, who in turn share regular information on the product's performance with the LIFT team.

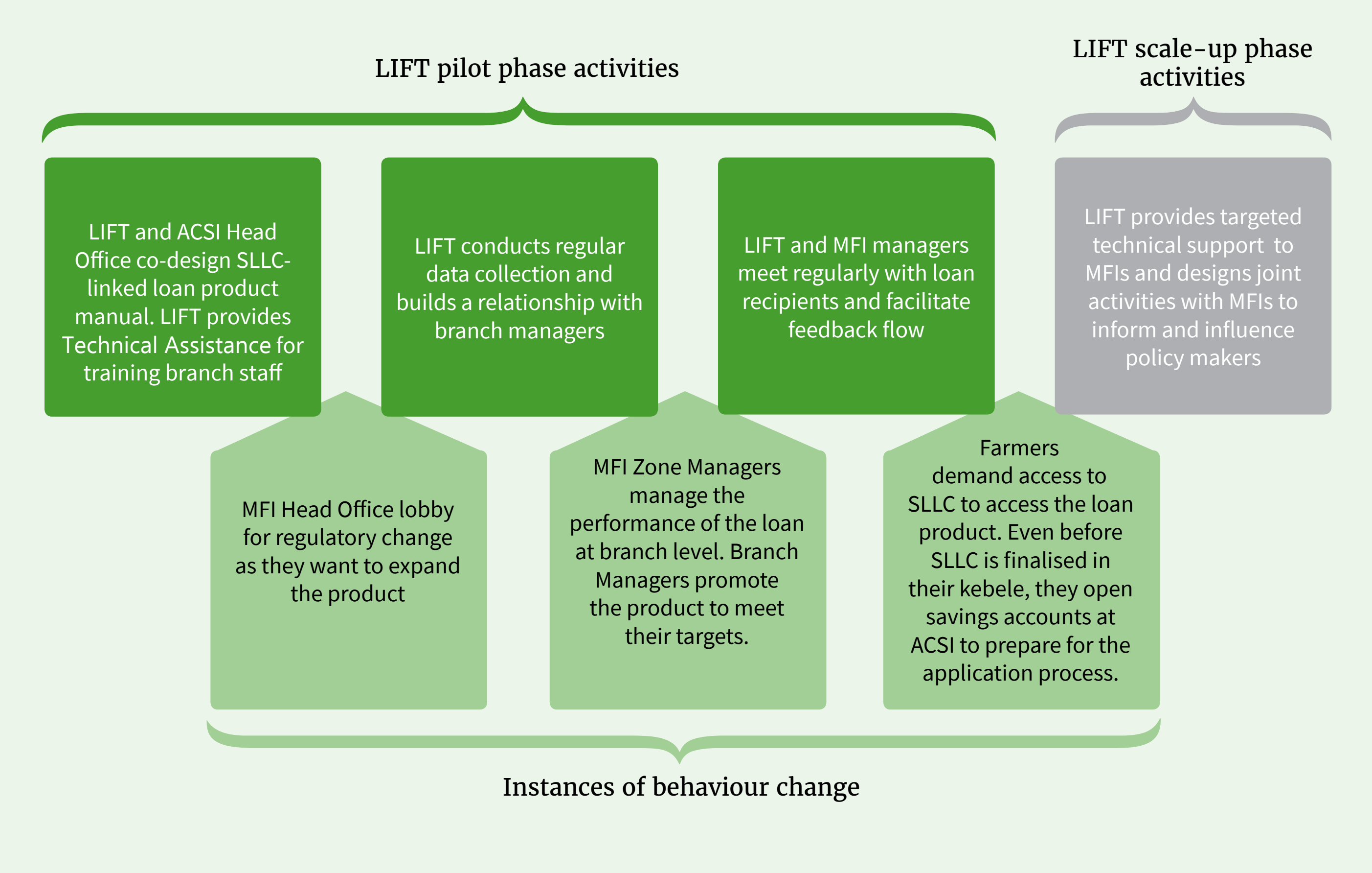
From the farmers' perspective, there are indications that demand for the loan product is rising. A Woreda Land Administration Official mentioned that, in kebeles where SLLC certification is still on-going, farmers are already opening savings accounts at ACSI so they are eligible to access the loan as soon as they get their certificate.

Also, through the loan assessment, we identified signs of behaviour change around financial management practices: farmers are saving more.

Looking ahead: our strategy for scale up

The initial results of the product pilot have been positive, with strong indications of partner ownership, coupled with strong demand for the product from farmers. Following the success of the pilot phase, LIFT is now exploring how to best assist ACSI with scale-up to a greater number of farmers. Immediate activities will focus on working with ACSI to better define and understand the target market for the product; help them to price the product appropriately; and improve their capacity to manage and administer an individual lending product.

FIGURE 4: LIFT activities and instances of behaviour change for beneficiaries



Following a constraints analysis, these are indicative next steps that we have identified with partner MFIs and land officials to guide our scale-up activities:

AREA	SITUATION ANALYSIS	LIFT SUPPORT
Informing and influencing policy-making	• Scaling up the product is difficult without an enabling Federal Land Proclamation. • MFIs and LIFT see the current federal proclamation revision process as an opportunity to formalise the SLLC's guarantee function.	• LIFT will create a platform for MFIs, land officials and other stakeholders to have a dialogue with GoE on the proclamation approval process. • The same platform will serve as a basis for soliciting resources to address liquidity constraints. Examples of these resources include loans similar to those provided through the Rural Financial Intermediation Programme (RUFIP). • LIFT will provide direct capacity building to MFIs to help them scale up the product • In parallel, LIFT will use its communication channels with the GoE to promote the product among policy makers, government officials, and donors. • LIFT will broker talks with other DFID initiatives to assist MFIs to increase savings mobilization. This is expected to be a cheaper source of funding to address liquidity issues that will enable to fund the growth of the SLLC loan product.
Addressing MFI liquidity constraints	• Liquidity is a challenge for scaling up the product. • MFIs are trying to mobilize smallholder farmer savings but banks are strong competitors.	
Broadening institutional support	• The Land office has already shown commitment to the SLLC-loan product by including it in its plans. • The Land office also sees a gap in expanding the product.	• LIFT will continue its activities around awareness-raising and building the capacity of higher government officials and land administration partners.

To learn more about EEU interventions, go to:

- ***Promoting financial inclusion: Developing an innovative SLLC-linked loan product***, https://landportal.info/library/resources/promoting-financial-inclusion-developing-innovative-sllc-linked-loan-product
- ***Improving farmers' lives through the SLLC-linked loan product***, https://landportal.info/library/resources/promoting-financial-inclusion
- ***Formalising land rental transactions: An effective way of boosting government land initiatives***, https://landportal.info/library/resources/formalising-land-rental-transactions-effective-way-boosting-government-land
- ***Formalising land rental transactions: benefits to smallholder farmers and vulnerable groups,*** https://landportal.info/library/resources/formalising-land-rental-transactions
- ***Enabling access to clean agricultural inputs and technologies: Improving farmer yields and businesses turnover***, https://landportal.info/library/resources/enabling-access-clean-agricultural-inputs-and-technologies-improving-farmer-yields

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