RESEARCH SUMMARY

MAY 2019

Increasing productivity through an innovative, individual-based agricultural loan

For the first time ever, Ethiopia's second level land certification (SLLC) farmers have the opportunity to apply for an individual agricultural loan product, from formal financial institutions, that unlocks the potential of their land. With higher loan amounts, individual loan modality and more flexible repayment terms, this new type of loan is transforming livelihoods in rural Ethiopia.

Access to finance allows smallholder farmers to purchase improved inputs and services, giving them the chance to graduate from subsistence farming and move up the productivity chain. Unfortunately, farmers in Ethiopia have no or very limited access to finance, and those few who can get a loan can only do so as part of group-lending schemes that are limited in their loan sizes and have no flexibility of repayment terms.

Using the market systems approach in a land tenure programme

The Land Investment for Transformation (LIFT) programme, funded by UK Aid, pioneers a unique, innovative strategy, applying the market systems approach to a land certification programme. LIFT's Economic Empowerment Unit (EEU) aims to accelerate and magnify the investment, productivity and income effects of land certification for rural landholders in selected markets, including the access to finance market.

The EEU component of LIFT designs innovations to address the underlying constraints that exist in the access to finance market system, in order to create large-scale and lasting benefits for the rural poor. The key constraints identified that prevent smallholder farmers from benefiting from and participating in this market included limited access to formal sources of credit and inability to collateralise their main asset – land.

To address these constraints, a key innovation was designed and introduced to Ethiopia's rural financial market:

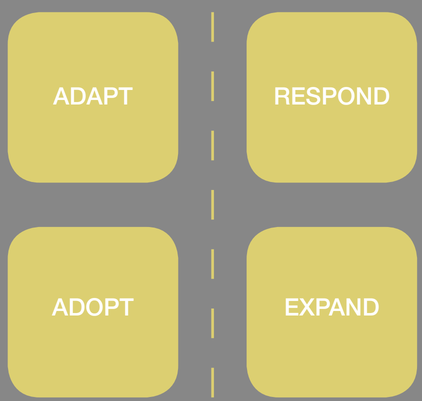
- **Development of an SLLC-linked individual agricultural loan product**: LIFT worked with the Government of Ethiopia, stakeholders and partner microfinance institutions (MFIs) to develop an agricultural loan product specifically tailored to farmers with SLLC. The product leverages the SLLCs (which gives MFIs the security of knowing the farmer's exact landholding size) but relies on the produce of the land and/or the land use right as the guarantee to secure a loan. This innovation has allowed MFIs to both offer higher loan amounts to farmers and attract clients who previously did not access formal credit.

In order to develop this product, LIFT has worked in close partnership with MFIs and rural land administration and use (RLAU) offices. Together they have:

- Designed and established the infrastructure required to allow the operationalisation of the SLLC-linked individual loan product.
- Provided technical assistance to MFIs to further develop and roll out the loan product.
- Advocated the development of the legal framework required to ensure that the produce of the land and/or right of use can be used as a guarantee for loans.

The box below outlines the systemic changes expected to occur as a result of the EEU's access to finance innovations, according to the Adopt-Adapt-Expand-Respond framework. LIFT's vision is to increase the ability of smallholder farmers to access finance by collateralising their land use rights, resulting in increased investment in their land, enhanced productivity and improved incomes.

- **Adopt**: MFIs understand the new SLLC-linked loan product and roll it out to a selected number of woredas (districts)/branches, with LIFT support.
- **Adapt**: MFIs modify the SLLC-linked loan product to adapt it to the needs of their customers, and invest their own resources to roll the product out to new woredas/branches, with no LIFT support.
- **Expand**: New MFIs start to offer the SLLC-linked loan product (which has been tailored to their individual needs) in both LIFT and non-LIFT areas.
- **Respond**: Other financial institutions such as commercial banks or rural savings and credit cooperatives (RuSACCOs) offer the SLLC-linked loan product. The appropriate legal framework for the collateralisation of land user rights is established.



The SLLC-linked loan product has been quickly and successfully adopted across a wide area in Ethiopia. Below is a snapshot of the roll-out of the loan, as of August 2019:

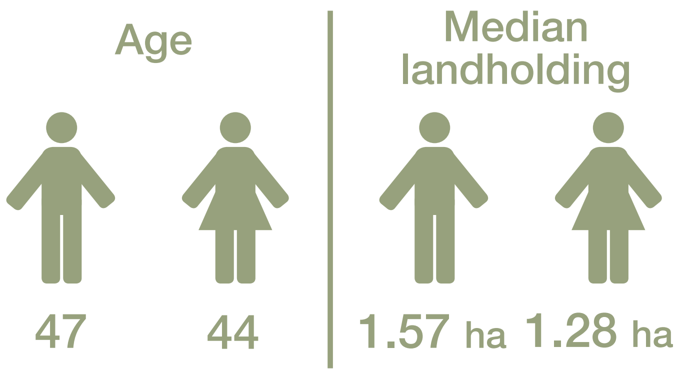
- Total value of loans: ETB 398.3 million (GBP 11.3 million).
- 13,131 loans disbursed, of which 8,607 (66%) were to men and 4,524 (34%) to women.
- Seven MFIs disbursing the SLLC-linked loan product.
- 117 MFI branches actively promoting the SLLC-linked loan.
- 52 woredas reached via the SLLC-linked loan (including non-LIFT programme areas).

Findings, achievements and impact

Evaluating the impact of the SLLC-linked loan product

In order to assess the impact of this access to finance intervention, LIFT undertook a before-and-after survey of 870 landholders across 12 woredas. The sample comprised 414 borrowers of the SLLC-linked loan and 456 non-beneficiary households randomly drawn from the same districts and villages. The survey asked for detailed information on access to finance, investments and cropping incomes, as well as a range of household demographic and socio-economic data.

This is the profile of the average SLLC-linked loan borrower:



Loan amount: **ETB 31,000**

Annual interest: **17%**

Loan term: **24 months**

The SLLC-linked loan provides access to finance, both in terms of higher loan amounts and in terms of offering loans to farmers who previously did not access formal credit

- Before the SLLC-linked loan, 100% of beneficiaries had never acquired a formal *individual* loan.
- The average amount of the SLLC-loan is ETB 31,000, which is around 2.6 times higher than other loans previously accessed by the borrowers.
- Only 2% of SLLC borrowers have ever missed a payment. The National Bank of Ethiopia (NBE) considers anything lower than 5% a healthy portfolio.

"With the group loan, since the amount was small, it would cause us to be over-indebted, but the SLLC-linked loan lets us adequately invest in our preferred investments" – Farmer in Amhara.

Demand for the SLLC-linked loan is strong, with high satisfaction and a sense of empowerment especially felt by women

There is strong satisfaction with the loan and its features: 69% of clients stated that the loan amount meets their investment demand and 85% of those who had already completed their loan term applied for a second loan. Overall beneficiary satisfaction is high, with women (85%) slightly more satisfied than men (75%).

LIFT's research also found that, due to the requirement to have both spouses' signatures on a loan agreement, there were added benefits for female economic empowerment. For example:

- 81% of women stated that joint decision-making had increased as a result of the joint signature requirement for accessing the loan.
- 88% of women stated that they had become more active participants in household finance decisions as a result of the loan.

"This loan has allowed my wife and I to really get to know each other, as it pushed us to negotiate how we access and use the loan funds" – Farmer in the Southern Nations, Nationalities, and Peoples' Region (SNNPR).

The SLLC-linked loan increases investments to enhance agricultural productivity, leading to increased yields and incomes

- 88% of respondents stated that the loan was taken to invest in productive activities.
- The majority of those receiving a loan invested in cropping, with the next largest group investing in livestock rearing and a small minority using it for non-farm business.
- Investment. Borrowers increased their investments in inputs by 26% (23% for cropping).
- Productivity. Increased investment in inputs and labour also led to an average increase in land productivity (yield per hectare) of 33.6%.
- Returns. Loan recipients had a return-on-investment (ROI) rate of 42%. This is significantly higher than the average loan interest rate of 17.4%, ensuring profitable returns.
- Profitability. Borrowers attained an average additional income increase of 16.6% through just one loan. This could be extended with further loans.

"Thanks to my cattle-fattening business, I have attained an ETB 40,000 profit, dramatically increasing our household income. I plan to continue expanding my farming and fattening operation with this loan."

ACSI loan adaptation and development

Following the high levels of satisfaction and demand for the SLLC-linked loan, the Amhara Credit and Saving Institution (ACSI), one of the largest microfinancing organisations operating in Ethiopia:

- Increased the loan ceiling from ETB 50,000 to ETB 100,000 for repeat clients.
- Increased the loan term from three years to five years.
- Removed the compulsory saving requirement.
- Reduced the average annual interest rate from 19% to 17%.

The SLLC-linked loan pilot has had a positive impact and is generating policy changes at the regional and federal levels

- The piloting of the SLLC-linked loan was very well received. MFIs and the regional and federal land administration and use offices quickly saw the significant opportunity it presented. Additionally, RuSACCOs are promoting this product to their members without LIFT support, and there are early signs of a positive response.
- In Amhara, LIFT's MFI partner, the Regional Land Administration and Use (RLAU) Office and LIFT successfully advocated the benefits that the new product had for rural landholders. The *Revised Rural Land Administration and Use Determination Proclamation of the Amhara National Regional State (No. 252/2017)* now explicitly permits farmers to use their land user right or SLLC as a form of collateral to access credit. This provides a solid legal basis for the scaling-up and outreach of the product over the years in this region.
- In 2018, LIFT engaged the NBE as part of its institutional dialogue around the new loan product. NBE's governing proclamation, the *Movable Property Security Right Proclamation No 1147/2019,* was then ratified in August 2019. This which cites the land use right as one of the movable properties to be used as security to access finance.
- In Benishangul Gumuz, a non-LIFT region, the regional government ratified a land proclamation *(Benishangul Gumuz Regional State Rural Land Utilization and Administration Determination of the Regional Council Proclamation No. 152/2010)* in 2018, which allows land use rights or the produce of land to be used as collateral against debt.
- The ability of farmers to collateralise their user rights is incorporated within the draft versions of the Rural Land Administration and Use Proclamation at the federal and regional levels.

Next steps

The next steps for LIFT's access to finance interventions are as follows:

- Continue to facilitate crowding-in of the SLLC-linked loan product by other financial institutions.
- Embed training and capacity-building support with the Association of Ethiopian Micro Finance Institutions (AEMFI).
- Support the development of a micro-insurance product that reduces the risk for SLLC farmers when accessing agricultural loan products such as the SLLC-linked loan.
- Continue to advocate for the ratification of the revised regional and federal land proclamations to support and ensure the sustainability of the SLLC-linked loan product.

LIFT LAND INVESTMENT FOR TRANSFORMATION PROGRAMME

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About the Research Summary series
This series summarises key research by the UK Department for International Development-funded Land Investment for Transformation (LIFT) programme. LIFT aims to improve the incomes of the rural poor in Ethiopia by securing the land rights of households through Second Level Land Certification (SLLC); improving Rural Land Administration Systems (RLAS); and increasing productivity by leveraging SLLC through a 'making markets work for the poor' (M4P) approach, in Oromia, Amhara, the Southern Nations, Nationalities, and Peoples' Region (SNNPR) and Tigray regions.

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