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Photos: ICCO/Raymond Rutting, ICCO/Rieneke de Man
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Abbreviations and Acronyms

CPDD  Credit Pilot Deep Dive
FGD  Focus Group Discussions
FHH  Female-Headed Households
HFIAS  Household Food Insecurity Access Scale
MAHFP  Months of Adequate Household Food Provisioning
MFI  Micro-Finance Institution
MHH  Male-Headed Households
NPS  Net Promoter Score
PPI  Progress out of Poverty Index
SACCO  Savings and Credit Cooperative
STARS  Strengthening African Rural Smallholders
TLU  Tropical Livestock Unit
VSLA  Village Savings and Loans Association

ICCO Cooperation and STARS

The Strengthening African Rural Smallholders (STARS) program is implemented by ICCO Cooperation in partnership with MasterCard Foundation; targeting 210,000 rural farmers in Rwanda, Ethiopia, Burkina Faso and Senegal. STARS is addressing challenges that smallholder farmers face such as limited skills, lack of credit, minimal access to markets, and limited access to appropriate financial products.

In Ethiopia, the aim of the STARS program is “food security and better income” for 76,000 (50% women) smallholder farmers and their households. The program uses a sustainable approach to empower smallholders to get better agricultural skills, and access to suitable financial services so they can create means to better take care for their families, be self-reliant and impact others in their communities.
Executive Summary

Many smallholder farmers struggle to access financial services, and lack opportunities to improve their agricultural activities. Therefore, STARS will facilitate access to financial markets and agricultural services in both structured and unstructured value chains, as well as for subsistence farmers. Recognizing that smallholder farmers comprise a diverse group with differences in attitudes and capacities to access and use credit products, this credit pilot deep dive (CPDD) investigates differences in the uptake and impact of newly developed agricultural credit products on smallholder farmers in Ethiopia. The aim is to provide the STARS program, as well as the participating MFIs, a valuable opportunity to enhance their understanding of the client base: their needs, capacities, attitudes, strengths, weaknesses, barriers and catalysts.

More specifically, this CPDD study targeted two main zones and credit products in Ethiopia, namely vegetable loans in the Meki-Ziway area and malt barley loans in the Kersa area. The study used a mixed quantitative and qualitative approach based on a household survey triangulated with focus group discussions (FGDs). The participating farmers have been categorized in three groups, namely a Treatment, Rejected and Control Group, to facilitate the analysis of similarities and differences between the groups. The farmers in the study do not appear to suffer from high food insecurity year-round, but shortages are certainly present during the lean season. Around 70% of all surveyed farmers have at some point taken out an interest-bearing loan, and 86% of them has had a positive experience with it. People are still careful in recommending the loan to others.

The findings of this study suggest that farmers are particularly attracted to credit packages when they experience respectful treatment in the process, when the credit can be combined with training or farm inputs, when the credit meets their actual financial needs and has flexible repayment options with availability during critical periods. It is noteworthy that these non-financial factors are considered more important to farmers seeking to access credit than the interest rate. Farmers may be unwilling or reluctant to access credit due to risks related to over-indebtedness, reputational harm and loss of collateral, which could occur if loans are not repaid on time. Furthermore, particular challenges affect women and youth, who struggle to access formal credit as they lack the resources and assets needed to provide security on loans and only have access to smaller and less powerful networks. In addition, women face specific challenges related to their role in the household, which reduces their mobility and agency in decision-making.

The potential areas of improvement of MFI loans, recognized by the farmers, include providing further support for group loans in terms of formalizing structures, roles and responsibilities, more individual and small group loan options with flexible and sufficient loan size and duration, and loan disbursements and repayments that match the seasonal needs of farmers. Additionally, there is a need for more transparency, information in local languages, provision of Islamic finance products, financial products and trainings tailored to be more inclusive for women, more in-house expertise on agriculture within MFIs and alternative strategies than high collateral to support entrepreneurial and ambitious youth and women.
Introduction

In July and August 2017 ICCO Cooperation conducted a small-scale study into the adoption of two newly developed agri-loans in Ethiopia. These agri-loans were among a few new credit products being piloted by MFIs, which offered an opportunity for a parallel study to be attached to them. The purpose of this Credit Pilot Deep Dive Study (CPDD) is to understand how differences in adoption and impact of new agricultural credit products correlate with differences in farmer characteristics. This could create a possibility to adapt product features to match the needs of farmers. It is expected that the study can provide the STARS program, as well as the participating MFIs, a valuable opportunity to enhance their understanding of the client base: their needs, capacities, attitudes, strengths, weaknesses, barriers and catalysts.

STUDY DESCRIPTION

This CPDD study targeted two main zones and credit products, namely vegetable loans in the Meki-Ziway area and malt barley loans in the Kersa area, see figure 1. The STARS program focuses on improving financial services (and in time also non-financial services) for smallholder farmers by supporting MFIs to develop agri-financial services for individuals and groups of smallholders.

Figure 1. Data collection sites
The research aims to investigate four key questions:
1. What are the demographics of the smallholder farmers in the credit pilot?
2. What is the current state of farming in terms of productivity, use of products and services, access to markets, and access to finance?
3. What guides a farmer’s decision-making in taking a loan and how do credit products differ in their advantages and disadvantages to farmers?
4. What are the baseline values for impact indicators on wealth and food security used in the STARS program?

The CPDD study used a mixed quantitative and qualitative approach based on a household survey triangulated with focus group discussions (FGDs). For the quantitative part of the CPDD study, a questionnaire was administered to 100 individual vegetable farmers in the Meki-Ziway area (where Busa-Gonofa and Metemamen MFIs operate) and to another 100 individual farmers who predominantly grow malt barley in the Kersa area (where Harbu MFI operates). These farmers have been categorized in three groups:

• The Treatment group includes farmers who have taken the agri-credit through the MFIs linked to the program. Out of the 200 farmers, 106 are in this category (56 in Meki-Ziway, 50 in Kersa)
• The Rejected group includes farmers who applied for the loan but their application was rejected by the MFIs. A total of 34 farmers belong to this category (14 in Meki-Ziway, and 20 in Kersa)
• The Control group includes farmers who have not applied for a loan from the MFIs. There was a total of 60 farmers in this category (30 from each of the two zones)

Categorizing the farmers in this way facilitates the analysis of similarities and differences between the groups.

For the qualitative part of the study, focus group discussions (FGDs) were conducted. A total of 9 FGDs were conducted (6 in Meki-Ziway, and 3 in Kersa). The average number of participants in one FGD was 8.

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1 Out of the 200 surveyed farmers, only 15 are female-headed households and 78 are youths not older than 35. Due to these small numbers and the purposive sampling approach, results are not representative for smallholder farmers in general. Selection of farmers into the credit pilot, to which this study was attached, was also purposive.
01 Client and farm characteristics
DEMOGRAPHICS

Demographically the farmers from the two areas and three groups can be considered a single group since there are no meaningful variances in the demographics of these farmers. The average age of the farmers in the study is 41 years, and most are Christians (61%) or Muslims (37%). Average household size is close to 7, but varies between 4 and 8. The share of dependents in the household is 0.68 indicating that around two-thirds of the household depends on the other one-third for their livelihood.

The largest share (41%) of the farmers has reached high school, and 15% has reached college or university (either finished or unfinished), while 7% has no schooling (figure 2). 36% has reached primary school and 1% vocational school (either finished or unfinished).

More than half of all farmers received some agricultural skills training (58%). When comparing the farmers of different crops, 59% of the barley farmers and 56% of vegetable farmers have received agricultural training. The largest share (56%) of the farmers having received agricultural training belongs to the Treatment group, while 24% is part of the Control group and 19% belongs to the Rejected group. Many farmers have accessed these trainings for free because only 13 farmers (7% of the survey sample) have paid to receive training in agricultural skills.

In contrast, only 35% of all farmers have received financial skills training. Again, approximately the same share of farmers of different crops have received financial training (34% of barley and 36% of vegetable farmers). Similarly, the largest share (57%) of the farmers having received financial training, belongs to the Treatment group, and an equal share of 21% belongs to the Control and Rejected groups. Six farmers (3% of the sample) paid to receive financial training.

![Image](image.png)

**Figure 2. Highest level of education in the household (n=200)**

FEMALE-HEADED HOUSEHOLDS (FHH)

Of the 200 surveyed farmers, only 15 are female-headed households, so the findings regarding this group are inevitably tentative. Female heads of household tend to be a bit older compared to the other households; most are women above 40 years that are widowed or divorced/separated. Possibly, because of their marital status, family size in FHH is a little smaller (slightly over 5 instead of nearly 7), but this hardly affects the share of dependents in the household (which is 0.63). FHHs have on average a lower level of education which is most apparent in the share of women without any education: 40%, compared to only 5% in MHHs. FHH are also slightly underrepresented in the number of farmers that have received training in farm skills (40% for FHH compared to 51% for MHH). However, more FHHs have received training in financial skills (40%) than MHHs (28.5%).

YOUTH

The average age in the youth group is 28.5 years. Approximately 90% of them are married, with an average household size around 5. The average share of dependents in the households is 0.59. Both results are below the average when comparing to the other households, as is to be expected due to their age. The level of general education is rather similar with 56% having spent some time in secondary education (either finished or unfinished). Almost half has received agricultural skills training (49%), and about one third has received financial skills training (29%).
**AGRICULTURAL PRODUCTION**

Agricultural production was investigated with the survey by asking the farmers \(n = 200\) to compare the size of their harvest during the most recent season to the two previous seasons, and to identify the main reason for any observed differences. Most farmers indicated to have increased their harvest compared to the last two seasons. This however differs between malt barley and vegetable farmers; 85% of malt barley farmers indicated a better harvest compared to 56% of vegetable farmers.

Farmers were asked to select the main reason for the increase, or decrease, of their harvest in the most recent season compared to the previous seasons. More farmers reported improved harvests (71%) than reduced harvests (22%). Examining reasons cited for improved harvests, barley farmers were most likely to attribute these improvements to new seeds (27%), followed by climate (21%) and better farming practices (19%) (figure 3). For vegetable farmers, climate was the main reason for improved harvests (18%), but 11% of vegetable farmers attributed the improvements to better farming practices and the use of fertilizers or chemicals.

Overall, the survey results concerning the most common reasons for improved or reduced harvests highlight the effects of climate as particularly influential for vegetable farmers, while for barley producers, new seeds are popularly associated with improved harvests. In fact, during the FGDs it was mentioned that farmers even wanted to get a loan just to be able to access the new seeds available through Harbu MFI. And similarly, during the FGDs, it was acknowledged that the cooperation between Busa-Gonofa MFI with Rift Valley NGO who worked together to supply farmers with irrigation equipment, was highly valued by their clients. In both cases the product or service addressed actual needs of farmers. Such combined services are much appreciated and have the added benefit of reducing the risks of farmers buying counterfeit agri-inputs. A clear downside is that the MFI is held accountable for the quality of the inputs they provide, which can be outside the MFIs’ expertise.

The survey was used to investigate the investment priorities of the farmers by asking them to indicate whether they paid for any agricultural inputs or services during the past two agricultural seasons (table 1). The data show that all farmers have invested in fertilizer or manure, while most have also bought

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**Input** | **Percentage of farmers**
--- | ---
Fertilizers / manure | 100
Farm chemicals | 88
Equipment (bought or rented) | 81
Transport (bought or rented) | 66
Trainings | 24

*Table 1. Percentage of farmers citing the usage of specific inputs for farming during the past two agricultural seasons based on the survey results \(n=200\) farmers. The farmers were allowed to give multiple responses.*
chemicals, bought or rented equipment and paid for transport. Investment in training is less common, with under a quarter of the sample reporting this. Unfortunately, new seeds were not among the options included in the questionnaire as their significance did not emerge until later in the study. However, based on the feedback given during the FGDs, we can rank the demand for improved seed varieties next to the demand for fertilizers and chemicals. The relatively low priority given to investment in training may reflect the high existing levels of participation in agricultural skills training (58% of the survey sample), or the perception that training should be provided free of charge by the government or NGOs.

Based on the results, most farmers invest in several farm inputs at once, often a combination of fertilizers with farm chemicals, transport, and equipment. When comparing the different investments in farm inputs for the three farmer groups, or when looking at FHH or youth specifically, the investment priorities do not differ. The average land size increases almost linearly with the number of investment categories reported by farmers, ranging from an average of 0.6 ha for farmers having chosen one input category to an average of 2.3 ha for farmers who have invested in four and five types of input (figure 4).

Labor is another important farm input and the survey data suggest that the use of hired labor is more than twice as common for vegetable farmers (91%) than for malt barley farmers (43%).

For vegetable farmers, aside from home consumption, local spot markets and traders are the most common markets, whereas for malt barley farmers the cooperative and processors provide additional sales channels (but to a limited extent). Again, there does not appear to be a difference between farmer groups. Looking at the individual channels and how often they are reported, the following priority channels emerge (figure 5):
The survey data do not reveal major differences between MHHs and FHHs, and the small sample sizes reduce the reliability of these data (table 2). Both MHHs and FHHs use around one third of their produce for home consumption (35%), sell around one third to traders (35%) and one third using the local spot markets (27%). A small number of farmers sell to cooperatives (3%) and processors (less than 1%). During the FGDs, women specifically reported to favor a certain type of local spot market, known as ‘Gulit’ markets in Amharic, which are regarded as safer options for women; they are surrounded by other women, and do not need to protect large volumes of produce or earnings.

### ACCESS TO FINANCIAL SERVICES

Around 70% of all surveyed farmers have at some point taken out an interest-bearing loan. However, only 5% of the farmers have ever taken out a fee-based loan, and these were mostly vegetable farmers. When scoring how often a particular source for loans is mentioned, the following trends emerge (figure 6). As Figure 6 shows, MFIs are by far the most popular sources of credit for the sampled farmers. As noted, this may be a consequence of the sample selection, but the findings reveal a surprisingly low engagement with other lenders, particularly banks and VSLAs. Loans from family and friends are also uncommon.

The survey data suggest that previous access to credit correlates with access to MFI agri-loans. All 106 farmers that applied for, and received the new agri-loan, had already past experience with credit. Of the group that applied, and was rejected, only 41% had previous experience with credit. In the group that did not apply for credit, only 32% had previous experience with credit. Loan history therefore seems important in determining subsequent access to finance. It may be hypothesized that the farmers who were rejected, or did not apply for credit, are unable to meet the collateral requirements, or it may be that MFIs select loan recipients based on their previous relationship and history of successfully repaying loans.

<table>
<thead>
<tr>
<th>Channels</th>
<th>% FHH (sample=15)</th>
<th>% MHH (sample=185)</th>
<th>% Total (sample=200)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traders</td>
<td>30</td>
<td>36</td>
<td>35</td>
</tr>
<tr>
<td>Home consumption</td>
<td>40</td>
<td>34</td>
<td>35</td>
</tr>
<tr>
<td>Local spot markets</td>
<td>23</td>
<td>27</td>
<td>27</td>
</tr>
<tr>
<td>Cooperative</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Processor</td>
<td>3</td>
<td>0</td>
<td>1</td>
</tr>
</tbody>
</table>

Table 2. Percentages of FHH and non-FHH farmers citing a specific outlet for their produce
FHHs in the survey sample report similar access to loans as MHHs, with 67% having had previous experience with loans. The same is the case for youth with 68%. Interestingly, access to loans is even higher (75%) among Muslims, despite the religious implications of taking out an interest-bearing loan. During the study, researchers noted that some Muslims take loans in secret, while for others, the decision not to take a loan is explicitly linked to their religious principles.

Of the farmers that have at some point accessed a loan, 86% has had a positive experience with it and only 3% indicated a negative experience. It is interesting to note that even with this high satisfaction, people are still careful in recommending the loan to others (family, friends, neighbors), as indicated by the Net Promoter Score (NPS) in our survey. Of the people with a good or very good experience, only 55% would certainly promote it (considered a ‘promoter’). Of the remainder, 35% would only probably promote it (considered a ‘passive’), and 9% would not or did not know (considered a ‘detractor’). These numbers do not change much for the different farmer groups. The NPS in this study comes down to a value of (55-9=) 46 (it can range from -100 to +100). It is not clear why the high satisfaction does not translate into a higher NPS, but social pressure may play a part. In the FGDs it was mentioned that people can be sensitive to privacy issues (neighbors speaking badly of them, thieves being aware of who has borrowed money, etc.). There can also be religious reasons as it was mentioned that interest-bearing loans are increasingly seen as haram (forbidden) under the Muslim population.
Factors influencing credit product uptake
FINANCIAL ATTITUDES

Of the people that never accessed a loan, 28% does not save part of their income for the future. Of the people with a credit history this figure is lower (19%). These data show that access to finance and savings behavior are linked although it is not clear how. There is no apparent difference in financial record keeping between people with credit history (54%) and those without (58%). However, when investigating youth specifically, of those who never accessed a loan 24% does not save for the future, whereas of the youth that did access a loan, only 15% does not save for the future. Similarly, 75% of youth with a credit history keep financial records, while this number is reduced to 68% among youth without previous access to credit.

In female-headed households with no previous access to loans, 40% do not save for the future (but with such small numbers, 5 in total, these can be spurious findings). This figure drops down to 30% for female-headed households with previous experience with loans. Record keeping in female-headed households is less common than average with only 20% of the women who have no credit history keeping financial records, and 40% of the women with credit history (but again with a risk of a spurious finding). These numbers are not robust, but it appears that it could be beneficial to stimulate savings and record keeping among FHHs in order to gain better access to finance. In the FGDs, it was pointed out that women in general are far better in managing money, often spending it more wisely than men with little risk of diverting the loan to anything but the intended purpose.

Overall, farmers are quite willing to take risks by investing in their farms. Looking at the whole farmer group, 8% would accept only a low return on an investment and not take a risk, 28% would accept some risk in return for a higher return on investment, and as much as 64% would even risk losing the investment if there was a possibility of a high return. This is the same for youth, but FHHs tend to be more conservative, with 27%, 40% and 33% respectively. During the FGDs, it was often mentioned that women are considered to be prudent money managers.

Among the farmers in the survey sample, more than half (52%) report that they would need to get the money back in one harvest cycle, indicative of a limited savings and a subsistence level household economy. However, 44% of sampled farmers report that they could wait up to four harvest cycles to get a return on their investment, while only 4% could wait longer than four cycles. This waiting time increases for youth and FHHs, who tend to be able or willing to wait longer to get their money back. There do not appear to be differences between other farmer groups (received, rejected, never applied).

BARRIERS AND CATALYSTS IN ADOPTING A CREDIT PRODUCT

During the FGDs, a range of perspectives emerged reflecting on the attractiveness of MFIs’ credit products and a farmer’s willingness to access it.

Factors that farmers find attractive in a credit product

Farmers are particularly attracted to credit packages when the following conditions are met:

- Respectful treatment. The study findings suggest that poor or disrespectful treatment by formal and informal sources of credit inform farmers’ assessments of the credit product.
- Credit combined with training or farm inputs. This is likely to be particularly critical in the areas where inputs available in open markets are of inconsistent or poor quality. Farmers reported that they prefer combined packages of credit loans and quality agro-inputs, or packages including training.
- Credit meeting farmers’ actual financial needs. Farmers reported that they avoid small loans, which are insufficient for their needs, to avoid having to secure loans from multiple sources. This is the case even when the interest rates are low.
- Farmers prefer flexible repayment options, which allow them to make repayments according to their harvest cycles and cash flow.
- Credit availability during critical periods. Farmers are more attracted to loans when credit appraisal is rapid, and when loans are available during key periods during which farmers need to purchase inputs.
- Benefits like access to inputs or access to loans at appropriate times are considered more important than interest rate.

Factors contributing to an unwillingness to access credit

Some farmers are unwilling or reluctant to access credit. The reasons identified include:

- Risk averse farmers are unwilling to risk over-indebtedness, reputational harm and loss of collateral (both those of the recipient household and the guarantor household) which could occur if loans are not repaid on time.
- Some farmers are afraid of ‘institutional’ financial services as they do not understand the terms and conditions, and fear exploitation. They are more familiar with informal money lender modalities, even though terms are generally less favorable. The study suggests that this may be based on previous bad experiences of the farmer or their friends and family members, or on rumors and false information disseminated by money lenders to discourage farmers from seeking alternative sources of credit.
- Where loan size is too small for their needs, the findings show that farmers prefer not to borrow. They generally do not want to borrow from multiple sources or accept lower loan amounts.
Factors contributing to an inability to access credit
The findings from the FGDs also suggest that certain demographic groups struggle to access formal credit; particularly women and youth. Farmers are unable to access loans when they cannot meet requirements of service providers, and may be constrained by a range of characteristics:

• Social networks are needed to access both formal and informal loans. For formal loans, a guarantor is needed. For informal loans, effective networking is critical to establish relationships with money lenders.
• Collateral needed to secure a loan. For young, female or impoverished farmers, it may be impossible to provide sufficient collateral to secure a loan from a formal source such as an MFI. Collateral size and loan size can be out of proportion.
• Some MFI loans are provided to groups rather than to individuals. Group membership is therefore a prerequisite of accessing such a loan. The FGDs suggest that young people are less able to join groups and apply for group loans.
• Farmers are unable to secure loans if another member of the household already has a loan. In cases where households share financial decision-making this may be less relevant, but the findings suggest that some women may be unable to access credit for themselves or make decisions about loans secured by their households, due to a lack of permission from their husband.

Potential areas for improvement of MFI loans
Farmers highlighted several areas for potential improvement in MFI’s service provision, including:

• Group lending mechanisms offer excellent opportunities for marginalized farmers to access credit, but they are reliant on a solid foundation of mutual trust and respect. Further support for groups in terms of formalizing structures, roles and responsibilities could reduce the risk of group members defaulting, and therefore increasing the burden on other members.
• More individual loan options are needed, as well as group loans for smaller groups.
• Loan size and duration should be better adapted for farmers in terms of the planned use and agricultural cycles. Farmers noted that loan sizes offered by MFIs are often inadequate for their needs, and not adapted to the harvest periods. This encourages them to take private loans, which are more flexible, despite the higher interest rates.
• Loan disbursements should match the seasonal needs of farmers to provide credit when needed, reduce risks of misuse of loans, and ensure that repayments are due immediately after crops are sold.

• Where repayment options are inconvenient or incompatible with harvest cycles, farmers can be unwilling to take loans as they may be unable to meet the repayment schedule.
• More transparency is needed to clarify the costs associated with MFI loans, since farmers often do not understand the implications of interest rates. Communication, written and verbal, should be clear, simple, and consistent to avoid misunderstandings and rumors, and to reduce associated reputational risks.
• Transparency is needed on how personal information provided by farmers will be used, stored or shared by MFIs.
• MFIs should explore the provision of Islamic finance products in areas with Muslim populations.
• Financial products and trainings should be tailored to be more inclusive for women, and women should be supported to make use of loans provided in their names, which are often used by their husbands. Female MFI officers could also increase the perceived relevance of MFI products for women.
• MFIs should enhance their in-house expertise on agricultural practices, trends, and markets, and they should make sure to distribute only high quality seed and reliable information to avoid reputational harm.
• Recognizing that most farmers assess MFI services based on the prior experiences of their friends and neighbors, MFIs should support peer learning, model farmers and horizontal networks to promote services.
• Requirements for high collateral (particularly ownership of land) exclude entrepreneurial and ambitious youth and women who could benefit from access to agricultural credit. Alternative strategies should be identified in order to extend access for these groups.

Uptake of credit by women and youth
Women and youth are identified in the study as facing particular barriers to accessing credit. The reasons include:

• Youth and women lack the resources and assets needed to provide security on loans, particularly access to land.
• Lack of access to land reduces opportunities for youth and women to invest in farming.
• Young people and women are likely to have smaller and less powerful networks than older males. It takes time to establish personal networks and to build the trust needed. This reduces their access to information and to other value chain actors.
• Women’s role in the household reduces their mobility; they have less opportunities to travel and meet others outside of their community. This affects their ability to secure guarantors for loans, and meet other value chain network actors such as distributors and marketers, which reduces their ability to repay loans. It also affects the number of women being available to participate in the credit pilot and in the research informing this summary report.
• Women reported to favor ‘Gulit’ markets where they are surrounded by other women and do not need to physically handle large volumes of produce or protect large amounts of cash. Their situation may require specific credit products.
• Women can face challenges making decisions in the home. Loans taken by women may be effectively controlled by men in their household. Also, as noted, only one loan may be available per household, and this is likely to be taken by the male household head. Also, women may not get permission from their husbands to take out a loan.

• Youth are reported to have less access to group loans, because many groups favor more established mature farmers as members. Women are also reported to be often excluded from group formation.

• Although only 15 FHHs were included in the survey sample, the findings regarding the wealth indicators of land size, asset index, Tropical Livestock Unit and poverty likelihood suggest that they are poorer than other households.
Comparing sources of credit
There is a great demand for credit among the smallholder farmers. However, it can sometimes be challenging or even unattractive for some farmers to access a formal loan through an MFI. The more expensive informal money lenders can be seen as a more feasible or a more attractive option. To compare the different sources of credit, we have created an overview table with loan characteristics:

**MFI**

120 respondents (60%) indicated to have previous experience with this type of credit. It is the most common source of credit among the survey and FGD sample.

**Characteristics of the loan product**

MFI.s prioritize existing clients with known credit history, difficult for others to access loans

MFI.s gather information about a potential borrower from neighbors regarding credit history, personal behavior and discipline, etc. This sharing of information has many implications:

- Impact on social capital (everyone knows that the household has borrowed).
- Risk if borrowers have violated religious principles e.g. the Islamic perspective on interest
- Neighbors can ask for money if they know that their friend has some from banks/MFI.s
- Theft risk when people know about the loan
- Personal vendettas e.g. neighbors can speak negatively to the loan officer about the potential borrower
- Unease. The MFI asks detailed asset values of many items like the house, motorbikes, oxen, etc. This can make one feel uneasy.

The required collateral can be individual assets (even higher than the loan value), and also those of a guarantor. Associated issues with this are:

- Guarantor cannot use the same assets to secure a loan
- Guarantors must pledge own house for another’s loan: social costs/enhanced tension

**Benefits mentioned**

- WMFIs provide better client treatment than money lenders or banks
- Lower interest than other options
- Most attractive when paired with other benefits e.g. provision of new seeds and irrigation equipment

**Disadvantages mentioned**

- Farmers report they are offered less than they request and less than they need
- Loan amounts fixed, less flexibility
- Loan size too small compared to needs. Farmers prefer not to ‘serve two lords’ and take multiple loans from multiple sources
- Repayment period incompatible with business plan, loan periods too short (6 months) for farmers
- Assets/collateral required is much higher than loan amount
- A possible religious issue: interest bearing loan not suitable for Muslims
- Youth in particular lack assets as well as guarantors
- Requirement to be placed in groups is problematic. People do not like the group loan approach.
- One household cannot get two loans. Thus, women cannot access loans if husband already has taken a loan.
- MFI loans do not give the borrowers links to buyers, but private loans do. So even if the farmers succeed in farming, if they cannot sell, then they struggle to repay the loans. ‘Trustworthy value chain actors’ issue
- Distance to an MFI branch office and the required number of visits can push costs to higher levels than with community-based money lenders
- False information is spread by moneylenders about MFIs

**INFORMAL MONEY LENDERS**

Nine survey respondents (3%) indicated to have previous experience with this type of source of credit, although it was widely discussed during the FGDs.

**Characteristics of the loan product**

- Lending modalities are a) loan with interest and b) loan without interest (paid back with crop and/or labor)
- Lender assesses investment by visiting the farm
- A defaulter cannot borrow in future
- A defaulter would require a witness or guarantor during future trading activities, for example when selling cattle
- Future deals will require guarantor to rent land, unlikely to get one
- Damage to social status in case of defaulting
- Lenders often important people from social or religious perspective, wider consequences
- Breaking agreement impacts future relationships with lenders, damages trade network

**Benefits mentioned**

- Farmers can get enough to meet their needs through a single loan. Farmers prefer not to take loans from multiple sources
- No formal contract/ asset security, rather a socially binding internal agreement monitored by local elders
- Privacy is more secure as neighbors do not have to be involved
- Flexible loan amounts
- Flexible repayment plans around harvest cycles when the crop is sold
- Loan can be secured on time, when needed and scheduled for the intended activity
- Money often released in phases or intervals
- Provides informal benefits e.g. link to trade network, useful for long term business and trade network
Disadvantages mentioned
- Costs are higher for the borrower ("the common practice is that after the lender has first taken the full amount of money he has lent, the remaining money from the sale of the crop would be shared equally (50%-50%) between the lender and the borrower")
- Not accessible to everyone, they give priority to their networks, wealthy farmers etc. and share seeds only with specific people
- Lenders can 'despise' clients and seek to make them dependent for longer periods, making the relationship exploitative

**SACCO and VSLA**

Among the survey sample, 23 respondents (12%) indicated to have previous experience with SACCOs and one respondent with a VSLA.

**Characteristics of the loan product**
- Group members self-select and monitor repayments
- Informal mechanisms used to encourage repayment, group pressure

**Benefits mentioned**
- Accessible
- Builds relationships of trust
- Low interest rates compared to the other options

**Disadvantages mentioned**
- SACCOs provide limited size of loans, too small for commercial use
- Not widely available
- Small loan amounts not suitable for large-scale projects
- Repayment schedule too short for long-term plans, suitable for emergencies/immediate needs

**COMMERCIAL BANK**

One respondent in the survey sample indicated to have previous experience with this type of credit.

**Characteristics of the loan product**
- No data

**Benefits mentioned**
- Better interest rates than private lenders

**Disadvantages mentioned**
- Established business people are prioritized
- Distance to a branch office can be large
- Unavailable to the majority of smallholder farmers
- Poor treatment of farmers
- Loan appraisal takes several months
Baseline for impact on income and food security
By providing farmers with access to finance, the STARS program aims to enable them with access to the right inputs and improve their farming. As a result, they will improve their income and food security. To gauge such changes over time, we measured their starting point with respect to income and food security.

**WEALTH AND INCOME**

Income is hard to measure, but changes in income will be reflected by wealth, which we therefore focused on in this study. A household’s wealth was approached by determining the following characteristics: land size, an index for the household assets as well as an index for livestock owned by the household, and finally by establishing the poverty likelihood of the household.

The results show that there is a slight variation in wealth between the two study sites (table 3). Farmers in the East Shewa area have, on average, more land, more assets, fewer animals and a lower likelihood of falling below the national poverty line.

With respect to the three farmer groups, the survey data suggest that, on average, the farmers that received the loan are wealthier than farmers that never applied, with the rejected applicants taking a more or less intermediate position (table 4).

Next to credit history, current wealth level is also an important factor determining access to finance. This makes sense as it relates to collateral, but it can also point to poorer farmers being unable to escape poverty. However, it is important to note that recruitment into the agri-credit pilot favored the more eligible existing MFI clients. That will to some extent explain differences between groups.

More conspicuous however is the position of FHHs. Although only 15 FHHs were included in the survey sample, the findings suggest that they are poorer than other households, as table 5 shows.

The data collected from youth households in the sample, display mixed results. Youth households report having smaller parcels of land and fewer livestock, but similar assets, a much lower likelihood to fall below the national poverty line (table 6). The latter will be strongly influenced by their smaller family size (on average 4.8 instead of 8.1 for non-youth households) and the smaller share of dependents (0.59 versus 0.73 for older households).

**FOOD SECURITY**

### Family compounds

One quarter of all farmers live in a separate family compound that is shared with two or three, and sometimes even with four or five other households. The majority (90%) of these households do not collectively work the same farm land. Also, the survey data suggest that meals are not generally prepared together as 88% prepare their meals within...
their own household only. Only four families of the two hundred indicate to collectively work the same farm land and share their meals in the compound, indicating that it provides them with enough food year-round. Together these results do not give reason to investigate food security separately for farmers living in family compounds.

**MAHFP, HFIAS and PPI Food line**

To understand better how food security changes over the course of the year, the tool *Months of Adequate Household Food Provisioning* (MAHFP) was employed. The tool consists of two simple questions asking (1) whether there were months in the past 12 months in which the respondent did not have enough food to meet the family’s needs and (2) if that is the case, which were the months in the past 12 months during which the respondent did not have enough food to meet the family’s needs. Based on the results, the time of the year when food shortages occur underline the regional climatic differences (rainfall patterns) between the study sites Arsi and East Shewa, see Figure 8. Where the lean

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*Figure 8. Months of Adequate Household Food Provisioning (MAHFP) in the two study sites*

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season in Arsi centers on September and October, in East Shewa it comes earlier and centers on June, July, August. Data on food security were collected at the end of July for East Shewa, and at the beginning of August for Arsi. When comparing the regional results, in Arsi 56% of the households report food insecurity at some point during the year, and in East Shewa this is 47%. Investigating closer this group having indicated to experience food insecurity at some point during the year, the average number of months per year when people experience food shortages hardly differs between the regions. In Arsi this is 2.2 months per year and in East Shewa this is 1.9 months. When looking at all 200 surveyed farmers together (including also the ones indicating not to experience food insecurity) the average decreases to 1.2 months and 0.9 months respectively.

In addition to MAHFP, the tool Household Food Insecurity Access Scale (HFIAS) was used to collect more in depth information on food insecurity. HFIAS is composed of a set of nine questions to assess whether households have experienced problems with accessing food during the last 30 days. This is evaluated with HFIAS household score that can range between 0 and 27. When comparing the regional scores for the farmers reporting to experience food shortages during the year, the score in Arsi is 6 and in East Shewa 5. Again, when looking at the whole sample (including also the farmers indicating not to experience food insecurity) the average decreases to 4 and 3 months respectively. In total 1.6% of all households are classified as moderately or severely food insecure (table 7). No differences were observed between the three groups of farmers (received a loan, applied but was refused, did not apply), while FHHs scored marginally better on the HFIAS household score than MHHs (2.7 compared to 3.5).

<table>
<thead>
<tr>
<th>Region</th>
<th>Food secure</th>
<th>Mildly food insecure</th>
<th>Moderately food insecure</th>
<th>Severely food insecure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arsi</td>
<td>44</td>
<td>38</td>
<td>16</td>
<td>2</td>
</tr>
<tr>
<td>East Shewa</td>
<td>57</td>
<td>29</td>
<td>14</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>101</td>
<td>67</td>
<td>30</td>
<td>2</td>
</tr>
</tbody>
</table>

Table 7. Number of farmers classified into HFIAS food security categories for the different locations.

These results are further supported by the Food line of the PPI tool, which shows that the average likelihood for a farmer in Arsi not to have enough money to buy sufficient food is 2.7% whereas in East Shewa this is 1.8%. All in all, the farmers in the CPDD study and credit pilot do not appear to suffer from high food insecurity year-round, but the survey data suggest that this can be the case during the lean season. The farmers in the East Shewa area report better food security, corroborating the finding that farmers in East Shewa have a slightly higher wealth level, but overall the differences are small.

There are no big differences in food security between the farmers in the three sampled strata (loan received, applied but rejected and never applied). Youth and FHHs also do not report more months per year with food shortages, a higher HFIAS score or a higher likelihood of not having the necessary means to buy sufficient food.

A rather striking feature however is that where husband and wife together answer the survey questions, the reported food insecurity is more severe than when they answer questions separately. This is the case for both the MAHFP and HFIAS data. No clear explanation can be given for this but it was mentioned in the FGDs that spouses can keep assets concealed from each other; so intra-household dynamics, competition over household resources and power relations can play a role.

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Conclusions and next steps
CONCLUSIONS

Key findings

- Farmers are particularly attracted to credit packages when they experience respectful treatment in the process, the credit can be combined with training or farm inputs, is sufficient to meet their investment needs, has flexible repayment options, and when disbursements are made on time. These factors are considered more important than the interest rate.

- Some farmers are unwilling or reluctant to access credit due to risks related to over-indebtedness, reputational harm and loss of collateral, which could occur if loans are not repaid on time.

- Particularly women and youth struggle to access formal credit due to lacking the resources and assets needed to provide security on loans, due to having smaller and less powerful networks and due to women’s role in the household reducing their mobility and posing challenges in decision-making. Additionally, youth and women are reported to have less access to groups for group loans.

- The potential areas of improvement of MFI loans that were recognized by the farmers include development of group lending mechanisms, more individual loan options with flexible loan size and duration, and loan disbursements that match the seasonal needs. Additionally, there is a need for more transparency, provision of Islamic finance products, financial products and trainings tailored to be more inclusive for women, more in-house expertise on agriculture within MFIs and alternative strategies than high collateral to support entrepreneurial and ambitious youth and women.

NEXT STEPS

The data collected as part of this study will be further used to conduct a deeper level of analysis targeting especially catalysts and barriers for adapting a credit product, identification of differences in farmer types, sociological differences and other topics of interests that can help in understanding, for instance, farmers’ needs and capacities. Moreover, a follow-up study, using the same questionnaire as for this study, will be performed in 2019. Ideally the same target group will be revisited at that point. In addition, qualitative data will be collected using FGDs and participatory methods, such as Most Significant Change workshops.
What are your reflections as STARS microfinance manager on the CPDD report?

When looking at the entire report, do you support the findings or do you want to add some nuances, or correct the information? What is the relation with the pilot evaluation, do findings concur or conflict?

The CPDD report highlighted some very relevant issues regarding agri-finance, such as the need for accompanying non-financial services related to input supply and marketing; strong relevance of informal finance in Ethiopia and the relatively low uptake of larger and individual loans by women. Some of these items were also found in the pilot evaluation. The key constraints found in the pilot evaluations were access to inputs and access to markets especially regarding the vegetable crops. The pilot evaluation of the products that were introduced showed a generally good appreciation of the new credit procedures, including the analysis tools. The clients appreciated the tailored product and the fact that they now had a good ‘negotiation tool’ on agri-loans through the proper crop specific agricultural analysis. They also appreciated the fast disbursement procedures, the larger loan sizes for individual loans and the flexible collateral arrangements. Other observations were:

- Women in general appeared to have less access to especially larger individual loans and loans in the malt barley value chain, which is largely dominated by men.
- Specific challenges that the MFIs are facing in the context of Ethiopia are the restrictions on direct investments in the financial sector. Consequently, several guarantees for loans from CBE came too late for the agricultural season. Also, the unstable political situation caused some unrest in some of the operational areas of the MFIs.

What are the key learnings that you find most relevant in the CPDD study?

Which elements in the report are most relevant in your opinion with respect to the MFI’s outreach (especially women and youth), scale-up plans, and potential impact with farmers?

The credit pilot deep dive highlighted farmers’ appreciation of loans accompanied by other services; mostly with access to inputs and market, and access to trainings. Other relevant observations from the CPDD are:

- Smallholder farmers appreciate flexible, timely and appropriate loan products especially when accompanied with other services such as access to inputs and markets, and to training.
- Farmers generally reported increase in harvest size during the previous years, which was mostly due to better inputs regarding malt barley and due to favorable climate and the opportunity for irrigation regarding vegetable loans.
- Smallholder farmers are generally careful with taking a loan in Ethiopia. Some smallholder farmers still prefer informal borrowing due to flexible terms and conditions, and easy access. Yet, informal borrowing was also seen as costly (high interest rates) and associated with strong social pressure regarding the repayments. If it is challenging for the smallholder farmer to repay the loan, it can create a dependency relationship between the farmer and the informal lender.
- Women were reported to be better money managers than men. Yet, their access to especially larger loans can be constrained due to lack of access to social networks, household duties and limited decision making power. Women appear to access loans through group solidarity systems rather than through individual loans, and therefore flexible collateral requirements are very relevant for women to be able to access loans. For selling their products, women usually prefer informal markets where female traders operate.
- Clients generally appreciated the services by MFIs when they experienced respectful treatment, loans that are combined with other services, and flexible repayment and collateral options.
- Clients also appreciate access to a savings account together with the loans. Savings can be relevant for clients as a buffer to overcome agricultural seasons; to access loans and to grow capital at the MFI level.
- Youth also face limitations to access credit both due to collateral restrictions and group loan structures; they are not always easily regarded as a respected member of the group.

What is the feedback on these key learnings from implementing partners?

Which do partners agree with and want to work on in STARS? What do they not agree with and would oppose to work on?

MFIs generally accepted the outcome of the CPDD and the pilot evaluation reports. In-depth discussions have been organized with the MFIs to integrate the lessons learned in the development of the products, especially regarding flexible collateral arrangements and piloting of larger loans for women. While it was clear that the most important competition in Ethiopian agri-finance is the informal sector, it was also realized that some features of informal finance cannot be easily replicated by MFIs. Yet, learnings regarding the informal loans can feed into MFI’s credit methodologies. Lessons learned from the pilot review and the credit pilot deep dives have been considered while developing the plans for 2018. The main challenges restricting the MFI operations on the institutional level, are access to loanable funds (the main bottleneck) and improvement of MIS systems.
<table>
<thead>
<tr>
<th>How are you taking these learnings forward, what is your plan of activities?</th>
</tr>
</thead>
<tbody>
<tr>
<td>The emerging lessons have been integrated into the new strategic plans for 2018 and beyond.</td>
</tr>
<tr>
<td>Regarding the farmers in both vegetable and malt barley production, access to inputs and proper extension services were partly facilitated through linkages with the SNV Hortilife program and through connecting different stakeholders in the value chains. For other crops, these types of connections could still be relevant e.g connections to Agriterra for chick pea loans and to OAF for wheat loans with Bussaa Gonoofaa. Regarding the potato value chain, it is envisioned that linkages will be established with companies and outgrower schemes.</td>
</tr>
<tr>
<td>While women are acknowledged to be better financial managers, their access to larger loans and value chain finance is still limited. Overall, the underlining issue is cultural but it is also due to some loan requirements, especially related to collateral. Piloting has been planned to test some specific agri-loan features for women. These include:</td>
</tr>
<tr>
<td>• Larger loans in small groups e.g. with max 3-5 members. This will be especially provided to long term female clients (trusted customers). The loan size will exceed the normal group loan cycle and it is a graduation path for women to move into individual loans.</td>
</tr>
<tr>
<td>• Individual loans to women with a peer guarantee construction as an alternative to collateral.</td>
</tr>
<tr>
<td>• Individual loans to women based on previous performance, partly in collaboration with other types of flexible credit.</td>
</tr>
<tr>
<td>Furthermore, informal lending to farmers will be monitored.</td>
</tr>
</tbody>
</table>
Partner to enterprising people.