CADMUS

CASE STUDY:

Market Systems in Action: How the LIFT Programme Continues to Transform the Financial Landscape in Rural Ethiopia Three Years After Completion

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Ethiopia continues to grapple with widespread poverty, despite experiencing significant economic growth and a decline in poverty rates during the last decade, until the onset of the Tigray conflict in late 2020. While poverty reduction efforts have made strides, rural areas remain particularly disadvantaged, with the majority of the population still dependent on subsistence agriculture. Despite ongoing government and donor efforts to transform Ethiopia's agricultural sector, the question arises: why has this transformation failed? Unlike many other low-income countries, most subsistence farmers in Ethiopia own the land they cultivate. So why do they continue to live in poverty despite possessing such a valuable asset?

The Challenge of 'Dead Capital'[1] in Rural Ethiopia

Ethiopia's land policy is rooted in the equitable distribution of land to rural residents, which safeguards the interests of smallholder farmers. Consequently, the *Federal Rural Land Administration and Use Proclamation No. 456/2005* significantly

1 *The term **dead capital** was coined by Peruvian Economist Hernando de Soto Polar. It is an economic term related to property which is informally held that it is not legally recognized and cannot be exchanged for financial capital.*

Cadmus (who acquired Nathan Associates in 2022) implemented the market systems component of the FCDO funded Land Investment for Transformation (LIFT) programme in Ethiopia, which over seven years (2014–2021) improved the security of tenure of over 6.5 million farmers through the distribution of over 14 million geo-referenced land certificates. Cadmus' work focused on maximising the productivity and income benefits of rural small landholders receiving these land certificates by identifying sustainable, market-friendly solutions to allow them to further invest in their land. Finding ways to increase their ability to access to finance was a key priority for the programme.

restricts farmers' ability to transfer their land, explicitly prohibiting sales. These limits are mirrored in regional land administration proclamations to ensure that rural smallholders are not dispossessed from their land.

As a result, while rural smallholder farmers own a valuable asset—their land[2]—they cannot leverage it to secure a bank loan or to guarantee payment for essential services such as water and electricity. This restriction prevents small rural landholders from using their primary, and often only, asset to access credit.

The Opportunity for Change: Introducing Geo-Referenced Land Certificates in Ethiopia

The UK Foreign, Commonwealth & Development Office-funded Land Investment for Transformation (LIFT) programme[3] introduced geo-referenced land certificates in Ethiopia's four highland regions. These certificates included the name and photograph of landholders, and detailed the GIS coordinates, boundaries, size, type and usage of the land. This initiative bolstered confidence and security in land certificates. Further, the digitalization of the country's land administration information system (i.e., the land registry) enabled the registration of all land-related transactions, ensuring that land certificates remained accurate and up-to-date, even amid changes in land usage rights due to inheritance, gifting, or divorce.

The newfound trust in the land tenure system allowed the programme to explore innovative ways to leverage the value of land certificates. The programme partnered with the most progressive rural microfinance institutions to pilot a loan product that utilized land use rights as collateral, instead of the land itself. In case of default, lenders could secure temporary use rights of the land, limited to a maximum of two years and only until the outstanding debt was recovered. These technicalities allowed the programme to engage with the regional land administration offices and to secure their buy-in for the pilot intervention.

Intervening to Change the Market: The LIFT Approach

To achieve the desired change, Cadmus designed and implemented three interlinked interventions:

Intervention 1. Support microfinance institutions to co-design, pilot, and roll out a financially viable loan product linked to the new geo-referenced land certificates. Working together with microfinance institutions, Cadmus designed a new individual-based loan product that used the land use right (i.e., the produce of the land) as collateral. More specifically, Cadmus provided technical assistance to microfinance institutions to adopt and adapt the new product and facilitated the institutional framework for the pilot implementation. Cadmus did not provide any capital for on-lending. The pilots proved successful, demonstrating the product's feasibility, profitability, and strong demand, paving the way for subsequent scaling up.

Intervention 2. Strengthen the capacity of microfinance institutions and the Association of Ethiopian Microfinance Institutions (AEMFI) so they could independently expand the outreach of the product. To address capacity constraints within microfinance institutions that hindered the potential scale-up of the new loan product, Cadmus enhanced

The new loan product linked to the geo-referenced land certificates

The new loan product was disbursed according to the needs, business plan and creditworthiness of the individual borrowers, which offered greater flexibility than loans issued via group schemes. Its flexibility allowed microfinance institutions to adapt the product in line with their clients' needs and institute different loan ceilings and loan periods, amongst others. Following subsequent learnings, microfinance institutions have continued to refine the product. For example, two years into disbursing the new loan product, the Amhara Credit and Saving Institution (ACSI), the largest microfinance organisation 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; and reduced the average annual interest rate from 19% to 17%.

2 In Ethiopia the land is owned by the government and farmers are given an indefinite "right of use" for their land as long as it is being farmed.

3 The LIFT programme was implemented by DAI in partnership with Cadmus and NIRAS. DAI led the certification and land administration components, while Cadmus led the implementation of the market systems component.

the capabilities for both microfinance institutions and AEMFI. This involved building capacity in areas such as internal cost benefit analysis (to better understand the costs and revenue generated by the new product), business plan appraisal (to improve their understanding of the business undertakings of smallholder farmers), and default management (to better manage defaults of the new loan product).

Intervention 3. Support the creation of a conducive land policy framework for the roll out of the new loan product.[4] In parallel to the pilot implementation, Cadmus initiated efforts to reform the existing land policy framework. This required ongoing engagement with stakeholders and policymakers through meetings and workshops, leveraging opinion champions to influence change, and utilizing strong monitoring and evaluation processes to produce evidence-based research and learning notes.

Accomplishments by the End of the Programme

Early on, the demand for the individual loan product was very high, as farmers recognized its adaptability to their specific needs regarding size, repayment terms, and appetite for risk. This resulted in a significant uptake of the new product, although capital constraints within microfinance institutions limited its outreach. By the end of the LIFT programme in June 2021, **eight microfinance institutions had disbursed 22,719 loans with a total loan value of ETB 720.7 million ($5.8m) in three regions of Ethiopia.**[5]

These figures, however, do not fully encapsulate the significant transformational change achieved. A closer examination of the impact[6] showed that:

- **The new loan product significantly increased financial inclusion of rural farmers,** 86% of borrowers having never accessed credit before, whether formal or informal. Those who had previously obtained credit could only access group loans, which were significantly smaller (averaging one-third of current loan sizes) and offered limited repayment flexibility.
- **Rural small landholders invested in productive activities beyond their household investments in crops, livestock, and non-farm activities.** In fact, 95% of loan borrowers utilized the funds for

LIFT Project Completion Report, 2021

4 *A detailed case study that explains how we achieved policy change in the access to finance market can be found at [Achieving policy change in Ethiopia through a market systems approach (beamexchange.org)]*

5 *The portfolio at risk was 2.0% in December 2019 but it increased to 3.66% in March 2021 due to political unrest and the COVID-19 pandemic.*

6 *Impact results have been obtained from LIFT's Economic Empowerment Impact Survey undertaken in 2019 and 2020.*

productive activities they would not have financed using their own resources. Additionally, repeat loans were larger, further boosting investments in productive activities.

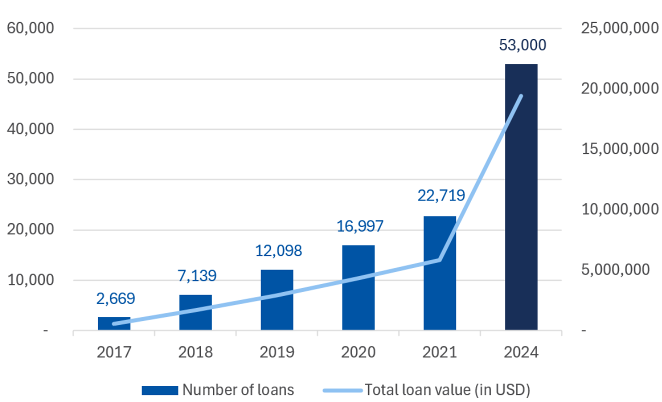
- **There was high demand for the new loan product, with high satisfaction and a sense of empowerment, particularly among women.** 85% of borrowers who repaid their first loan applied for a second loan, showing high demand and sustainability of the loan product. Furthermore, 88% of female borrowers reported increased participation in household finance decisions due to the new loan product.

- **Additional investments significantly boosted productivity, allowing farmers to repay the loan in full and make a sizeable profit.** Borrowers invested in more and higher quality cropping inputs, diversification to high-value crops, and building commercial assets. This allowed borrowers to make a sizeable profit after repaying the loan in full including interest. Timely repayment also allowed borrowers to build up a positive credit rating and take out larger second or third loans.

Three Years Later: Evidence of Systemic Change

A paper presented at the 2024 World Bank Land Conference by Hailu Kassaye[7] reveals that as of 2024, the new loan product has expanded to 15 microfinance institutions, which have disbursed 53,000 loans with a total loan value of ETB 2.4 billion ($19.4m) (see figure 1).

Figure 1. Sustained growth of the new loan product



This expansion indicates:

- The eight microfinance institutions supported by LIFT have continued to provide credit using the new loan product and have increased the number of branches offering it.

- Seven additional microfinance institutions have adopted the individual loan product.

- On average, around 10,000 new farmers gain access transformational loans each year.

These behavioral changes among market actors have coincided with significant transformations in Ethiopia's land policy framework. In October 2017, the Amhara regional government enacted the revised *Rural Land Administration and Use Determination Proclamation No. 252/2017*, which for the first time explicitly permitted farmers to use their land use rights or agricultural products as collateral for credit. In 2018, the Benishangul Gumuz Regional State also approved *Rural Land Administration and Utilization Proclamation No. 152/2018*, also allowing land use rights as collateral for credit. In 2019, the National Bank of Ethiopia enacted *Movable Property Security Right Proclamation No. 1147/2019*, which allowed a landholder's use right (i.e. the produce of the land) to be presented as collateral to access credit. Similar provisions have also been included in the draft federal and regional proclamations of Oromia, Tigray and Southern Nations, Nationalities, and Peoples' Region , which are pending final ratification.

Using the Adapt-Adopt-Expand-Respond (AAER) framework,[8] Cadmus can also assess the level of systemic change achieved by LIFT.

- **Adopt:** Microfinance institutions (MFIs) understand the new loan product and roll it out in selected number of woredas (districts)/branches, with LIFT support.

- **Adapt:** MFIs modify the loan product to better meet customer needs, investing their own resources to expand its rollout to new woredas/branches, independent of LIFT support.

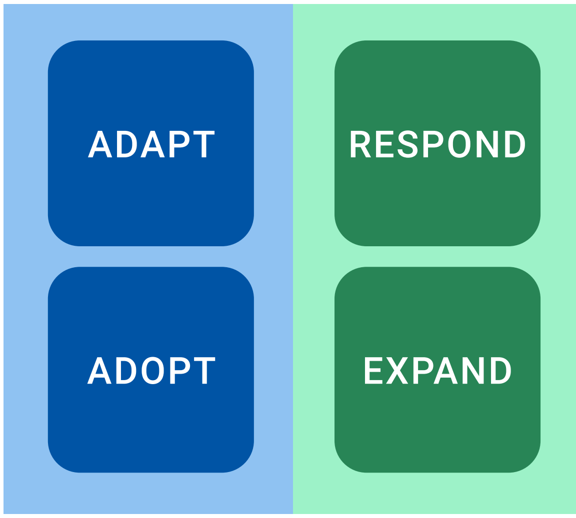
- **Expand:** New MFIs begin to offer the loan product, tailored to individual needs in both LIFT and non-LIFT areas.

- **Respond:** Other financial institutions offer the loan product, and a suitable legal framework for the collateralization of land use rights is established.

7 *Hailu Kassaye, Rahel (2024) "Developing rural land registration incentive and benefit mechanism and improving urban cadastre in Ethiopia". Paper presented in the 2024 World Bank Land Conference.*

8 *Nippard, D., R. Hitchins and D. Elliot (2014) "Adopt-Adapt-Expand-Respond: a framework for managing and measuring systemic change processes". Briefing paper from The Springfield Centre for Business in Development.*

Figure 2. The application of the AAER framework confirms that LIFT's interventions have generated large scale, sustainable change in the financial services sector, disproportionately benefitting the poor.



Adopt-Adapt-Expand-Respond: a framework for managing and measuring systemic change processes, Briefing Paper, The Springfield Centre, Daniel Nippard, Rob Hitchins and David Elliott The Springfield Centre for Business in Development, March 2014

This irreversible transformation process was confirmed by the Government of Ethiopia. Ahead of the May 2021 elections, Mr. Eyob Tekalign, State Minister of Fiscal Policy and Public Finance at the Ministry of Finance stated that:

> *"The country's policy has been against agriculture for a long time. In the past there was no way our finance institutions could finance agriculture for lack of collateral. The new proclamation allows movable properties to serve as collateral thus helping banks to provide loan to farmers and bring about revolution."*

The new loan product has empowered rural small landholders to collateralize their land use right land for the first time in Ethiopia's history. This innovation has granted many access to credit products, allowing them to make more transformative investments to increase productivity and income. As the number and size of loans increase, investments will become increasingly transformational, enabling borrowers to transition from subsistence farming to more productive, commercial farming and contribute to the growth of the non-farm economy. These changes are poised to catalyze the transformation of Ethiopia's agricultural sector.