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From land tenure security to financial inclusion

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Land tenure insecurity is a widespread problem in developing countries, where the majority of households are smallholders and depend on subsistence agriculture. We have been looking at ways to stimulate farmers to invest in their land.

You may be aware of the vicious circle: because there's uncertainty around tenure, farmers don't invest in their land, which leads to low productivity and vulnerability to shocks.

This is why donors such as DFID, USAID and the World Bank, along with partner country Governments, are investing in increasing the farmers' security of land tenure through land registration initiatives.

In Ethiopia, DFID and the Government of Ethiopia have gone a step further. Beyond providing second level land certification (SLLC), the DAI-led Land Investment for Transformation (LIFT) programme stimulates farmers to invest in their land through a market systems development component implemented by Nathan Associates.

Several factors constrain farmers' capacity to invest in their land. These range from the unavailability of inputs or services, such as improved seeds, fertilisers or irrigation equipment, to a lack of access to credit. This is why at Nathan we work in three main intervention areas:

- **agriculture**, where we promote access to and the availability of clean inputs
- **land rental**, where vulnerable groups can get better prices thanks to the SLLC

- **access to finance**, where we’re piloting interventions around innovative loan and insurance products

This case study provides a detailed analysis of LIFT’s access to credit intervention. In a context where only 20 per cent of farmers can access finance but where the MFI sector is strong, the programme focused on increasing MFI capacity to serve the needs of smallholders.

Key findings from our field work include:

1. **Understanding the root of the problem**
   A superficial understanding of the reasons why MFIs didn’t serve the needs of smallholder farmers would have led to addressing an evident symptom (such as lack of liquidity), rather than focusing on a root cause: MFIs hadn’t created an individual loan product because smallholders’ did not have collateral.
2. **Adopting a bottom-up approach**
   When we worked with our partner MFIs to develop the SLLC-linked loan product, we worked with them at all levels of their structure. We assisted them in the development of the product and they perceive LIFT team members as members of their own teams.
3. **Involving stakeholders**
   It was essential for the success of the initiative to involve regional and national Government counterparts: this is how we developed the innovative solution of using the produce of the land as a guarantee for the loan.

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. We are now exploring ways of scaling up the success of this initiative, with a focus on improving the policy and enabling environment.

If you have similar experiences that you’d like to share, we’d love to hear from you.

- LIFT: Land Investment for Transformation programme profile
- Case study: Leveraging improved land security to improve access to credit