CASE STUDY

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Achieving policy change in Ethiopia through a market systems approach

PREPARED BY:

Ignacio Fiestas | Nathan Associates

Henok Begashaw | Nathan Associates

The Land Investment for Transformation (LIFT) programme pioneers a unique and innovative strategy that applies a market systems approach to land certification. Funded by UK Aid, LIFT supports the Government of Ethiopia to print and distribute 14 million second-level land certificates (SLLCs) and streamlines the processes and procedures of the government's land administration system (including the development of a digital land registry database). This has improved the security of tenure of over 6.5 million farmers.[1]

To accelerate and maximise the productivity and income benefits of these land system interventions, LIFT has used the market systems approach to identify sustainable, market-friendly solutions that allow rural landholders to further increase investment in their land.

Identifying the underlying constraint

Following the initial market assessments, it became clear that financial access remained a key constraint for smallholder farmers in rural Ethiopia. 70-80% of farmers who required credit were accessing it from moneylenders, as the only formal way to access credit was through group loans offered by microfinance institutions. These group loans were small in size (maximum ETB 15,000), had no flexibility in their repayment terms and required farmers to take on group/joint liability (thereby raising their individual risk). As a result, productivity gains in Ethiopia have been limited and investments have not delivered transformational growth.

A more in-depth analysis further showed that the underlying cause for the access to finance constraints could be found in the "rules of the game". Although most rural smallholder farmers owned a valuable asset, their land,[2] they were not able to use it to secure a bank loan or to guarantee payment of water, electricity or other infrastructure services. The regulatory environment did not allow smallholder farmers to use their land as collateral. In fact, Ethiopia's land regulatory framework only allowed investors who leased rural land to use the land as guarantee but made no reference to the ability of small rural landholders to present their land use rights as collateral.[3] As a result, the working assumption in the country was that small rural landholders were not allowed to collateralise their land.

1 These numbers are estimations as of September 2020.

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 Federal Rural Land Administration and Use Proclamation #456/2005 – Section 8 – Transfer of Rural Land Use Right – Subsection 4: "An investor who has leased rural land may present his use right as collateral."

Recognising the opportunity for change

Beginning with Tigray in 1998, the Government of Ethiopia embarked on a rural land registration programme to increase the tenure security and certify the long-term use rights of rural households. Followed by Amhara in 2002 and Oromia and the Southern Nations Nationalities and Peoples (SNNP) regions in 2004, Ethiopia's first level land certification program has been hailed as one of the more successful and cost effective land registration programs in Africa and elsewhere.[4]

Although this was a very important step towards strengthening the tenure security of rural households, the reality was that first level land certification programme presented some important shortcomings:

- It did not map individual plots or provided the level of spatial detail documenting boundaries that would allow for the development of cadastral maps for improved land use management and administration.
- It was not accompanied by computerised land registries, which generated many challenges to manage and update registration records. As a result, the cadastre soon became obsolete, reducing the ability to trust land certificates.

LIFT´s roll-out of second level land certification in the four highland regions of Ethiopia and the digitalisation of the land registry provided the required level of confidence and security in land certificates. This "piece of paper" could now be trusted; it clearly bore the name and photograph of the landholder(s), and it detailed the GIS coordinates, boundaries, size, type and use of the land. In addition, the interim woreda land administration information system (IWORLAIS) allowed for registration of all land-related transactions, which translated into land certificates being updated and accurate at all times, despite changes in the right of use (due to inheritance, gifting or divorce).

Using a pilot to showcase the potential of the proposed solution

The SLLC innovation incentivised LIFT to partner with some of the most progressive rural microfinance institutions and pilot a new product using the SLLC as a form of guarantee. The SLLC could allow microfinance institutions to offer individual loan products that could be better tailored to the needs of rural landholder farmers.

The new loan product was designed to use the land use right or produce of the land as collateral, rather than the actual land itself. In addition, in the event of default it allowed lenders to secure temporary use rights of the land (only until the outstanding value was recovered and for a maximum of three years). These technicalities allowed the programme to engage with the regional land administration offices and to secure their buy-in for a pilot intervention in partnership with microfinance institutions. The goal was to implement a one-year pilot to test the impact of the SLLC-based individual loan on the livelihoods and incomes of farmers.

In addition, this new approach offered the chance for microfinance institutions to increase loan sizes, establish different payment terms and eliminate the need to rely on group liability. The loan product was disbursed on an individual basis, according to the needs, business plan and creditworthiness of the individual borrowers, which offered greater flexibility than loans issued via group schemes.

From early on, demand for the individual loan product was very high, as many farmers saw that it could be tailored to their specific needs in terms of size, repayment terms and appetite for risk. It allowed them to invest adequately in their on-farm and off-farm productive activities (e.g. buying improved inputs, hiring labour for harvesting, fattening their animals), improve their productivity and increase their incomes.

[4] Monchuk, D., M. Stickler and S. Fenner (2014) "USAID/Ethiopia Land Tenure Administration Program (ELTAP) and Ethiopia Land Administration Program (ELAP) - Impact Evaluation Design". USAID.

Adapting credit to the needs of farmers

The new loan product allowed for significant flexibility. For example, farmers engaged in a four-month irrigation cycle could align their instalments with that timing. Microfinance institutions also adapted the product in line with their clients' needs. Amhara Credit and Savings Institution, for example, has a loan ceiling of ETB 100,000 with a five-year loan period, while Oromia Credit and Savings Share Company has a loan celling of ETB 50,000 with a one-year loan period.

The need to address the "rules of the game"

Despite the success of the pilot, Ethiopia's regulatory framework still posed a challenge to the ability of the country, the microfinance institutions and LIFT to scale up the pilot and roll it out into all regions.

Ethiopia's land policy is founded on an equitable distribution of land to rural residents and is therefore very protective of the country's smallholder farmers. In fact, Ethiopia's *Federal Rural Land Administration and Use Proclamation No. 456/2005* significantly limits the ability of farmers to transfer their land[5] (and explicitly prohibits sales), and in the case of land rentals, imposes limits on the amount of land that can be rented out. These limits are explicitly stated in the regional land administration and use proclamations. The goal is to ensure that rural small landholders cannot be dispossessed from their land.

Following the success of the pilot, the SLLC-linked loan product started to attract greater attention from government officials and policymakers. Through different channels and at different levels of authority, a number of concerns were raised:

- The possibility of a landholder being evicted from their land (albeit on a temporary basis) in the event of default over an SLLC-linked loan.
- The fact that federal and regional proclamations continued to provide little (and inconsistent) guidance on the use of the land use right as a form of collateral.
- The absence of any financial regulations referring to the possibility of leveraging the land use right as a form of collateral.

As a result of these concerns and of the novelty of the idea, a number of government officials and policy makers started to raise questions around the legality of the SLLC-linked loan product, including officials from the National Bank of Ethiopia. In the light of these challenges, LIFT had to devise the right strategy to successfully achieve the desired change.

A strategy for change

LIFT´s strategy to achieve changes in the "rule of the game" was informed by the need to Think and Work Politically[6] and was based on six pillars:

1. **A clear vision and an understanding of what success would look like.** Very early in the implementation phase it became clear that the only way to make the new SLLC-linked loan product successful, scalable and sustainable was to amend the federal and regional proclamations to incorporate the possibility for small rural landholders to use their land use right as collateral. Despite the high risks

5 Through donation, inheritance or rental.
6 This term was originally coined by the Thinking and Working Politically Community of Practice. For further information see the TWP Community of Practice website: https://twpcommunity.org.

involved, this target was achievable thanks to the long duration of the programme (six years) and its ambition to generate real change. In addition, the clarity of the programme's objectives allowed the LIFT team to develop a coherent, clear and constant message from the start, and to constantly assess and tailor the programme's actions towards this goal.

2. **Ensure buy-in and actively engage public sector stakeholders, particularly at the middle and lowest administrative levels.** When operating in an area as sensitive as land, programmes are likely to face a number of vested interests, and some stakeholders can easily obstruct change. Ensuring that there was some level of government buy-in was therefore essential for the success of the intervention. Without question, the key partner for LIFT was the Land Administration and Use Directorate under the Ministry of Agriculture and its regional offices. These offices quickly understood the potential of the new loan product and were able to observe the interest generated at grassroots level. The strong partnership and degree of trust built between the directorate and LIFT reflected constant engagement, fluid communication and the ability to cooperate at different levels. For example, LIFT worked very closely with land officers at the woreda level, who played a key role by certifying the validity of land titles, and were able to observe, first-hand, the positive impact of the loans on the lives of farmers. They became strong supporters of LIFT's vision, and this permeated into other government institutions. In addition, this partnership was instrumental in understanding the thinking at other government departments and levels, and in anticipating and addressing attempts to obstruct change.

3. **Select the right partners with the right incentives.** LIFT understood that it had to work with partners with a genuine interest in testing the product, the capacity to roll it out and the political clout to influence policymakers. For this reason, LIFT partnered with Ethiopia's largest microfinance institution, Amhara Credit and Savings Institution (ACSI).[7] ACSI had the financial and technical capability to roll out the new loan product, as well as influence in the political sphere. Thanks to ACSI's buy-in and full endorsement of the product, LIFT was later able to establish partnerships with other microfinance institutions in the country, including private, NGO and government-affiliated institutions.

4. **Identify and engage champions of change.** As the pilot intervention was being implemented, LIFT was able to identify and engage key figures within the Ethiopian ecosystem who understood the pilot intervention and its positive impact at farmer level. Importantly, they also shared the vision that allowing farmers to collateralise their land use right in order to access finance was key to transforming Ethiopia's agricultural landscape. They became real advocates

[7] LIFT actually reached out to all microfinance institutions in the four highland regions, but ACSI was the first one to respond and express strong interest. Partnerships were subsequently established with seven other microfinance institutions.

of LIFT's work and were able to influence sceptics in the political sphere. These champions of change included, for example, the CEO of ACSI, the director of financial inclusion of the National Bank of Ethiopia, and the head of the Land Administration and Use Directorate. Their role in sharing their views and experiences with decision-makers and policymakers was another key pillar for achieving change.

5. **Apply a methodical and adaptive approach.** Amending a proclamation in Ethiopia is particularly challenging as there are many layers of regulations and multiple regulatory entities involved. In this instance, it first involves regulators and institutions in both the financial and the land sectors. Then, any changes in proclamations require ratification by the regional or federal legislative bodies. Further complexity was added by the period of political instability and change the country was going through while LIFT was being implemented. This required LIFT to keep track of people we had engaged with; to re-engage with new appointees and bring them up to speed; to re-adjust the approach depending on interlocutors; and to organise workshops with representatives of all the different levels of government (including regional, woreda and zonal) to ensure they were all aware of progress and felt like part of the process.

6. **Generate strong, credible evidence and communicate results widely.** LIFT's ability to generate sound and reliable evidence of the impact of the pilot on smallholder farmers (including the vulnerable), and to communicate successes and failures, significantly increased the credibility and reputation of the programme. LIFT collected both qualitative data (including quarterly rapid assessments and detailed case studies of individual farmers) and quantitative data (including weekly loan data from the microfinance institutions and a detailed impact survey) to gain insight into how the product performed for farmers, areas for improvement, and expected and unexpected impacts. All data was collected, analysed and reported to all the key stakeholders (including champions of change) to keep them abreast of progress. Regular interactions and frequency of the feedback also helped develop a sense of ownership from all key stakeholders. This included the farmers themselves, who were able to provide feedback during workshops with microfinance institutions, Government of Ethiopia officials and National Bank of Ethiopia officials.

Achieving impact and broadening systemic change

LIFT's strategy proved successful when, in October 2017, a revised *Rural Land Administration and Use Determination Proclamation of the Amhara National Regional State No. 252/2017* was enacted. The revised proclamation explicitly permitted farmers to present their land use right or SLLC as a form of collateral for accessing credit. This proclamation provided a solid legal basis for the scale-up and outreach of the SLLC-linked loan product in Amhara and paved the way for change in the other regions.

The revised proclamation in Amhara reverberated throughout the country. Although other regions have not been able follow suit so far, the push made in Amhara caused a chain reaction. In the three years following ratification of the proclamation, the regional land institutions of Oromia, Tigray and SNNPR began discussions around the revisions needed in their own proclamations. LIFT continued to implement its strategy towards systemic change, including facilitating a series of workshops of technical groups and other government administrative structures, to share information about the SLLC-linked loan product and its impact on landholders who accessed credit. At present, the draft proclamations of Oromia, Tigray and SNNPR include an article that accepts the use of the land use right or SLLC as a form of collateral. They are all still awaiting ratification.

The effect of Amhara's revised proclamation also generated interest and changes outside of LIFT's four regions. In 2018, following a number of consultations and familiarisation visits, Benishangul Gumuz Regional State approved a new *Rural Land Administration and Utilization Proclamation No. 152/2018*. The revised proclamation now allows for the use of land rights as collateral.[8]

The policy change in Amhara not only influenced the regions, but also put pressure on the federal land institutions, on the National Bank of Ethiopia and on policymakers in general to act on this issue. In August 2019, the National Bank of Ethiopia enacted *Movable Property Security Right Proclamation No. 1147/2019*, which allowed a landholder's use right or the produce of the land to be presented as collateral to access credit. Although this proclamation does not override

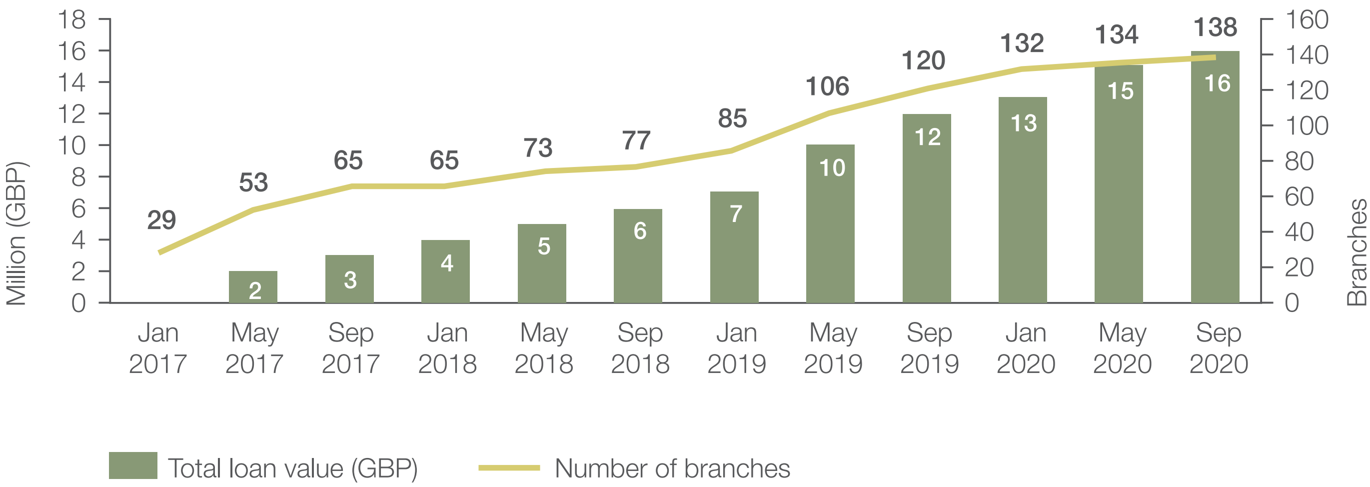

Figure 1. SLLC-linked loan growth

[8] Note that there is an error in the proclamation's English translation. The Amharic version clearly states the ability of small rural landholders to present their land use rights as collateral.

the existing land proclamations of the regions, it has helped push the agenda forward within the financial sector and brought the issue to national attention, with the primary financial regulator taking a strong stance. At the federal level, LIFT, in collaboration with the Rural Land Administration and Use Directorate, has continued to advocate for the introduction of an article allowing collateralisation of the land use right or SLLC. At present, the federal draft proclamation also includes such a clause. The draft proclamation is now on the legislative channel, and is currently with the Council of Ministers, which is responsible for sending the draft for parliamentary approval.

Lessons learned

LIFT´s success in changing the legal framework of a country as complex as Ethiopia generates some valuable lessons for MSD programming in the future. These are:

1. **Ground a pilot design in contextual realities**, based on what is politically feasible at the time and technically sound. LIFT started small, with a pilot that just aimed to test a new product and assess its impact on farmers. This approach allowed the programme to get through the initial hurdles and to get around any vested interests. More importantly, the pilot allowed LIFT to generate a body of evidence that demonstrated a significant and positive impact on smallholder farmers, which thereby generated, in an organic way, the demand for policy change.

2. **Facilitate and convene strong partnerships** with the federal and regional land administration and use bureaus, microfinance institutions and the national bank. The building of these partnerships was instrumental in generating the required level of confidence in the activities of the programme (and in particular the launch of the initial pilot) and guaranteeing the right level of advocacy support to overcome vested interests.

3. **Align the incentives of the private sector with programme objectives**. When engaging with microfinance institutions, it soon became very clear that they also had a very strong incentive to develop the new loan product and ensure it was supported by Ethiopia's policy framework. The new product filled a gap in their portfolio of products, offered good financial returns and enjoyed strong demand. This aligned their incentives to LIFT's, and opened another route of pressure for policy change, through their interactions with their regulatory body.

4. **Adopt a "thinking and working politically" approach.** LIFT had to be continuously aware of the political implications of all its actions and interventions, and at the same time to involve and engage the government in the implementation of the intervention. From very early on, the programme understood the need to involve government at all its different levels, in particular the lowest administrative structures, and the importance of providing them with regular evidence on the successes and challenges encountered, in order to build ownership of the intervention.

5. **Gather credible evidence and clearly communicate successes and challenges**. LIFT's strong monitoring and evaluation systems (both qualitative and quantitative) provided strong evidence of the impact, both positive and negative, of the SLLC-linked loan product. Sharing this information widely and discussing it with all stakeholders allowed the programme to find the right solutions to the challenges that were being created. More importantly, it allowed LIFT to be considered a trusted and honest broker, allowing the programme to gradually progress towards higher-level outcomes.

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Email: LIFTinfo@liftethiopia.com | **Web:** liftethiopia.com

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