

## Executive Summary

In 2016, the Nuru Ethiopia Financial Inclusion Program provided strong economic opportunities to Nuru households by increasing cash savings behavior, formal financial institution enrollment, and had a strong IGA loan repayment rate that only declined due to poor agricultural rains in the last quarter of the year.

- 80% of Nuru women savers are holding their savings in cash, rather than depreciating assets like livestock. Only 61% of the comparison cohort keep their savings in cash.
- 88% of Nuru women savers are members of formal financial institutions and are securing their savings with those entities.
- 57% of the loans taken by Nuru women savers in 2016 were from formal institutions, in contrast to only 12% of the loans taken for the comparison cohort. This ensures Nuru women savers are building credit and trust directly with financial institutions or other formal entities in Ethiopia.
- Nuru women savers repaid 90% of the IGA loans issued in 2016 by NE through Nuru sponsored farmer cooperatives.

In order to better understand the needs of Nuru households NE included survey questions in 2016 that gathered data on the types of economic shocks farmers face and the costs they incur when those emergencies manifest. For example, both the comparison and Nuru women savers and their households experienced financial shocks from physical injury and crop loss most frequently, while death (\$129) and farm inputs (\$50) were the most expensive emergencies experienced.

Two important contextual lenses that should be acknowledged when reading this impact report are: 1) In 2015, Ethiopia faced one of the most severe and widespread droughts in 50 years, at its height encompassing more than 10.8 million people and in 2016 households were still rebounding from that drought; 2) the 2016 season was characterized by late and lower than normal rainfall and unusually high temperatures for smallholder farmers in southern Ethiopia. International institutions like the United Nations and World Food Programme have declared multiple humanitarian crises in 2016 that include Gamo Gofa Zone and most of SNNPR.<sup>12</sup>

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<sup>1</sup> World Food Programme Ethiopia, "Situation Report #10", September 1, 2016. <http://reliefweb.int/sites/reliefweb.int/files/resources/WFP%20Ethiopia%20Drought%20Emergency%20Situation%20Report%20%20310%20-%20201%20September%202016.pdf>

<sup>2</sup> Other WFP Situation Reports, 2016 and 2017. <https://www.wfp.org/Situation-Reports/Ethiopia>

# Introduction

The Nuru Ethiopia (NE) Financial Inclusion (FI) Program was launched in November 2014 in Boreda woreda, Southern Nation Nationalities and Peoples Region (SNNPR). During 2016, the program operated in Meteka Mele, Dubana Bulo, Hambisa, Mesa Buntaza, Gurame Wolko, Weyde Mulato, and Zefine Menuka *kebeles* and served 784 Nuru families. The goal of FI is to improve the community's ability to cope with economic shocks by increasing income, increasing access to and use of community-based financial services and improving financial literacy.

# Objective

This report is the impact assessment for NE FI's second year of implementation in 2016. This report relies on individual level data on savings and loans behavior, access to financial services and coping with shocks. The available evaluation and monitoring data were used to generate recommendations for the program.

Nuru M&E supports this work by conducting an annual assessment towards the evaluation question: *What is the impact of the Nuru Ethiopia Financial Inclusion Program?*

# Methodology

NE M&E administers an annual household survey of Nuru families (intervention) and non-Nuru families (comparison) to evaluate the impact of NE FI. The first baseline survey was administered to 228 Nuru families and 462 randomly selected non-Nuru families in November 2014. NE FI also collects monitoring data to track the changes in savings and loan behavior. This report uses both evaluation and monitoring data to provide a brief analysis of the impact of NE FI on participating families in relation to non-intervention groups in four core areas:

1. Savings behavior and access to financial services
2. Coping with Shocks
3. Loan behavior
4. Income generating activities (IGA)

Table 1: Survey timeline and sample sizes

Sample	# of Savers	# of Enumerators	Training Dates	Survey collection dates	Data entry and quality control
Nuru	347	35	Sept 2016	Oct - Dec 2016	Oct - Dec 2016
Non-Nuru	365				

Upon last year’s recommendations, the M&E team updated and refined the survey to get a better understanding of how farmers save and deploy their loans. While the latest questions have the same intent as previous surveys, they were adjusted to be more specific or provide more probing questions and options for respondents. As a result, indicators like savings in cash will see a steeper uptick as respondents have multiple opportunities to answer in the affirmative.

## Monitoring

In addition to yearly impact evaluations, the Financial Inclusion team collects monitoring data throughout the year (Table 2). While evaluations focus on a sample of farmers, program teams monitor the entire Nuru farmer population. The monitoring data provide information on consistency of savings and loans taking and using behavior.

Key takeaways:

- Number of savers and the total cumulative deposits did not meet their targets.
- Despite the fact that savers’ average deposit amounts often exceeded the target, it was not enough to increase the total cumulative deposits to meet target.
- The average loan size is much higher than the target.
- IGA loan repayment either met or exceeded the target for three quarters of 2016, but dropped off in Q4 due to poor harvests in southern Ethiopia resulting from poor rains in 2016.

Table 2: 2016 Financial Inclusion Quarterly Data

Financial Inclusion					
Indicator	Target	2016 Q1	2016 Q2	2016 Q3	2016 Q4
# of Savers	1,068	705	715	770	786
Average deposit amount per person (USD)	\$2.29	\$2	\$4	\$4	\$3
Total deposits (USD) cumulative	\$6,619	\$886	\$2,867	\$5,513	\$7,439

Number of loans issued this year (cumulative per year)	356	90	301	615	657
Average loan size per client this quarter (USD)	\$71	\$90	\$78	\$87	\$95
Repayment rate	98%	98%	95%	100%	67%

## Results and Discussion

### Savings Behavior and Access to Financial Services

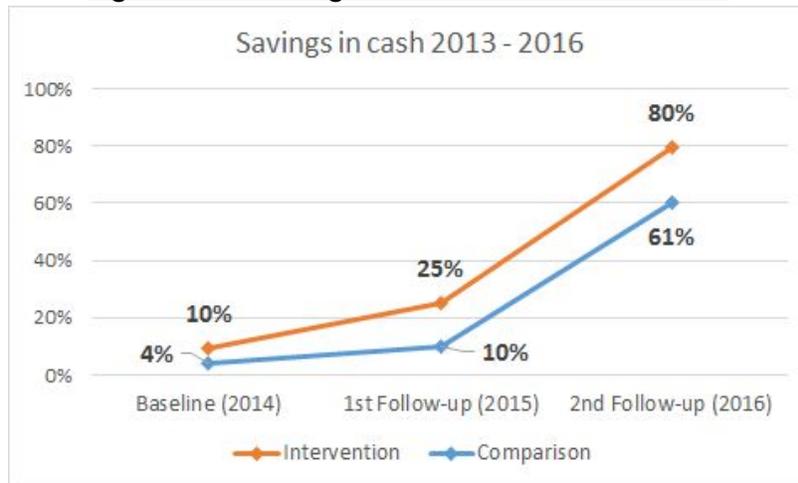
Figure 1 below shows the percentage of sampled participants, Nuru savers and comparison, who save in cash at baseline, 1st follow-up (2015), and 2nd follow-up (2016). Nuru participants save more on average than the comparison group as a result of NE’s financial inclusion interventions. 79% percent of Nuru participants saved in cash at the 2nd follow-up evaluation survey in 2016. As can be seen from Figure 1, the overall behavior of saving money as hard currency or cash is increasing amongst Nuru savers and comparison cohorts. This indicates NE FI is effective in motivating participants to save in cash.

To measure savings behavior, respondents were asked, “Do you earn or receive money?” with follow-up questions probing where they put the money. The three probing questions are:

1. Do you keep money at home?
2. Do you keep money with friends or family to hold your cash to keep it safe?
3. Do you deposit the money in any of the following types of institutions (MFI, Commercial Bank, Nuru Cooperative, Another Cooperative, Iddir, Equub, and Other)?

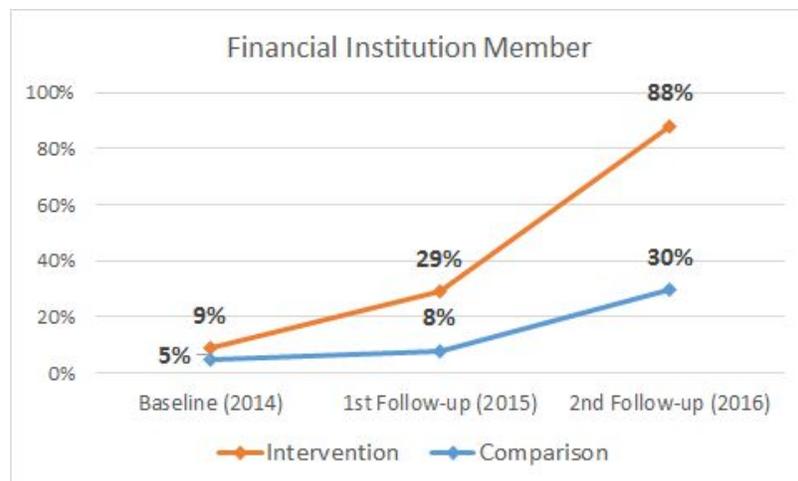
If they answered yes to any of the above questions, they were counted as saving in cash. The 2015 version of this question simply asked “Do you save in cash?” The M&E team found that farmers often counted livestock as a way of saving in cash. The intent of changing this line of questioning is to allow respondents to clearly differentiate between saving cash, or tangible currency, rather than in assets, like draft animals. Thus, the additional probing questions contributed to the sharp increase in the 2016 results.

Figure 1: Percentage of farmers who save in cash



Nuru’s interventions also encourage participants to belong to and save with formal financial institutions. Formal financial institutions are defined as associations that are legally recognized like the Commercial Bank of Ethiopia, MFIs, and cooperatives. Formal financial institutions provide greater savings security and the opportunity to build credit. Informal community institutions like iddir and equub, on the other hand, are not legally recognized and though they also provide access to loans, their security and lending habits are less reliable than formal financial institutions. The Nuru intervention and comparison groups both increased their membership to a financial institutions in 2016, however, Nuru savers were more likely to save with a formal financial institution. Membership in a formal financial institution for the Nuru intervention groups are, on average, 88% while only 30% of the comparison group are members of a formal institution.

Figure 2: Percentage of farmers who belong to formal financial institution



## Coping with Shocks

The 2016 FI evaluation data shows us that Nuru and comparison households experience emergency shocks at similar rates, 24% for Nuru households and 25% for comparison households. In Figure 3, both comparison and Nuru households experience injury and crop loss as the most frequent financial shocks, while death and farm inputs are the most expensive emergencies. Emergency shocks are annual events in remote, rural households that is why Nuru Ethiopia implements programming that equips households with resilient coping strategies - ways to bounce back after tough times and maintain their core identity.

Figure 3: Emergencies in the past year

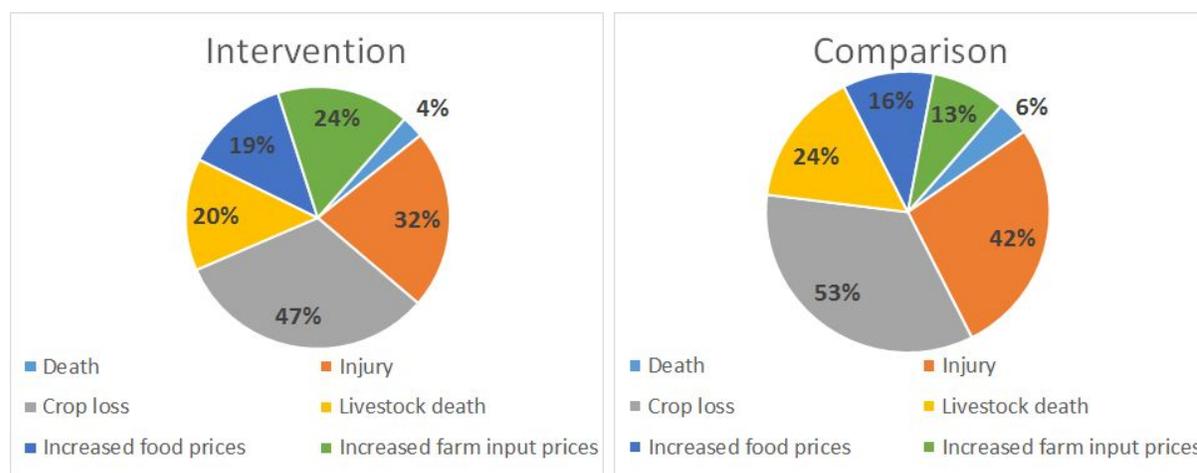


Table 3: Average cost of emergencies for all farmers

Emergency	Cost
Death	\$129
Increased farm input prices	\$50
Injury	\$44
Increased food prices	\$33
Crop loss	\$22
Livestock death	\$20

NE used survey data to calculate the average cost for the most common emergencies that are experienced by Nuru savers and comparison savers in a given year found in Table 3. This data is crucial to understanding the drivers of savings behavior and spending habits of the local community. Death is one of the most expensive emergency shocks experienced by rural Ethiopians as Table 3 displays. It is common in rural Ethiopia for households to use a specific

type of informal financial institution, called an Iddir, which is essentially a risk sharing mechanism to pay for death in the family. Efforts to formalize and strengthen the iddir have been made by the Government of Ethiopia, but iddir remain a less secure form of savings to cope with a broad range of emergencies. Only 20% of Nuru savers reported utilizing the iddir system in 2016, while 46% of comparison savers engaged in the iddir system.

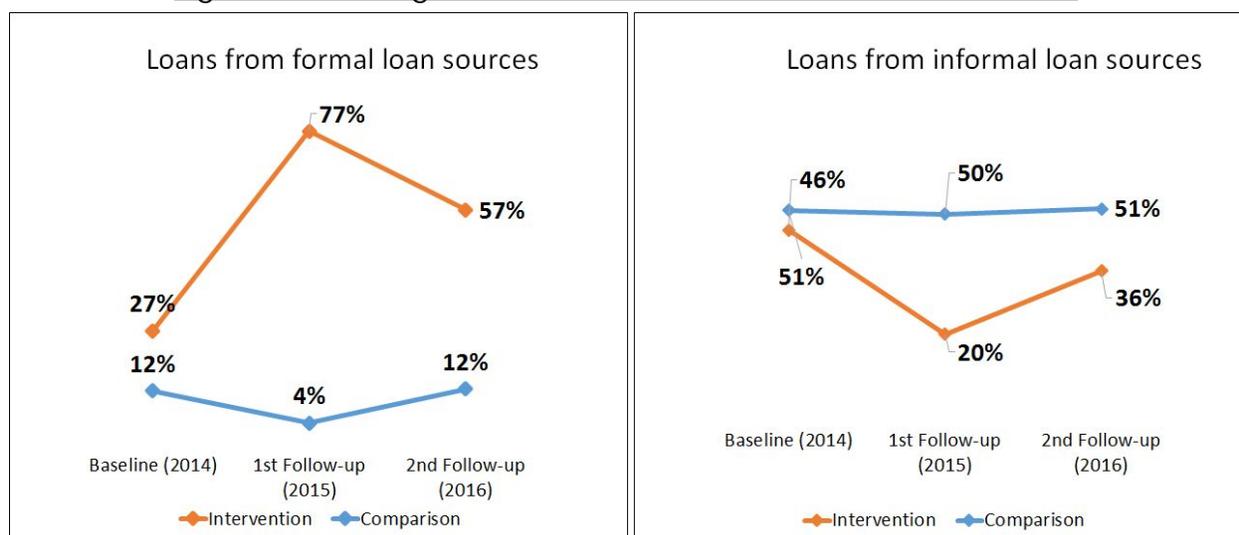
Nuru Ethiopia uses the “coping with shocks” data to help increase saving participation and motivate higher savings amounts per member. The above benchmarking effort will be used to inform training materials on the savings amount required to cover different types of shocks experienced in the communities they serve. Nuru Ethiopia has a great opportunity to set thresholds for different levels of shocks and develop locally appropriate financial instruments to cope with those shocks, such as savings for minor shocks, loans for moderate shocks, and insurance for severe shocks.

## Loans and IGAs

Overall, the data indicates that both NE treatment and comparison cohorts have taken out significantly more loans over the past 12 months. In 2015 (1st follow-up survey), the Nuru treatment cohort took 20% of their loans from family, friends or local lenders and about 77% of their loans from formal institutions (Figure 4), which indicates that NE’s financial literacy and savings trainings are having a positive impact on the financial behaviors of treatment households.

In the 2016 survey, we changed the questionnaire so that respondents could tell us about all of their loans and their multiple purposes, so NE could better adapt and link treatment cohorts to improved loan instruments that meet their local needs, like their Livelihood Diversification Loan. The 2016 survey changes are in contrast to the previous questionnaire, which only allowed the respondent to talk about one loan and one purpose. After those changes were consolidated, we can see below that the NE treatment still took 57% of their loans from formal institutions, and an increasing number of loans from informal sources. As discussed in “Coping with Shocks”, Nuru treatment and comparison cohorts experience more than one shock per year, which at times requires taking loans from informal local institutions like an iddir for an unexpected family death. Nuru impact data strongly implies that loans from family and friends are typically used for the emergency expenses, like unexpected deaths, codified in Table 3 and Figure 3 above.

Figure 4: Percentage of loans from formal sources vs informal sources

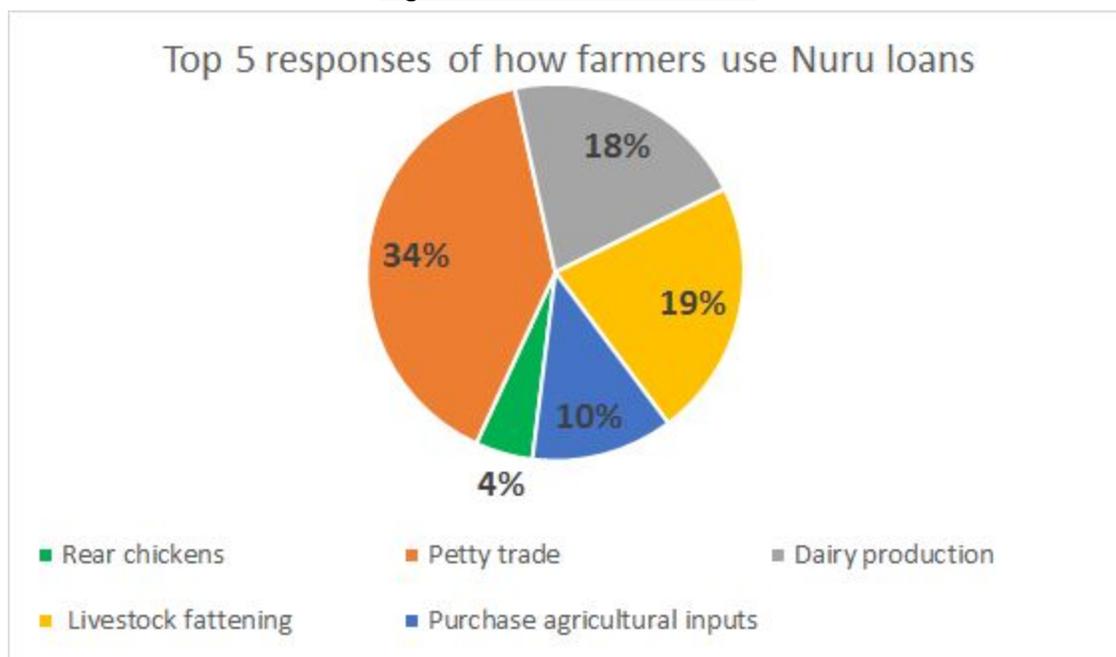


NE IGA loans are designed to increase income generation through on-farm and off-farm rural activities, not to cope with emergency shocks. The NE Financial Inclusion Program provides savings trainings to better arm households against emergency shocks. Moreover, the NE monitoring data indicates that there continues to be high demand for IGA loans. With over 615 IGA loans issued in 2016, the demand exceeded the annual target of 356. In order to qualify for an IGA loan, members are expected to accrue savings for a continuous period of three months and have saved at least 10% of the loan amount they are applying for. IGA loans are released in three-month periods and can only be taken again after the previous loan is repaid. These conditions protect the integrity of the loan program and protect members from the burden of over-indebtedness. The 2016 average IGA loan repayment rate was 90%.

Figure 5 displays the most common types of activities employed by Nuru women savers with NE IGA loans. NE found that the biggest use of loans were for the petty trading of rural products (34%), followed by livestock fattening (19%) and dairy production (18%). The purchase of agricultural inputs for crop diversification or on-farm value addition (10%) and chicken rearing (4%) were also common activities. Respondents were allowed to give up to 3 uses. This information is used by NE to help inform the creation of new livelihood diversification loans that meet the interests and needs of Nuru women savers and their households.

The top five activities in Figure 5 represent 85% of total survey responses. The other 15% of responses included ceremonial expenses, school fees, household items, food, and emergencies. However, because the Nuru IGA loan is intended to generate revenue for loan repayment to NE and household profit for savings in cash, Nuru discourages the more marginal uses of Nuru loans amongst it's treatment cohorts.

Figure 5: Uses of Nuru Loans



## Conclusion and Recommendations

In 2016, NE FI's program saw positive upward trends in savings behaviors. Savings in cash was a behavior that did not exist before Nuru Ethiopia's interventions and the Financial Inclusion Program is successfully building the legitimacy of the Nuru supported farmer cooperatives that administer NE financed IGA loans. Moreover, the growing participation in formal financial institutions of Nuru women savers is a clear indication that the Financial Inclusion Program has set a strong foundation for Ethiopian communities to drive their own economic growth.

Nuru Ethiopia is committed to making the difficult decisions based on the best available data. To this end, the first annual program review was convened in 2017. The Program Review team analyzed the results of this report together with monitoring data, and identified the following shifts in their Financial Inclusion Program:

1. *Leverage livelihood diversification loans:* In 2017, Nuru Ethiopia piloted a new type of IGA loan product, based on the demand of women savers, that is formally tied to animal fattening and best practices training. To qualify for this loan Nuru women savers must be actively saving on a monthly basis.
  - a. This "Livelihood Diversification Loan" allows Nuru farmers to diversify their production systems by purchasing goats and sheep on loan, while learning improved feed production, animal husbandry and fattening techniques, and

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marketing strategies to achieve higher income generation. Nuru Ethiopia is piloting the Livelihood Diversification Loan in 2017 with plans to expand to new animals and kebeles in 2018.

2. *Set thresholds for shocks:* Update savings and financial literacy training materials to reflect the “real cost” of emergency shocks experienced by Nuru savers, and set thresholds for high, medium, and low cost shocks and further develop financial instruments appropriate for coping with those shocks (2018-19).