



2015 Nuru Ethiopia Financial Inclusion Program Impact Assessment

October 2016

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Executive Summary

Nuru Ethiopia (NE) achieved impact in the inaugural year of its Financial Inclusion Program (FI) implementation in 2015. NE FI invites female members of Nuru farmer households to become savers, and NE FI savers totaled 289 members in Boreda woreda, Southern Nation Nationalities and Peoples Region (SNNPR).

Ultimately, NE FI seeks to improve the community's ability to cope with economic shocks by increasing income, increase access to and use of community-based financial services and improve financial literacy and numeracy skills management practices.

2015 successes included an expansive increase in household access to financial services through the formal mechanism of cooperatives, as well as increased savings perceptions and habits and 100 percent repayment on income generating activity (IGA) loans issued. While these tenets provide a strong foundation, there are still substantial gains for NE FI to make in regards to achieving its program goal.

Key findings of this report:

1. **Build consistent savings behavior.** The core of FI is about changing perceptions around savings as well as building savings habits. Evaluating the program from these angles, the building blocks are in place; the savings platform is in order; and savers took IGA loans and paid them back 100 percent. These are impressive results for a start-up program. But there is a need for improvement in building consistent savings behavior and maintaining active participation among Nuru savers.
2. **Increase saver participation.** NE FI should devise strategies to increase participation among savers by using different incentive mechanisms, improving service delivery and creating confidence in the program. Conducting a barrier analysis could be a practical tool to analyze which factors help or inhibit consistent savings behavior.
3. **Offer financial education.** Average saving deposits per member are too low to achieve meaningful impact. Financial education may help teach savers about the importance of saving and effective financial planning.
4. **Encourage cooperatives to loan member savings.** Most savers turn to family, friends, local money lenders or Iddir² for urgent financial needs and emergencies. Such loans are often either unavailable or too expensive for savers to repay. In the absence of sustainable financial services, participants tend to liquidate productive assets, rent land or migrate to other places. NE FI should encourage cooperative leaders to have groups

² Iddir is a local social insurance institution.

2015 Nuru Ethiopia Financial Inclusion Program Impact Assessment

loan out their accumulated member savings to each other through a simple and effective lending structure.

5. **Help savers invest wisely.** Most IGA loans are used for livestock. There is no proof that livestock is a profitable business venture in Boreda woreda. NE FI should track the revenue and cost of the livestock business and provide technical support so participants get the most out of their IGA investments.
6. **Revise M&E survey methods.** The monitoring and evaluation (M&E) survey methods must be revised to make the questions and indicators more pointed and useful for data-based decision-making.
7. **Improve data quality.** Data quality has been an issue throughout this assessment. Therefore, data enumerators and data entry clerks should be trained properly. NE M&E is advised to work closely with NE FI during survey, data entry and analysis to ask for clarification and establish a common understanding on terminologies and technical questions.

2015 Nuru Ethiopia Financial Inclusion Program Impact Assessment

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 2015, the program operated in Meteka Mele, Dubana Bulo and Hambisa *kebeles* and served 289 Nuru families. The goal of FI is to improve the community's ability to cope with economic shocks by increasing income, increase access to and use of community-based financial services and improve financial literacy and numeracy skills management practices.

Any impact data in 2015 should be understood through two lenses. First, Ethiopia faced one of the most severe and widespread droughts in 50 years, at its height encompassing more than 10.8 million people. Second, 2015 was the initial year of program implementation after its co-creation. Adjusting activities, strategy, monitoring and evaluation (M&E) is an accepted part of Nuru's data-driven adaptive management.

Objective

This report is the impact assessment for NE FI's first year of implementation in 2015. The available data on savings behavior, loans and income generating activities were used to generate recommendations for the program and its monitoring and evaluation. These recommendations encompass how to increase savings frequency and amount, encourage more sustainable coping mechanisms, enhance the utility of IGA loans and refine M&E methods and processes.

Nuru M&E supports this work by conducting annual reviews of progress toward the program's impact goal to address the evaluation question: ***What is the impact of the Nuru Ethiopia Financial Inclusion Program?***

This report relies on household surveys on savings and loans behavior, access to financial services and coping with shocks. It also reinforces and corroborates findings from these surveys with monitoring data on savings and loan activities. By surveying an NE savers group (intervention group) and a group of savers not involved in the program (non-intervention/control group), the method seeks to measure the impact of NE FI.

Methodology

NE M&E administers an annual household survey of Nuru families (participants) and non-Nuru families (control group) to evaluate the impact of NE FI. The first baseline survey was

2015 Nuru Ethiopia Financial Inclusion Program Impact Assessment

administered to 228 Nuru families and 462 randomly selected non-Nuru families in November 2014.

NE M&E also collects monitoring data to track the changes in savings and loan behavior. The monitoring data provide information on consistency of savings and loans taking and using 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 three core areas:

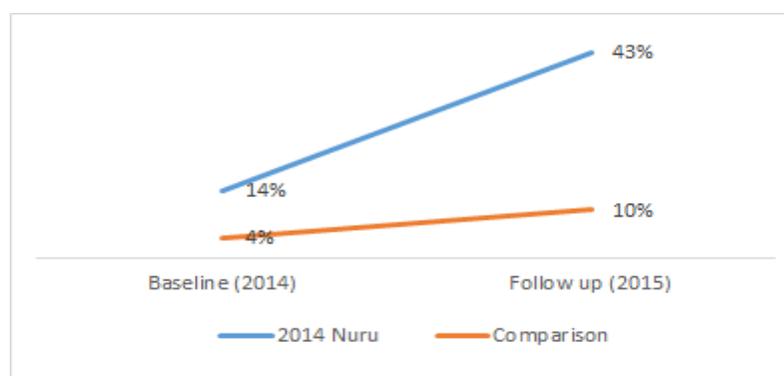
1. Savings behavior and access to financial services
2. Loan behavior
3. Income generating activities (IGA)

Results and Discussion

Savings Behavior and Access to Financial Services

To measure savings behavior, respondents were asked whether or not they had saved in cash in the last three months.² The survey tracks the self-reported savings behavior of respondents. Figure 1 below shows the percentage of sampled participants who save in cash at baseline and follow up.

Figure 1: Savings in Cash



Nuru participants save substantially more than non-participants as a result of the intervention. 43 percent of Nuru participants saved in cash at the intervention point. They experienced a net increase of 23 percent in savings behavior compared to the non-intervention group. This indicates NE FI is effective in motivating participants to save in cash.

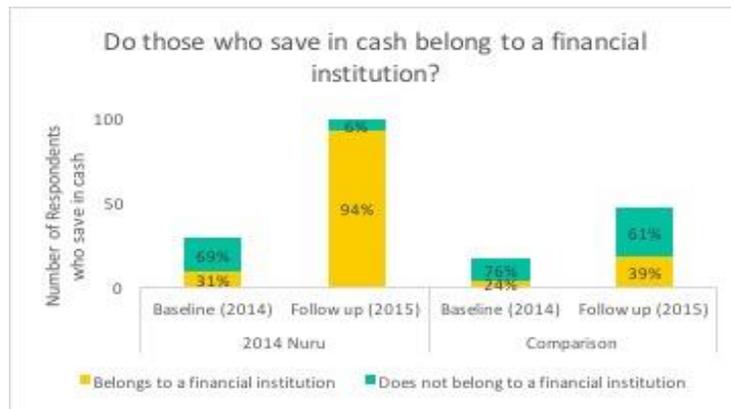
Nuru’s interventions encourage participants to belong to and save with formal financial institutions. Of those who save in cash, 31 percent of Nuru participants and 24 percent of the control group belonged to a financial institution at baseline. In the follow up, the percentage of people who belonged to financial institutions increases for both groups with 94 percent of Nuru participants and 39 percent of control groups belonging to financial institutions at follow up. Nuru savers participation in financial institutions increases substantially compared to the control group — a one year change of 55 percent.³

Figure 2: Membership to a Financial Institution

² Savings in cash is considered a proxy to savings behavior.

³ Nuru Ethiopia Financial Inclusion Program is a financial institution.

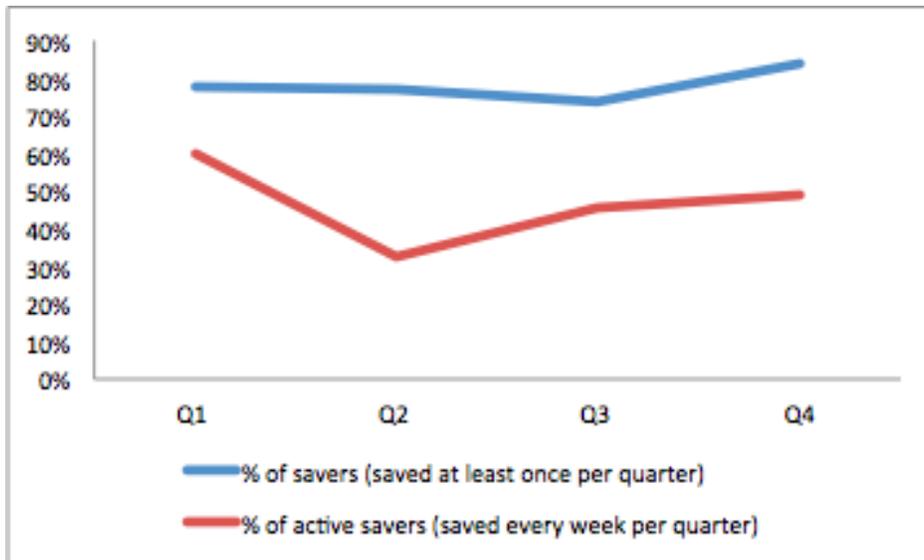
2015 Nuru Ethiopia Financial Inclusion Program Impact Assessment



2015 Nuru Ethiopia Financial Inclusion Program Impact Assessment

Figure 3 shows the savings participation trend.⁴ On average across all quarters, 78 percent of Nuru participants saved at least once a quarter with NE FI.⁵ While there was variation in savings rates across quarters, indicating there is room for improvement in savings consistency, the program generally hit its pre-established target of at least 80 percent of members saving per quarter.

Figure 3: Percentage of Savings Participation per Quarter



The percentage of savers who actively participated in savings (making savings deposits at least 12 times per quarter) was 47 percent.⁶ Quarterly trends indicated that active savings participation declined from 60 percent in Q1 to 32 percent in Q2, but rebounded to 45 percent and 49 percent in Q3 and Q4, respectively. Such quarterly variation could be a result of seasonal income variation associated with harvest and hunger seasons. Financial education on cash flow management and budgeting may help streamline consistent savings participation. NE should devise strategies to increase active participation of members to deliver greater impact to Nuru families.

Figure 4 shows that average savings deposits per member per quarter was about 78 ETB (~\$4 USD). Excluding a one-time jump from an average savings of 48 ETB in Q1 to 84 ETB in Q2 2015, average savings amounts per quarter remained roughly static. The amount of savings is

⁴ Savings participation is defined as contributing to savings deposit at least once per quarter.

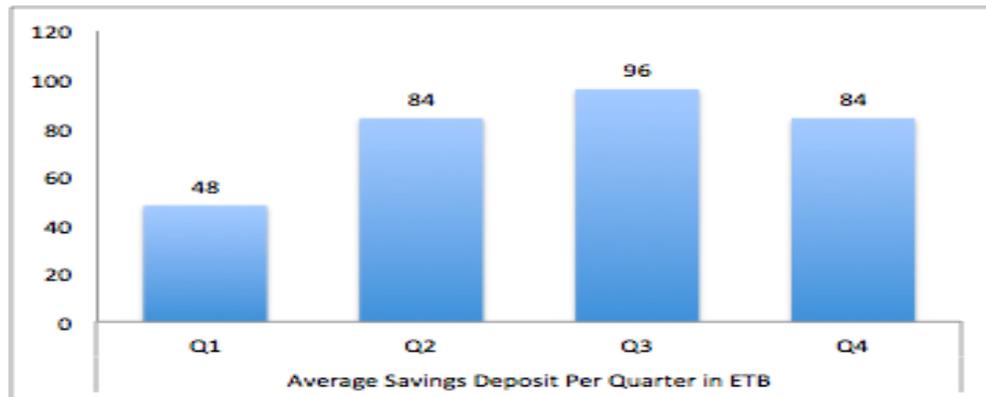
⁵ NE FI has 289 registered savers from the 2014 cohort in the initial kebeles.

⁶ Active participation is defined as contributing to savings deposit at least 12 times per quarter.

2015 Nuru Ethiopia Financial Inclusion Program Impact Assessment

considered to be too small to make meaningful impact in helping families cope with economic shocks in the short-run.⁷

Figure 4: Average Savings Amount (ETB) per Quarter



NE should create incentive mechanisms that help increase member participation and motivate higher savings amounts. Incentives provided by the program should be aligned with methods that create lasting behavior change. Benchmarking savings amounts required to cover different levels of shocks (minor, moderate, severe) would be helpful in guiding members' savings contribution amounts. Moreover, conducting a barriers analysis may help NE analyze which factors help or inhibit consistent savings behavior. The results of the barrier analysis could be used to promote consistent savings behavior.

⁷ In order to support this claim with evidence, it is advisable to benchmark the savings amount required to cope with different levels of shocks and track members' savings towards these threshold amounts.

2015 Nuru Ethiopia Financial Inclusion Program Impact Assessment

Loan Behavior and IGAs Investment

Respondents asked whether or not they borrowed money in the last three months were presented with a follow up question to specify the source of the loan. At baseline, both Nuru participants and control groups were heavily reliant on family, friends or local money lenders for loans. 59 percent of control groups and 46 percent of Nuru participants relied on family, friends and local money lenders. A local social insurance institution, Iddir, was the second most useful loan sources for both groups, with 37 percent of control groups and 27 percent of Nuru participants relying on Iddir at baseline. There was limited use of financial institutions with only 12 percent of control groups and 27 percent of Nuru participants using it at baseline.⁸

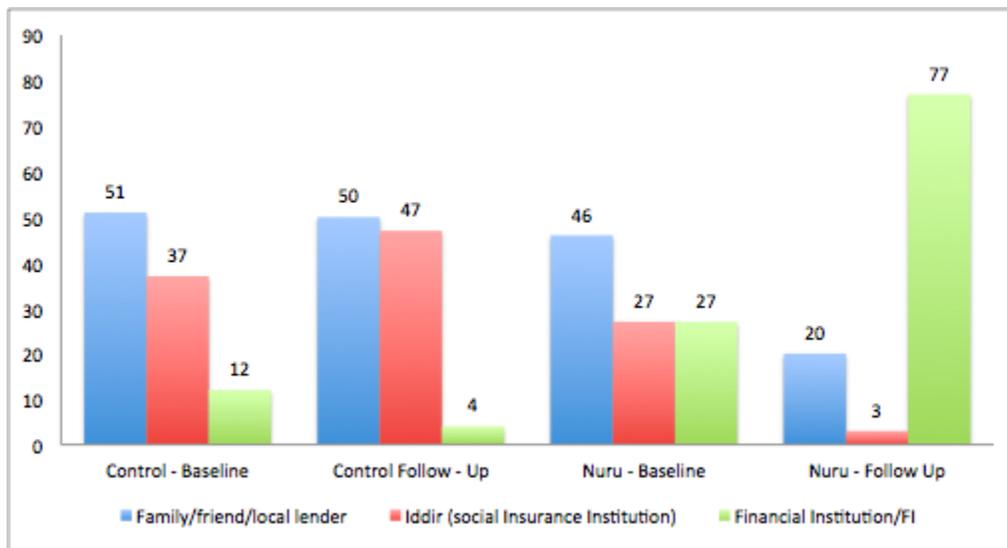
With the introduction of NE FI, the percentage of Nuru participants who belonged to financial institutions increased by 50 percent while the control group's access to financial institutions reduced by 8 percent. This demonstrates that NE FI provided access to financial services, as 77 percent of Nuru participants reported belonging to financial institutions whereas only 4 percent of control groups belonged to financial institutions at follow up.

⁸ Nuru Ethiopia Financial Inclusion Program is considered part of formal and informal financial institutions.

2015 Nuru Ethiopia Financial Inclusion Program Impact Assessment

Figure 5 indicates that the majority of Nuru participants and the control group heavily rely on family, friends and local money lenders for their borrowing needs at baseline. However, Nuru participants have greatly increased access to loans through financial institutions. At follow up, 77 percent of Nuru participants accessed loans from financial institutions. This represents a 50 percent increase in loan access from financial institutions since baseline. The percentage of control groups that could access loans from financial institutions decreased from 12 percent at baseline to 4 percent at follow up.

Figure 5: Access to Loans by Different Providers in Percentages



A substantial percentage of Nuru participants (20 percent) and control groups (50 percent) still relied on loans from family and friends at follow up. Anecdotal evidence indicates that loans from family and friends are typically used for emergency expenses, to smoothen consumption or to attend urgent medical or social needs. NE FI should provide financial education for savers to use savings as a major coping strategy and/or to help them obtain access to small loans from their cooperative to cover urgent and crucial financial needs.

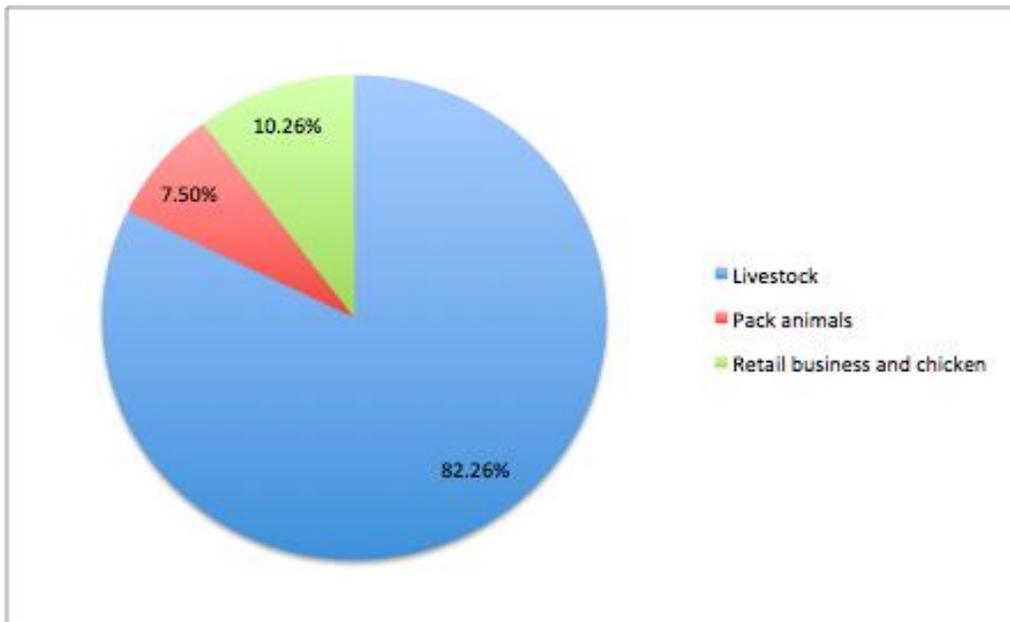
Monitoring data indicate that there is high demand for IGA loans among Nuru families, with 96 percent of registered members having applied for IGA loans in 2015. In order to qualify for an IGA loan, members are expected to participate in savings for a continuous period of three months and have saved at least 10 percent of the loan amount they were applying for. Loans were released in three-month rounds to protect the integrity of the loan program and protect

2015 Nuru Ethiopia Financial Inclusion Program Impact Assessment

members from unhealthy loan practices. 240 out of 289 (83 percent) initial members took IGA loans in 2015 and paid them back with a 100 percent repayment rate.⁹

Figure 6 indicates that the majority of loans (82 percent) were used for livestock.¹⁰ About 10 percent were used for retail business and chicken rearing while the remaining 7.5 percent were used for pack animals (pull cart transport businesses).¹¹ The average loan per person in each category was 1,500 ETB (\$75 USD).

Figure 6: Percentage of FI IGA Loan Use by Category



While there was an overwhelming dependency on livestock businesses, there was no proof then or now that livestock businesses in Boreda are a profitable venture or lead to increased income. There is a long-held perception that livestock is a useful savings instrument to overcome shocks. But livestock are also associated with frequent and severe risks of sickness, death, theft or shortage of fodder particularly during dry seasons.

A recent randomized control trial (RCT) experiment conducted in Ethiopia confirms that the availability of micro-loans in rural Ethiopia "led to a substantial increase in both the probability

⁹ Another 91 members from the initial 289 members (2014 cohort) took loan in early 2016.

¹⁰ Livestock include big and small ruminants such as sheep, goat, heifer and oxen usually reared at home for potential sale at higher price or for reproductive/dairy purpose.

¹¹ Pack animals are usually donkeys used for transport business in rural villages. Donkey pulled carts are used to transport people to clinics or agricultural goods to market with fee. Retail business includes small shops and petty trade in marketplace.

2015 Nuru Ethiopia Financial Inclusion Program Impact Assessment

of borrowing and the loan size, but there is limited evidence that it increased household income, improved school attendance or empowered women in household decision-making.”¹²

As a counterpoint of this RCT research, it is critical to understand why Nuru participants tend to take IGA loans and prefer livestock as the primary investment: the cultural importance, social status attributions and cultural heritage of livestock ownership in rural Ethiopia cannot be understated. Understanding these factors could help in designing an effective livelihoods and income diversification strategy to help participants realize higher returns on livestock investments.

Conclusions

1. **Build consistent savings behavior.** The core of FI is about changing perceptions around savings as well as building savings habits. Evaluating the program from these angles, the building blocks are in place; the savings platform is in order; and savers took IGA loans and paid them back 100 percent. These are impressive results for a start-up program. But there is a need for improvement in building consistent savings behavior and maintaining active participation among Nuru savers.
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5. **Help savers invest wisely.** Most IGA loans are used for livestock. There is no proof that livestock is a profitable business venture in Boreda woreda. NE FI should track the

¹² “Assessing the Impact of Microcredit in Ethiopia” is available at <https://www.povertyactionlab.org/evaluation/assessing-impact-microcredit-ethiopia>.

¹³ Iddir is a local social insurance institution.

2015 Nuru Ethiopia Financial Inclusion Program Impact Assessment

revenue and cost of the livestock business and provide technical support so participants get the most out of their IGA investments.

6. **Revise M&E survey methods.** The monitoring and evaluation (M&E) survey methods must be revised to make the questions and indicators more pointed and useful for data-based decision-making.
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