

Promoting financial inclusion: Developing an innovative SLLC-linked loan product

Microfinance institutions (MFIs) in Ethiopia are offering farmers a new financial product: the SLLC-linked individual loan product

With Second Level Land Certification (SLLC), MFIs have the security of knowing the ownership and exact landholding size of farmers. This has allowed the development of an innovative individual lending product that uses the produce of the land as a form of guarantee.

Why is it important? Until now, farmers could only access group loans as they lacked fixed assets to use as a guarantee. The SLLC-linked individual loan product addresses this and other limitations of the group lending system. Farmers can borrow more (between ETB 5,000-50,000), have more flexibility to decide in what to invest and what the loan repayment terms are, and have their applications assessed based on the merits of their business plans rather than on how long they have been MFI customers.

What is it used for? The loan can be used for agricultural-related productive purposes such as buying improved seeds and fertilisers; paying for additional labour; renting or buying oxen to plough; livestock fattening; purchasing irrigation equipment to engage in high-value crops; and other income-generating activities. This allows farmers to escape the poverty trap, as they do not have to sell assets to repay their debts or cover their living expenses.

Annual interest rates

Informal money lenders
120%

MFIs group lending
Up to 21%

MFIs individual SLLC-linked loans
15-18%

Demand for the new financial product is high.



of Wasasa's SLLC-loan clients who accessed the product last year repaid their loans ahead of the due date and applied for a repeat loan; a sign of success.

Synergies with GoE initiatives

Improving access to finance for smallholder farmers is important to achieve the Growth and Transformation Plan (GTP-II) vision for Ethiopia. It will unlock the potential of Ethiopia's smallholder farmers by stimulating access to improved inputs that will increase the productivity of their land.

Access to individual loans adds value to the SLLC. Farmers are incentivised to collect their SLLCs through the possibility of accessing the SLLC-linked loan product.

The SLLC-linked loan product enhances the importance of the Rural Land Administration System (RLAS). MFIs require applicants to obtain "blocking letters" from the local woreda land office to confirm that the land parcel being used to secure the loan has not been used in other credit transactions with other MFIs. It also serves as a safeguard to temporarily block other transactions (e.g. rental, inheritance) on that parcel for the duration of the loan.

The benefits of the SLLC-linked loan product

- 1 Opportunities for smallholder farmers to move up the productivity chain:**
 - Access to larger and longer term loans allows smallholder farmers to graduate from subsistence farming.
 - Through SLLC-linked loans, farmers can access improved inputs and services. This allows them to increase the productive returns of the land, diversify their investments and increase their incomes and economic resilience.
- 2 Ability for MFIs to complement existing group lending products and reach new customers:**
 - MFIs can now reach smallholder farmers who are not accessing finance because they deem the risks of group lending to be too high, or whose needs are not being met by existing MFI products (in terms of loan size and length).
- 3 Adaptability of the SLLC-linked loan product to individual needs:**
 - Allows smallholder farmers to decide what loan size they want, when to repay and the kind of business they want to engage in.
 - Faster application process than for group lending as clients do not depend on other group members being present for decision-making, training and awareness raising.
- 4 Inclusiveness:**
 - Allows MFIs to assess the merits of each application individually, as long as the applicant's plan is viable and they have the SLLC.
 - Vulnerable groups such as the elderly, people with disabilities and female headed households who are often excluded from group lending schemes as they considered too great a risk of default by their peers, are able to access finance for the first time.

“

My plan is big. If ACSI continues to help us, I want to expand and have a water pump for irrigation purposes.

”

Wubalem, 44 years old, widow and female head of household from Hibre Salam, Huleteju Enese, Amhara

What LIFT-EEU does

LIFT aims to ensure that smallholder farmers with SLLC have the ability to invest more in their land by improving their access to finance.

LIFT is currently working with seven financial partners (ACSI, Aggar, DECSI, OCSSCO, OMO, PEACE and Wasasa) to pilot a new SLLC-linked individual loan product.

Other LIFT-EEU initiatives to promote inclusive finance include:

- 1 Supporting the development of a new SLLC-linked weather index-based insurance scheme.
- 2 Supporting MFIs to develop improved savings products for farmers.

Results of SLLC-linked loan product intervention (as of June 2017)

57 **2,400**
branches offering the SLLC-linked loan to farmers accessed credit through the new product

branches offering the SLLC-linked loan to farmers

accessed credit through the new product

ETB 60.6 million disbursed by these MFIs and **around ETB 7 million** in additional savings mobilised

“
The SLLC-loan product is working smoothly and is performing very well. It attracts group lending drop-outs, new clients and promotes entrepreneurship among farmers.

”
ACSI Head Office Customer Relationship Senior Officer

Priorities moving forward



Ensure all land transactions (including the issuance of blocking letters) are captured in RLAS. This will allow MFIs to rely on the information generated by the system, as they will be able to ascertain that there are no encumbrances on the land titles when issuing a loan.



Work with MFIs and woreda land offices to ensure there is enough capacity to deal with expected increases in demand. MFIs need to have enough capacity to manage an increased demand for loan applications in the coming season as SLLC is more readily available. This is also the case for woreda land offices, which will be required to issue “blocking letters”.



Ensuring SLLC is available in all kebeles/woredas where MFIs have branches offering the product. As SLLC is a precondition to be able to access the SLLC-linked loan product, LIFT needs to ensure that SLLC is available in those regions where there is demand for the new loan product.



References: Persha L, Greif A, Huntington H, “Assessing the impact of Second-Level Land Certification in Ethiopia”, Paper prepared for presentation at the “2017 WORLD BANK CONFERENCE ON LAND AND POVERTY”, The World Bank—Washington DC, March 2017. **LIFT findings and research** (contact Solyana Amsalu on Solyana.Amsalu@liftethiopia.com).