Assessment of Challenges, Barriers and Opportunities for Women, Youth and People with Disabilities in Access to and Use of Finance from Financial Service Providers

Submitted to

Ethiopian Development Food Security Activity and Feed the Future Ethiopia Livelihoods for Resilience – Oromia

Fair & Sustainable Ethiopia
Contact person and address:
Assegid Gedamu
General Manager
Tel: +251 911 62 7996
E-mail: assegid.gedamu@fs-ethiopia.com

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Disclaimer

Contents

Acronyms

AEMFI	Association of Ethiopian Microfinance Institutions
ATA	Agriculture Transformation Agency
ATJK	Adami Tullu Jido Kombolcha
BDS	Business Development Services
CBOs	Community-Based Organizations
CRS	Catholic Relief Services
CA	Community Animator
CF	Child Fund
CPO	Cooperative Promotion Office
CSA	Central Statistics Authority
DA	Development Agent
DFSA	Development Food Security Activity
DiNER	Diversification for Nutrition and Enhanced Resilience
ETB	Ethiopian Birr
FA	Field Agent
FDRE	Federal Democratic Republic of Ethiopia
F&S	Fair and Sustainable Ethiopia
FFP	Food for Peace
FGD	Focus Group Discussion
FSP	Financial Service Provider
GOE	Government of Ethiopia
GDP	Gross Domestic Product
HABP	Household Asset Building Program
HCS	Hararghe Catholic Secretariat
HH	Household
ICT	Information and Communications Technology
KII	Key Informant Interview
KYC	Know Your Customer
LG	Livelihood Group
MCS	Meki Catholic Secretariat
MSE	Medium and Small Enterprise
MSEDA	Micro and Small Enterprise Development Agency
MFI(s)	Microfinance Institutions
NBE	National Bank of Ethiopia
NGO	Nongovernmental Organization
NRM	Natural Resource Management
OCSSCO	Oromia Credit & Saving Cooperative
PAR	Portfolio at Risk
PROMIC	Poverty Reduction Program in Oromia Region
PSNP	Productive Safety Net Programme
PSP	Private Service Provider
PWD	People with Disabilities
RUFIP	Rural Finance Intermediation Programme
RuSACCO	Rural Savings and Credit Cooperative
SACCO	Saving & Credit Cooperative
SILC	Savings and Internal Lending Communities
SMART	Skills for Marketing and Rural Transformation
TVET	Technical and Vocational Education and Training
WOA	Woreda Office of Agriculture

WBG	World Bank Group
WEDP	Women Entrepreneurship Development Project
WFSTF	Woreda Food Security Taskforce
WVE	World Vision Ethiopia
YES	Youth Employability Skills training

Executive Summary

Catholic Relief Services, in partnership with Ethiopian Catholic Church Social & Development Commission of Hararghe (ECCSDCH) and Ethiopian Catholic Church Social & Development Commission of Meki (ECCSDM), is implementing a USAID Office of Food for Peace-funded Development Food Security Activity and with ECCSDM the Feed the Future Ethiopia Livelihoods for Resilience – Oromia Activity in Ethiopia's Oromia region. These Activities focus on the food, nutrition and livelihoods security of households in the Government of Ethiopia's rural safety net for food-insecure households, the Productive Safety Net Programme (PSNP IV), with the main objective of improving their economic well-being, building their resilience capacity to shocks, and addressing challenges related to gender and youth. Access to finance is one of the major challenges facing PSNP clients, especially women and youth, and these two Activities are working to improve the access to and use of financial services as part of their program components.

The objective of the assessment was to identify the opportunities and challenges around PSNP client access to and use of financial services, and improve their economic well-being with a special focus on women, youth and people with disabilities, and develop strategies and interventions to address identified barriers and challenges, and improve access to financial services. The assessment was conducted in all 14 of the two Activities' intervention districts, or *woredas*, (Babile, Deder, Midega Tola, Melka Belo, Dire Dawa, Dodota, Sire, Ziway Dugda, Arsi Negele, Heben Arsi, Shala, Siraro, Adami Tulu Jido Kombolcha and Boset).

The assessment collected extensive data from the supply side and the demand side, as well as from the regulatory environment. A variety of data collection and analysis techniques for the cross-sectional assessment were used. Largely qualitative data collection tools were used to gather primary information. Desk review of secondary data, interviews (structured and/or semi-structured), focus group discussions, key informant interviews and analysis were applied. Key interviewees were representatives of PSNP clients and non-clients (a cross-section of women and men of all ages), financial service providers in focus *woredas*, local government representatives and implementing partners. The study team covered the 14 *woredas* in order to get a full picture of the local context, from which one *kebele* (neighborhood) per *woreda* was selected. CRS program staff actively participated in organizing the agreed targeted samples at both the *kebele* and *woreda* levels.

Key findings and recommendations

The two Activities have been organizing PSNP households into Savings and Internal Lending Communities (SILC) groups, and building their capacity in business and financial management, to enable them to accumulate small savings, with the hope that these can gradually grow, enabling households to absorb shocks without depleting productive assets and to engage in diversified livelihoods activities. The SILC approach is one of the most relevant models for graduation with resilience for the very poor. A key part of the methodology is the PSNP members' regular group meetings, which create an opportunity for them to learn from each other. These meetings also serve as an entry point for development actors to integrate their interventions. SILC provide an opportunity for participants to learn how to run small businesses and manage finances before taking up institutional financial services.

Focus group discussions (FGDs) confirmed that the gender training was effective, at least in encouraging conversations at the household level, such as on division of labor, financial management and decision-making. However, an issue to consider is what happens at the community level. The social norms that dictate what is expected, valued and allowed from women/men remain, and can constrain women's further economic and social advancement. Some husbands who had changed their thinking on conventional gender roles mentioned in FGDs that they were ridiculed by neighbors, while ~~many~~ some women said they still preferred the old patriarchal system. The trainings at SILC meetings seemed to have a limited focus on strengthening economic activities, such as skills development and linkages to business development services (BDS), which are critical for ensuring effective use of financial services by women, especially from formal financial service providers (FSPs).

Most youth still face limited access to appropriate skills training for wage- and self-employment. Access to suitably designed financial services largely remains a work in progress. The fact that youth generally have very low social capital further limits their access to financial services (both formal and informal).

People with disabilities (PWDs) are largely marginalized from resources and opportunities and are dependent on handouts from the PSNP. They also face additional challenges from negative community and institutional stigmatization, which limits them from embracing opportunities in their localities. Some FSPs still maintain a policy that excludes PWDs from accessing services. Often, this leads to PWDs excluding themselves from participation in such opportunities.

SILC groups were effective in meeting the financial needs of the respondents. However, they are limited to providing small loans to their members. The demand analysis, as well as global experience, suggests that the vulnerable poor need appropriately designed savings and insurance services, sometimes even more so than credit services. It was also highlighted that long-term saving in SILC was not risk-free and could be provided by FSPs.

Rural Savings and Credit Cooperatives (RuSACCOs) are more accessible to PSNP households than other FSPs such as MFIs. Some SILC members were also active members of such cooperatives. However, only a few RuSACCOs were operationally and financially self-sufficient and were unable to sustainably serve their members.

Microfinance institutions (MFIs) were licensed by the National Bank of Ethiopia (NBE) to provide financial services primarily to low-income households. MFIs are enjoying a high demand for their services. Increasingly, the NBE regulation has been relaxed, allowing MFIs to also serve the less poor. While most of these institutions maintain poverty alleviation and serving the poor in their vision and mission statements, from various key informant interviews with MFI leadership, it seemed that for most, business was the prime objective guiding their operations. As a result, there had not been a serious effort and interest by MFIs to assess and appreciate the context and financing potential of PSNP members, especially that of marginalized people like women, youth and PWDs. Therefore, there should be some exploration of whether purely profit-driven MFIs should receive the same support and access to vulnerable clients as pro-poor NGO-run MFIs.

The existing credit products' terms and conditions, as well as the Know Your Customer (KYC) requirements of MFIs, are unsuitable for PSNP clients. Other financial services, like savings and insurance, for which there is a potential high demand among the focus population, are in very limited supply. Most MFIs have limited capacity in terms of staffing and liquidity. The remoteness of PSNP *kebeles* makes it difficult for frontline MFI staff to fully appreciate the financial needs of PSNP households. Support to such institutions to encourage them to serve the poor has not been consistent. As a result, the opportunity for accessing financial services from FSPs in this context is extremely limited, especially for women, youth and PWDs.

Unable to access adequate financial services to meet their various needs, the focus communities resort to informal mechanisms. These include borrowing from friends and relatives, borrowing from individual lenders at exorbitant rates, working in others' businesses (farming, transport, trade, construction, etc.) for limited pay, engaging in *rebi* (taking care of others' livestock), engaging in, daily labor, migrating, joining informal community-based financial associations (*iddir, equb*), selling livestock (if available) at depressed prices, or relying on their own saving mechanisms. In the program areas, SILC groups are meeting some of these financial needs.

Way forward

The following section highlights the recommendations for addressing the identified challenges facing women, youth and PWDs in accessing financial services.

Short term

Support MFIs in developing appropriate financial products

- MFIs in target areas need technical and financial support in their efforts to develop client-centric financial products. This can be done through participatory market research and human-centered design approaches. Alternative financing mechanisms could also be explored, including sharia-compliant products.
- MFIs can develop savings products that relate to SILC groups' social and loan funds to enhance linkages between MFIs and SILC. Conversations between SILC members and MFI leadership should be encouraged to enable MFIs to develop products with features that relate to SILC funds.

Increase MFI liquidity Strategies to increase access to concessional loans by MFIs need to be developed to increase their risk appetite in extending their services to women, youth and PWDs. Lessons can be drawn from past experiences to structure these products.

Increase MFI transparency around interest and fees

MFIs (especially those who charge a flat rate) need to be more transparent with clients about their interest rates and any additional fees they charge. This could be done at SILC meetings.

Implementing partners should be sensitized to microfinance operations to increase collaboration and mutual support between them and MFIs in an effort to increase access to financial services by the target group.

Facilitate more communication between MFI staff and SILC groups

- Create more awareness among MFI staff about the SILC program in particular and the project in general.
- Draw up memoranda of understanding between the project and FSPs with clear guidelines and milestones to steer linkages between SILC groups and FSPs.
- Co-design training sessions between the project and FSPs on financial education for the target clients.
- Increase monitoring of MFIs using the Loan Guarantee Fund (LGF) through milestones-based reporting for project target areas.

Link SILC with stronger RuSACCOs: Through an appropriate capacity-building program for RuSACCOs, that includes injections of liquidity, it is hoped that RuSACCOs will broaden and deepen their outreach to cover target clients.

Strengthen skills training and BDS support for women, youth and PWDs through facilitating better coordination with service providers (government and NGOs) at the grassroots. Stakeholders include Micro and Small Enterprise Offices, Technical and Vocational Education and Training institutions (TVETs), development agents, agro-dealers and other NGOs.

Support strong market-based value chain: Given that there are market opportunities, especially in Djibouti and the Middle East, for vegetables, live animals and processed meat, there is an urgent need to identify strong value chains that could have a greater impact at the community level. These require a comprehensive market assessment.

Empower youth to be able to effectively embrace available opportunities and entitlements This requires collaboration with government, including the offices of Women, Children and Youth Affairs and Micro and Small Enterprise to proactively promote effective utilization of youth entitlements, including communal land, as well as access to finance and other business support. This should also include promoting parental support.

Ensure that development opportunities are more inclusive of people with disabilities: While tailored business support and access to financial services for PWDs are essential, more also needs to be done among partner institutions and their field staff to raise awareness of disability and reduce stigmatization.

Proactively use role models as an entry point: Successful local people, especially women and youth, can be identified to demonstrate and teach others better ways of managing livelihoods.

Promote more integration of CRS, MCS and HCS with local government and nongovernmental organizations by organizing occasional workshops, at least with key stakeholders, to create awareness of objectives and strategies to promote better coordination and collaboration.

Lobby regulatory bodies Support the creation of an enabling environment for the private and NGO-based MFIs, while advocating for MFI autonomy on various aspects including client screening and selection. This requires discussion with regulatory bodies like the National Bank of Ethiopia (NBE), as well as professional bodies such as the Association of Ethiopian Microfinance Institutions (AEMFI) and other stakeholders.

Medium to Long term

Promote competition among FSPs in rural areas by supporting MFIs to open branches and satellite offices, introduce agents and mobile banking in rural areas, and expand their outreach; strengthening RuSACCOs; or supporting the establishment of new rural microfinance institutions.

Promote demand-based skills trainings for youth through regular assessment of the needs of the private sector in respective localities. An effort also needs to be made to change the attitudes and mindset of young people toward agricultural and blue-collar jobs through tailored capacity building and awareness-creation programs, exposure visits, etc.

Bolster a coordinated longer-term effort to build livelihood groups management capacity to empower vulnerable groups, as prevailing societal norms and institutional bias against marginalized sections of the community—such as women, youth and PWDs—cannot be expected to change in the short term.

1. INTRODUCTION

1.1. Project background

Catholic Relief Services, in partnership with Ethiopian Catholic Church Social & Development Commission of Hararghe and Ethiopian Catholic Church Social & Development Commission of Meki, is implementing a USAID Office of Food for Peace-funded Development Food Security Activity and, in ECCSOM the Feed the Future Ethiopia Livelihoods for Resilience – Oromia Activity in Ethiopia's Oromia region. Both Activities have a strong focus on the empowerment of women and youth, as well as a focus on the food, nutrition and livelihoods security of Productive Safety Net Programme (PSNP IV) households, with the main objective of improving their economic well-being and building their resilience capacity to shocks.

Access to finance is one of the major challenges facing PSNP clients, and these two Activities are working to improve the access to and usage of financial services as part of their program components. The Activities conducted a joint gender and youth analysis that provided detailed information on the power dynamics at the household and community levels around accessing and controlling resources. One of the findings suggested that women and youth have limited access to financial services, and there is a need to further investigate the causes and develop strategies to improve access by these social groups.

1.2. Objective of the Assessment

The objective of the assessment was to identify the opportunities and challenges around PSNP clients access to and use of financial services, and improvement of their economic well-being, with a special focus on women, youth and people with disabilities, as well as to develop strategies and interventions to address identified barriers and challenges, and improve access to financial services. Specific objectives of the assessment included:

- Exploring the availability of inclusive financial products and services for rural women, youth and PWDs, and the compatibility of these products and services with the capacity and interest of these PSNP clients.
- Exploring the technical, financial, social, cultural, behavioral and infrastructural challenges faced by PSNP clients—mainly women, youth and PWDs—in accessing and using financial services.
- Understanding the institutional challenges, policies and strategies of financial service providers in relation to making their services and products accessible to women, youth and PWDs.
- Making recommendations that would be most effective in increasing access to financial services for PSNP clients, mainly women, youth and PWDs.
- Developing strategies and approaches that could help the Activities to design relevant interventions that contribute to improved access to financial services by women, youth and PWDs.

1.3. Scope of work

***Geographic coverage**:* The assessment was conducted in all 14 of the Activities' intervention *woredas* (Babile, Deder, Midega Tola, Melka Belo, Dire Dawa, Dodota, Sire, Ziway Dugda, Arsi Negele, Heben Arsi, Shala, Siraro, Adami Tulu Jido Kombolcha and Boset).

Project targets: PSNP clients—especially women, youth and other marginalized sections of the population, including PWDs—with a special focus on female-headed households, and married and unmarried youth.

Interviewees: Representatives of PSNP clients and non-clients (a cross-section of women and men of all ages), financial service providers in the target *woredas*, local government representatives, and implementing partners.

***Key research questions*:** There are several probable reasons that contribute to poor access and usage of financial services by PSNP clients. However, the assessment's objective was to answer the following key questions under three focus areas: demand-side issues, supply-side issues and regulatory and the regulatory and legal environment:

- **Demand-side issues**: The demand side of the assessment helped to gain a deeper understanding of what is important to PSNP clients—in this case, women, youth and PWDs—as end users. This included understanding their livelihood options, major barriers and opportunities in their current livelihood options, major financial needs and sources of finance in the target areas, their experience of access to and use of financial services, and the limitations of the financing options and non-financial services -such as trainings, coaching and business advisory services.

- **Supply-side issues**: It is critical to enhance service penetration among PSNP members, especially women, youth, and PWDs. The study team assessed the availability of service providers; their current capacity, willingness and strategies to serve the target customers; and possible areas of intervention to encourage the providers to reach the target PSNP clients. The focus of this assessment was on service availability in the localities, marketing approaches, value-added services, etc.
- **Regulatory and legal environment:** Regulations play an important role in defining the scope of operations and the competitive environment for business. The study team also assessed the current and pending policies and regulations of the financial industry in Ethiopia which can directly and indirectly influence access to financial services by PSNP clients.

2. APPROACH, METHODOLOGY AND TOOLS

To meet the objectives of the assessment, a variety of data collection and analysis techniques was used. Largely qualitative data collection tools were used to gather primary information. Desk review of secondary data, interviews (structured and/or semi-structured), focus group discussions, key informant interviews and analysis were applied to explore in detail the challenges that may prevent women, youth and PWDs from accessing and regularly using financial services. To address language barriers in some localities, local research assistants were hired to support the data collection exercise.

2.1. Data collection

A variety of data collection methods were used to collect the necessary information and to respond to the research objectives. Before the field-level data collection, after the inception report, detailed planning discussions were held and presentations made both for the project management at CRS Ethiopia offices in Addis Ababa and also with the project staff at MCS and HCS. The main data collection methods were:

- ***Document and systems review:*** This was to get an overview of the nature and context of the intervention, and helped build the necessary foundation for designing relevant research tools. It included a review of project design documents, project log frames, periodic reports, monitoring and evaluation reports, and a baseline survey document.
- ***Tools and tools piloting*****:** Before the field assessment, checklists/guidelines that were used for primary data collection were developed by the consultant. The FGD guidelines and KII checklists developed by the consultant were reviewed by the CRS Activities' team. Finally, before data collection, the tools were piloted by the consultants for a day with project participants from one of the project *woredas*, Adami Tulu Jido Kombolcha. Then, after minor adjustments to the tools, data collection began.
- ***Kick-off meeting:*** Before field-level data collection from project beneficiaries and partners, kick-off meetings were held with a number of project staff coordinators and experts at Shashamane and Dire Dawa with the MCS and HCS teams respectively. In total, 44 project staff (7 women) participated. At this meeting, the CRS Activities' staff were asked to present their roles around the different thematic areas: youth, gender, PWDs, and access to finance. Then, the project staff were grouped according to their areas of responsibility and asked to discuss and reflect on practical support given to the target groups around the thematic areas, on major challenges related to access to finance, and how the challenges could be addressed. The meeting was concluded with a field data collection planning session.
- ***Focus group discussions (FGDs)***: The focus group discussions were mainly conducted with PSNP clients, including those in SILC and livelihood groups (LGs), involving separate groups for adult women, adult men, male youth, female youth, and mixed livelihood groups (youth and adults) respectively. In addition, for comparison purposes, discussions were held with non-PSNP participants. Each FGD session typically comprised about 8 to 10 participants. In total, 50 FGDs were conducted in the 14 *woredas*, with 476 participants, of whom 46% were women.

Table 1: Types of FGD participants

Data collection method	Type of respondents	No. of FGDs	Number of Interviewees (Gender segregated)	
			M	F
FGD	Youth – Female	9	0	57
FGD	Youth – Male	14	118	0
FGD	Adult women	10	0	105
FGD	PWDs	1	2	1
FGD	Youth – Mixed group	3	16	12
FGD	Adult men	4	42	0
FGD	Adult – Mixed group	6	53	39
FGD	Community animators and field agents	1	3	1
FGD	Non-PSNP participants	2	25	2
Total		**50**	**259**	**217**

***Key informant interviews (KII)**:* In total,-115 KIIs were conducted with 107men and 8 women in the intervention areas of both Activities. The KIIs were conducted with key project stakeholders and relevant government officials, that included the *woreda* Office of Agriculture; Women, Children and Youth Affairs office; *woreda* Cooperative Promotion Office (CPO), financial services providers, including microfinance institutions, Savings and Credit Cooperative (SACCO) Unions, and Rural Savings and Credit Cooperatives (RuSACCOs); business development service providers (such as farmers' service centers); unions; the private sector; local staff of CRS, HCS and MCS; community animators and field agents. KIIs were also conducted with project participants, including poor adult women, female youth, male youth, people with disabilities, community leaders, parents, etc. In addition, KIIs were also held with non-PSNP participants, as well as with SILC dropouts, to capture more elaborate information on their previous experiences as members of SILC.

Case studies: Key experiences—that signaled either the success of or challenges faced by women, youth and PWD PSNP clients, or their SILC or LGs—and that would either reward or discourage their participation in the available formal and informal financial service sources (including MFIs, SILC, moneylenders and RuSACCOs) were also captured to paint a more detailed picture for the study.

Field observations: While conducting field visits in the *woredas* and *kebeles*, the consulting team looked carefully at the local surroundings and the places, people, resources and conditions described by participants when an interview and FGD took place, and included observation and informal discussions as supplementary to the data collection process.

2.2. Sampling

The study team covered the 14 *woredas* proposed, from which specific *kebeles* were selected for data collection. One *kebele* per *woreda* was selected for the study and, in most of the *woredas*, comprehensive discussions were held with the different target groups of the projects. CRS program staff actively participated in organizing the agreed targeted samples at both the *kebele* and *woreda* levels. For primary data collection, qualitative methods were applied as discussed above. In total, discussions and interviews were held with 635 participants, of whom about 35% were women. Of the total, 476 participated through 50 FGDs, 44 through kick-off meetings and 115KIIs.

Purposive sampling was used to select geographic focus. Given the available time for fieldwork, this required careful selection of representative *kebeles* where there were concentrations of PSNP clients, and which could also be representative of the wider area (e.g., stronger/weaker PSNP groups, MFI/SACCO/RuSACCO-linked/not linked, drought-prone, etc.), as well as variations in social and economic factors, etc. Accessibility to the areas was an important consideration for selection of *kebeles* for data collection.

The type of target interviewees—including women, youth and PWDs that were project participants, non-PSNP participants, relevant government sectoral offices, MFIs, RuSACCOs, etc.—were systematically identified in advance with the support of the projects' HQ team.

2.3. Analysis and report writing

The findings were categorized as demand-side, supply-side or relating to the regulatory and legal environment. In addition, to put the findings into greater perspective, the experiences of some of the respondents were analyzed. Informal discussions with respondents were also quoted and included in the report where relevant.

The findings were analyzed through an exchange of key observations in the form of reports and discussions between the team of consultants. The analysis highlighted any opportunities and the feasibility of interventions that could help FSPs work better for PSNP clients, especially women, youth and PWDs.

2.4. Limitations of the study

Due to the time available, only one *kebele* per *woreda* was selected for data collection. This may have had an impact on the comprehensiveness of the report. In addition, due to the security situation, especially in the HCS intervention areas (Midega tola, Melkabelo, Diredawa and Deder), there was a delay in collection of field data, for which the assessment could not involve gender consultants to the required level. This may have had some impact on the gender-related findings. In addition, in the HCS intervention areas, except Babile *woreda*, we were unable to collect as per the sample plan.

3. FINDINGS

3.1. Background: Situation of women, youth and people with disabilities

In developing countries, women are often the main source of farm labor (farming and production activities). In many parts of Sub-Saharan Africa, about 75% of agricultural producers are women (World Bank et al. 2009), ranging from 30 to 80% (Wodon et al. 2018) and they produce more than 80% of the continent's food. Women are also very active in unpaid care, which contributes to economic growth through a labor force that is fit, productive and capable of learning and creativity. Yet, women continue to have limited access to resources, little voice, enjoy less welfare, etc. Gender asymmetries in access to and control over assets, access to markets, and access to information and organization in turn dictate power asymmetries between men and women (Van Eeedwijk et al. 2017). According to the bargaining model, this lack of resources would mean that within the household, women often have a lower "fall-back position" (or lower "welfare" in the event of a marriage breakdown) and therefore they would be obliged to be subservient to and accommodate the interests of their male counterparts (Osmani 1998). Women's vulnerable position in the bargaining process results in the man gaining the upper hand at her expense.

Ethiopian women continue to be marginalized, and remain victim to existing systems. Ethiopia has experienced remarkable economic growth in the past decade and, according to World Bank Group (2019), its average annual growth rate far exceeded the regional average, at slightly over 10% relative to a regional 5%. Agriculture grew at 7%, services at 12%, and industry at 21%. Yet despite this significant economic growth, women continue to face significant barriers in the workforce. Women experience high rates of unemployment (50%), seasonal employment (37%), and temporary employment (13%).

Young people are an incredible asset and untapped resource for positive growth (Abdi 2019). However, "if they are not engaged early in their lives to participate productively in society, they are more likely to operate on the legal and social fringes for the rest of their lives" (Jolly 2003). Current evidence suggests that many of the most unstable countries are also those with very high youth unemployment rates. On the other hand, these individuals, when properly educated and trained, represent a labor force that will support Ethiopia's industrialization and progress toward middle-income status. More than 28% of Ethiopia's estimated 104 million population is aged 15 to 29. Youth unemployment is estimated at nearly 27%, with young women facing higher unemployment than young men (USAID 2017). The Central Statics Authority youth unemployment accounted for about 59% of the total unemployed population (AEMFI-EIFTRI 2017).

Certain portions of society can also be marginalized from equal participation in development outcomes as a result of disability, religion, ethnicity, distance, etc. Based on the *World Report on Disability* (WHO 2011), in Ethiopia, there are 15 million children, adults and elderly people with disabilities,[1] which is about 17.6 % of the population (ILO 2014). Some 95% of all people

[1] According to FDRE, Negarit Gazeta, Proclamation No, 568/2008, a "Person with disability" is "*an individual, whose equal employment opportunity is reduced as a result of his 'physical', 'mental' or 'sensory' impairments in relation with*

with disabilities are estimated to live in poverty (Light for the World International 2016).[2] In Ethiopia, only 3% of an estimated 2.4 to 4.8 million children with disabilities go to school, due to stigma among parents and educators, inaccessibility, rigid teaching practices, poorly trained teachers and a lack of adapted learning resources (SIDA 2014). Studies on the level of access to resources like finance by people with disabilities are rare. According to the Center for Financial Inclusion's (2010) 'best estimate,' clients with disabilities account for no more than one half of 1% of total MFI clients worldwide.

Credit and other financial services can provide small-scale farmers with the opportunity to improve farm productivity, and transition from subsistence farming to large-scale and commercial farming. There is some progress in expanding access to financial services in Ethiopia over the last few years. According to Global Findex, financial inclusion in Ethiopia improved substantially between 2014 and 2017. The share of adults with a bank account rose by 13%, compared to 2014, to stand at 34.8% in 2017. However, this level remains lower than the sub-Saharan average of 42.6%, and the gap in account ownership between men and women is 12%, while the gap between richer and poorer people is 21% (Making Finance Work for Africa, 2019).

According to a World Bank Group (2019) study, one reason why women may have less access to formal credit is that they are less likely to own and control physical assets that serve as collateral. Furthermore, on average, women have lower levels of human capital (e.g., business skills) and social capital (networks) which, in turn, can decrease their eligibility for formal credit. This puts women at a disadvantage: when credit is constrained, women farmers are likely to use suboptimal levels of productive inputs, thereby limiting their productive capacity. Similarly, findings from a larger survey (AEMFI-EIFTRI 2017) also showed that insufficient volume of credit was the most obvious and pressing challenge (indicated by 64.9% of respondents) hindering youth-owned micro and small enterprises in Ethiopia. Studies conducted specifically in the program areas also suggest that enterprises owned by women and youth face obstacles to obtaining financial services, including high collateral, high interest rates by FSPs, and a lack of appropriate financial products designed to meet specific financing needs (CRS 2016a), with distances from financial service providers being a significant barrier for women (CRS 2016a and 2016b).

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social, economic and cultural discrimination." COWASH (2017), on the other hand, draws a clear distinction between "impairment" and "disability." Impairment refers to problems in body function or structure: physical impairment, sensory impairment (including visual, hearing and communication impairments), intellectual impairment (which includes persons with limited ability to understand new or complex information and to learn, and apply new skills), and psychosocial impairments which relate to severe and chronic mental health conditions. Accordingly, disability has a broader meaning than impairment. It refers to impairment, limitations in activities (e.g. inability to access a toilet) and restrictions in participation (e.g. difficulties going to school or in being employed) due to not only the impairment but also to barriers encountered in society. … An impairment becomes disabling when individuals are prevented from participating fully in society because of social, political, economic, environmental or cultural factors. "*Disability is not something individuals have. What individuals have are impairments. Disability is what happens when people with impairments encounter a society created by and for people without impairments*" (COWASH, 2017).

[2] Light for the World, Ethiopia Country Strategy, 2016-2020

3.2. Productive Safety Net Programme: Providing livelihoods for vulnerable households

The PSNP targets chronically food-insecure households who have few or no income-earning opportunities, and employs a significant number of project participants, reaching about 8 million people, making the PSNP the largest single employer in Ethiopia (IMF 2013 and Bossuyt 2019). To target support programs under a safety net, the poor are categorized into two broad segments: able poor and ultra-poor.

The **able poor** are supported by engaging them in public works including forestry, water and soil conservation, road construction, school maintenance, seed production, etc. Potential participants are selected based on targeting criteria established at the local level. The number of people from such households is also based on household size. Households are given work opportunities for 6 months, during which time they receive cash (3 months) and in-kind support (3 months), respectively. For the other six months of the year, households need to work on their own. Young people often participate on such difficult, laborious tasks on behalf of their parents. Often beneficiaries have to travel long distances (sometimes repeatedly) to towns or cities to reach the agent who makes the digital money transfer (using the M-Birr system). The **ultra-poor** are entitled to a livelihoods transfer of $200 (about ETB 5,000 to 6,000). The recipients are encouraged to invest such a transfer in income-generating activities, like purchase of livestock (e.g., goats). Most of the participants in this scheme appear to be very old people and PWDs.[3]

3.3. CRS, MCS and HCS operations

3.3.1. Feed the Future Ethiopia Livelihoods for Resilience – Oromia Activity and the Development Food Security Activity

Catholic Relief Services, in partnership with Hararghe Catholic Secretariat and Meki Catholic Secretariat, is implementing the Feed the Future Ethiopia Livelihoods for Resilience – Oromia and USAID's Office of Food for Peace-funded Development Food Security Activity. These Activities focus on the food, nutrition and livelihoods security of Productive Safety Net Programme households. They operate in 14 *woredas* and overlap in four *woredas.* The Feed the Future Activity overlaps in 1 *woreda* with World Vision Ethiopia (WVE).

3.3.2. Feed the Future Ethiopia Livelihoods for Resilience – Oromia (LRO)

The Feed the Future Ethiopia Livelihoods for Resilience **–** Oromia Activity aims to enable PSNP IV households to improve and sustain their economic well-being. CRS implements the

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[3] There were complaints on the selection of PSNP clients. In FGDs and individual interviews, rural non-PSNP participants said that those that were well-to-do, and who had plenty of land and livestock, were also PSNP clients, while the poorest are left out. Those non-PSNP rural people also could not join SILC/LG groups and benefit from the trainings and awareness-creation opportunities. Many had reservations about what they saw as discriminatory interventions. The challenge of proper targeting sometimes complicates other programs in the localities. A KII with *kebele* leadership suggested that they were facing challenges in getting the full commitment of non-PSNP members on development activities in their area. The non-PSNP members were not willing to participate in government initiatives and they wanted PSNP members to be involved in all the public works, because they received money and food support.

Activity in collaboration with its partner MCS in Oromia. The Activity has nine target *woredas*: Arsi Negele, Heben Arsi, Shala, Siraro, Adami Tulu Jido Kombolcha, Boset, Dodota, Sire and Ziway Dugda. The lifespan of the Activity is February 1, 2017, through January 31, 2022. It aims to reach 24,500 PSNP households with the key objectives of:

- Increasing income and diversification through crop and livestock opportunities
- Increasing income and diversification of off-farm livelihood options
- Increasing income from gainful employment
- Increasing innovation, scaling and sustainability of livelihood pathways

3.3.3. Development Food Security Activity (DFSA)

CRS' Development Food Security Activity is an initiative to sustain and build upon the previous food security improvements achieved under the Government of Ethiopia's framework of the Productive Safety Net Programme. The goal of the CRS DFSA is to improve and sustain food, nutrition and livelihoods security of households and communities. The lifespan of DFSA is September 30, 2016, through September 29, 2021. The DFSA has three purposes—PSNP systems, economic livelihoods, health and nutrition—and one cross-cutting sub-purpose: gender and youth:

- Women and youth have increased access to and control of community and household resources
- GoE and community systems respond to reduce communities' and households' vulnerability to shocks
- Households improve their sustainable livelihoods and economic well-being and
- Pregnant and lactating women, and children under five years, have improved nutritional status

The DFSA is implemented by CRS in collaboration with Mercy Corps, MCS and HCS. It is implemented in Oromia and Dire Dawa Administrative Council. CRS' DFSA operates in four livelihood zones and plans to serve 48,125 PSNP households (240,525 PSNP clients).

3.3.4. Access to finance facilitation and structure by the Activities

In addition to the project management at headquarters, the Feed the Future Activity has three layers of structure at branch, *woreda* and community/*kebele* levels to facilitate access to finance and to provide support. One branch supervises and coordinates the activities of between two and four *woredas*. There are three branches: Shashamane, which covers four *woredas* (Arsi Negele, Heben Arsi, Shala and Siraro), Meki, which covers two *woredas* (ATJK and Ziway Dugda) and Dera, which covers three *woredas* (Sire, Dodota and Boset). In relation to access to finance, gender and youth, the staffing and management of the project at branch level includes a deputy project manager, access-to-credit officer, SILC officer, youth officer and gender officer. The structure at *woreda* level includes a financial linkage expert, SILC supervisor, and youth and gender expert, while at *kebele*/community level, the structure includes community animators and field agents.

Similarly, in addition to the high-level HQ structure at Shashamane and Dire Dawa offices, the DFSA has one gender and livelihood officer in each. From MCS and HCS, in terms of staffing, there is project manager who is responsible for the overall coordination of youth, livelihood, SILC and gender coordinators/officers. They are responsible for coordinating *woreda*-level activities. Again, at *woreda* level, there is one youth and one gender expert. Some of the activities of both projects are coordinated with the GoE Woreda Food Security Task Force offices.

Livelihoods groups provide an entry point for the livelihood activities of the projects. Members of these groups receive trainings in livelihood skills, participate in SILC groups, and receive messages on topics like gender, the environment and health. Group members are supported to select on-farm and/or off-farm pathways as a livelihoods options that they want to invest in - In this process, with the support of project *woreda* experts at the community level, the role of development agents, community animators and field agents has been crucial.

Development agents, community animators and field agents provide valuable services for PSNP project participants, closely supported by SILC supervisors. CAs are responsible for organizing PSNP participants in a specific *kebele* into LG groups and facilitating life skills trainings. DAs are responsible for helping CAs support LGs in livelihood activities. CAs work with the DA to implement PSNP activities, including livelihood interventions. FAs are responsible for engaging the PSNP households in SILC activities, and preparing them to eventually access financial services from formal financial institutions.

They attend most weekly SILC meetings, provide trainings, and give advice. The number of SILC groups they monitor varies, depending on the number of SILC/LGs in each area, and the number of meetings in a month (some weekly, some fortnightly). Often CAs and FAs collaborate on joint planning to support SILC/LGs. Their task is often challenging in localities where communication and transport are difficult, especially remote villages. Their tasks often include supporting groups to follow up on borrowers. Some have received bicycles, but they suggest other transport modes (e.g., motorcycles) for difficult areas.

The program head at Arsi Negele *woreda* said during the KII that in addition to the existing structure of coordinators, supervisors, field agents and community animators, DFSA is employing 15 livelihoods extension workers (one per *kebele*) who are tasked with supporting production and marketing, and facilitating linkages between demand and supply. This could help remove important constraints that poor households face in their marketing efforts. The FAs are working to eventually become fee-for-service private service providers when the program phases out.

3.4. Savings and Internal Lending Communities (SILC) groups and livelihoods groups

SILC groups are formed among PSNP clients with more or less similar socioeconomic backgrounds. Membership generally ranges between 15 and 30 people. They have elected leaders who comprise the SILC's management committee and include the chairperson, secretary, cash-box holder, treasurer and three keyholders. Many set a quota for the number of women in management. Treasurers, as well as key holders, are mainly women. Most of the SILC groups meet weekly. Members decide when and where to meet. During the meeting, members contribute to a savings fund (often ranging from ETB 10 to 50) and a social fund (often ranging from ETB 2 to 5).

SILC groups provide financial services that meet the specific needs of their members, including for savings, loans and insurance. Regular savings from each member help to generate liquidity that can be loaned out to members for financing small businesses. The available data from MCS suggests that the number of clients participating in SILC was 18,573, of whom 49% were female, while youth constituted 20.1%. While all members participated in internal saving, only 53% accessed loan from their groups. Some 9.5% could also access loans from formal FSPs as a result of the linkages facilitated with such institutions. The social fund aims to serve as informal insurance, and caters for the emergency needs of members. Social funds are highly valued by many participants, since they can meet very immediate needs of households, saving them from having to lose assets to cope. Without such funds, the household would have to borrow from individual moneylenders at exorbitant interest rates, or sell livestock at a depressed price.[4] While *iddir* (informal insurance for funeral service) are meant to serve such needs, some FGD participants said that they were often not nearby, had their own bureaucracy, and were inefficient.[5]

The groups do a **share-out** (often conducted annually) whereby each receives the accumulated savings, the interest earnings from lending the money, as well as fines. This is an important event (often called an annual audit), which builds the confidence of members in their SILC group. It is often a joyful moment. Members can reinject part or all of the money they receive, and they can also make changes to those people in management. Those in management who are not performing well, not demonstrating integrity and honesty, who miss meetings, don't come on time, or don't pay loans on time are replaced by others, who are more trusted by members. Those in the secretary position are often changed less frequently, perhaps because it is difficult to replace them given the limited availability of people with some level of literacy.

SILC/LG groups have rules (also called the group constitution) developed based on the full participation of all members, and every member should abide by them. Many rules include such subjects as weekly/fortnightly meetings, regular contributions to savings and social funds, level of loan size, management terms, penalties, etc. Developed in a participatory way, such rules tend to be flexible, accommodating the interests of the group members, and are far more suitable to the needs and interests of the members than the terms and conditions of formal institutions, which are often formulated using a more top-down approach. Members may leave

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[4] "The social fund can save lives and insulate members from the shame of vulnerability in times of crisis … and in the process preserve the dignity of desperate members. Before joining a group, they would have had to hurry from neighbor to neighbor, scraping together the needed sum, or would have rushed straight into the arms of an expensive moneylender." *(*SEEP Network 2013, p. 86)

[5] Often *iddir* can also be risky, as the money is left in the custody of an individual (compared with three keyholders, and one cash-box holder cashier in SILC), and those in *iddir* management tend to be dominant, often holding power for an extended period of time (while SILC management is subject to change every year). Often there is room for leadership to misuse the money to their individual advantage, including lending it at high individual moneylenders' (*arata*) rates. Some FGD participants said that *arata lenders* were very common 10 years ago before MFIs and CRS support.

the SILC/LG groups when challenged by other members about failure to attend regularly, failure to save regularly, misbehavior, etc.

Many members are happy about the regular meetings, which give them an opportunity to strengthen their social networks and discuss socioeconomic issues, share ideas, etc. Moreover, the platform offers a learning opportunity among peers, and the regular saving sometimes gives rise to a positive competitive atmosphere, enabling members to gradually build up financial capital. Members, including women, in mixed-group FGDs were active participants, while some were in leadership positions. Most believed the groups could improve their future. The various names of the SILC groups exhibited the aspirations and virtues that members wished to see included the group's vision. Examples of such names include: *Dureti* (rich person), *Biftu Ganama* (morning sun), *Adi Goba* (mountain, that cannot be pushed away), *Ifa Basi* (free yourself from darkness), *Melka Misoma* (prepare for development); *Abdi Boru* (hope for tomorrow). Others who did not join the groups (including non - PSNP -participants) expressed an interest in joining or forming similar groups. However, from various FGDs, it appeared that the scope of these groups to build the social capital of members, enabling them to play a more enhanced role in value chains, and to act as a voice for the social and economic rights of groups, is limited.

3.5. SILC trainings and capacity building

The SILC groups have been receiving trainings on topics including SILC induction, financial education/litracy, business plan development, SMART skills, internal lending practices, household debt management, Community Conversations, Faithful House, etc. Among the regular trainings, what SILC members enjoyed most were perhaps trainings on savings and gender (locally called *cornia*). Participants mentioned how useful the trainings on saving and livelihoods planning were. Many (especially men and youth) said that they used to spend money on trivial activities and were not focused on the long term. Many male participants said that they used to be drunkards and chew *chat*, spending money in towns. Now they are disciplined, and no longer disgraced by having to borrow even small funds from friends and neighbors. In some areas, female participants expressed great satisfaction with the adult functional literacy program, especially on reading and writing, numeracy, etc. They said: "*We are no longer signing by our fingers, now we can sign with our names; we can also read numbers; we can read numbers on scales at local grain mills, no more cheating us."* The capacity building on gender appears to be quite significant. Major capacity-building trainings by the program are discussed below.

3.5.1 Gender capacity building

Perhaps among the most valuable training in SILC is on gender. The FGD discussions often became lively when the topic on gender was raised. Both male and female participants mentioned how useful this training was, as it enhanced collaboration between spouses, increasing "love" and happiness in the family. Husbands were now taking up activities considered "women's tasks" including wood collection, fetching water, childcare, washing clothes, food preparation, etc. Husbands took up these activities voluntarily (not necessarily waiting until they were asked to). Wives were very happy about this initiative that had resulted in husbands collaborating on household chores, rather than resting after doing farming activities. Women FGD participants said previously they had had to inform their husbands whenever they left the house. There was no trust at all. Some women said: "*Now we do joint planning for the household, including on money matters*," and "*He knows [the amount in] my bank account, and I also know his*.'' Some even said that they believed the divorce rate had declined considerably.

Women are thus playing an increasing role in household-level decision-making, including on issues around money. A woman in an FGD said that she was managing the PSNP money. She accompanied her husband when he went to fetch the money, and took it, leaving only a small amount (ETB 100) for her husband to spend. Husbands repeatedly mentioned that they were very happy because their wives were "loving them more." Many men said that women were good managers of money and they voluntarily handed over money to their wives.

But social norms persist in many contexts. Some men said they were ridiculed by neighbors when they participated in household tasks. Some neighbors would comment: "*Look now the wife is the household head! She is his manager, leading him.*" Sometimes wives themselves were not happy about the changes that contradicted established social norms. They didn't want their husbands to do traditional "women's activities." An elderly woman said in an FGD: "*I don't want my husband to do such activities traditionally allocated for women. His status [in the community] would then be lower. If his status is lower, the status of the household would also be lower. I don't like that.*" In local culture, it is not possible for daughters to inherit family land. It is believed that if land is given to a daughter as inheritance, she will give it to her husband and the family legacy may not continue. Some women in the FGDs also believed this was right and said: "*Women don't care enough about land*."

The old norms persist, whereby wives do many livelihood activities to earn the income to feed the family, while husbands only take part in agricultural activities. Many women are particularly active in trading small items, especially *chat*, coffee, eggs, etc., and transporting such items from their rural village to nearby towns (often 3-5 kms away, travelling on foot, for an hour or more to reach the town) for some profit (estimated to be about 50%). Many women do this almost daily, especially during the dry season of November to February. Husbands enjoy the income earned in this way.

The KIIs with HCS officers suggested that women risk being eventually rejected by their husband, when he wants to marry a relatively younger wife (often as young as age 16). The officers often had to collect information on early marriage, and sue many husbands in local courts, often successfully.

3.5.2. Organizing and capacity building for youth

Youth continue to be among the most marginalized group in almost all areas, with the most vulnerable livelihoods. Youth often do not have their own land. To earn a living, they often are employed on other peoples' land as daily laborers (clearing land, ploughing, maintaining the farm, harvesting). Daily labor has different payment rates depending on the locality and nature of the work. It can range between ETB 80 and 150 per day. For example, maintaining and harvesting tomatoes can earn ETB 80 per day, while spraying insecticide (more skilled) pays ETB 100 per day.

When there are limited employment opportunities, youth often migrate to other (nearby) towns for daily labor. Such employment often includes construction, temporary factory work, working as guards, loading/off-loading, etc. While some (especially those who leave the country) migrate long-term, most leave for short periods (ranging from a couple of weeks to three months) depending on the availability of job opportunities. In many contexts, migration is high after the agricultural season (i.e., December to April). During the agricultural season, many people, including youth, have relatively better work opportunities within their villages, either on their parents' farms or on others' land.

The Activities are trying to support youth for wage employment, or to become self-employed through income-generating activities (on-farm and off-farm). Youth are organized under SILC[6] where they receive training on various topics, especially youth employability skills (YES). Youth were very happy with training on savings, soft skills and entrepreneurship. They said: "*teaching on saving was very good, it has changed us*," as we now free from various bad habits (alcohol, *chat*, cigarettes, hashish, etc.). They are no longer wasting money and have a vision for their future; they have short- and long-term plans for their life. Some said: "*We are sharing our good practice with other youth, we are teaching them,"* "*We are now different, we are now 'big' people, we want to be good role models for the upcoming generation*."

But organizing youth groups appears to be more challenging than those for adults, especially because of the tendency of youth to be more mobile. The available data from MCS suggests that of the total SILC groups, only 20.1% were youth groups (ages 15-29). From various FGDs with youth, it seemed the age restriction may not necessarily have been strictly followed, as there were older people in such youth SILC groups. The KII with two SILC supervisors showed that although there were some youth SILC groups, those that had started some saving were very few. They said that out of the 38 *kebeles* in Dire Dawa, they only managed to organize three youth SILC groups in one *kebele* and one in another.

Supported by the Micro and Small Enterprise Office, many youth in urban areas have been engaged in government public works employment schemes, including housing construction, cobblestones productions, etc. Many municipalities are providing MSEs with production and marketing premises, including the construction of business sheds and credit guarantee schemes without collateral by microfinance institutions (AEMFI-EIFTRI, 2017). Similar efforts are being made to extend such employment-generation schemes to rural youth. In rural areas, the rural Micro and Small Enterprise Office (in collaboration with the Women, children and Youth affairs Office) is trying to create access to communal land that can be used by organized youth for a limited period (ranging from 3 to 8 years) for farming, forestry, livestock rearing and fattening, poultry, beekeeping, production of input for construction (stones, soils, *sand*), etc. In areas where collaboration among respective government offices is relatively good, youth are taking advantage of this opportunity. The Activities support such efforts by supplying inputs and equipment especially for bee keeping.

[6] Many youths participating in SILC/LG groups are often school dropouts (often grade 4-10). Those who have never been in school rarely join such groups (they may have already married and joined adult SILCMany have dropped out of school because they see no hope in education as a source of better livelihoods. They have a lot of evidence that even those who have graduated (from colleges, etc.) have no jobs, so wonder why they should spend their time learning. For many, it is better to work for livelihoods. Many others drop out because their parents cannot support their education.

In some contexts, the collaboration among partners appears stronger. In Harer/Dire Dawa, the HCS natural resources management team is trying to support youth. HCS seems active in organizing youth access to communal land, and initiating agricultural and livelihood income-generating activities. This includes provision of beehives (five beehives for a group of 20 to 25 youth). So far 10 beehives have been distributed to two youth groups. These young people have received relevant training (by HCS in collaboration with Office of Agriculture DAs); get support on managing the beehives from HCS livelihood agents (who are said to be deployed in every *kebele*); and are benefiting from the sale of honey. According to the KII with HCS officers, there was a total of 42 area closures where HCS planned to engage youth in various income-generating activities such as livestock, selling grass from closed areas, as well as honey production. Expansion of such feasible projects by the youth could attract financing by FSPs.

In many contexts youth are not benefiting from such schemes, and unless they get adequate support, they still have limited voice, and cannot claim available opportunities and entitlements. In an FGD with youth in one *kebele*, they said a plot of communal land had been allocated to them for income-generating activities, and they had begun discussing with local authorities on how best to use it, but had faced a protracted bureaucratic process which was still unresolved. The participants believed this was because the land had already been promised to people who had bribed officials.

Many youth are trying to earn an income by engaging in various activities, especially those related to agriculture. Only a few youth can get land from their parents. Others must rent it at a high price. For example, in Dawa *kebele*, Heben Arsi, it cost ETB 1,200 to 2,000 per *kert/annum.*[7] While in areas like ATJK, irrigated land for growing vegetables (tomato, onion, cabbage, etc.) can be rented for as much as ETB 6,000 per annum.

In many contexts, however, the potential for land to be a reliable source of livelihoods for future generations is extremely weak. Alternative income sources, especially off-farm activities, need to be proactively promoted. The Activities financing training of a few selected youth at local agricultural TVETs (covering costs for house rental, food, stationery, etc.) which give training on a few selected skills assumed to have potential demand among employers. From the FGDs, such courses often include construction, metalwork, woodwork (furniture-making), auto mechanic, dressmaking, ICT, etc. However, often there are mismatches between the skills obtained and what employers are seeking. A recent study by Feed the Future (2018) on TVET graduates suggested that 10% of graduates got wage employment, 40% worked in cooperatives, while more than 50% were believed to be self-employed.[8] The key gap in meeting employers' demands was said to be limitations on soft skills. Youth in many FGDs often mentioned the need to tailor such trainings to the needs of potential employers, including focusing on areas that would enable them to engage in their own income-generating activities. Some FGD participants suggested that training, such as on driving skills, be included besides

[7] A *kert* is a local unit equivalent to a quarter of a hectare.

[8] Note: These employment figures *only* refer to those who graduated from TVETs, not *all* youth (15-29).

that traditionally offered by TVETs. Access to suitably designed financial services was another key constraint to youth starting a business.

Among youth, it seemed there were many who were voluntarily unemployed.[9] Youth unemployment, particularly voluntary unemployment, is partly the result of the attitude of young people to blue-collar jobs. In Dire Dawa, youth FGD participants pointed out an abandoned weaving house, established by an NGO some years ago, but no longer operating. It was meant to provide an income-generating opportunity for local youth by engaging them in traditional clothing production. The FGD suggested it was discontinued because of a shortage of inputs, as well as a lack of markets for output. It was not clear to what extent an effort had been made to raise awareness of the value of such activities, especially to change cultural attitudes and historic stigma around activities like pottery, blacksmithing, weaving and tannery, and the low status attached to craft workers.

Much research suggests that youth's perception of white-collar work as preferable is influenced by ideas of job security, family expectations, and the perceived value to society. As a result, it was a "*shocking experience"* for the youth when the government proposed and encouraged them to take any type of blue-collar job (e.g., construction, cobblestones production, farming, livestock, etc.) through employment in private firms or by starting their own businesses. Ethiopian culture has long discouraged metalwork (blacksmithing), handicrafts, weaving and pottery, which are the basis for factory and industrial work (AEMFI-EIFTRI 2017).

Opportunities for engaging youth in feasible businesses could convince FSPs about youth's business repayment capacity, and enhance FSPs' willingness to finance them. Given the wider market that FSPs enjoy, and also given FSPs' limited technical capacity to target and identify suitable youth—those who have demonstrated the right attitude to improving theirs and their families' situation—the youth, especially those with limited resources and connections, continue to have very limited or no access to financial services.

Case study 1: A young person in a SILC group

PSNP client Ashenafi Bula studied to 10th grade. He is now 26 years of age and married. He is involved in farming activities and produces maize, wheat and teff.

The major challenges he has had to expanding his business were weather-related (rain shortage, untimely and erratic rain); lack of access to finance for farming especially after weather-related shocks; lack of appropriate inputs like improved seed for maize that is more suited to the area; high cost of farm inputs and technologies like combiners; high cost of food and clothing; and low market price for produce; a general lack of balance between household

[9] An important distinction needs to be made in defining *involuntary* and *voluntary* unemployment. Involuntary unemployment exists when people in search of work are not qualified for those opportunities that they encounter. These are young people who wish to work but are unable to do so. This could occur even where an economy registers high economic growth and a healthy demand for labor. On the other hand, voluntary unemployed are those who can afford to wait to find a job that matches their desired income level, long-term career aspirations, and location preference. (AEMFI-EIFTRI, 2017).

income and expenses; and limited BDS support for farming, animal-rearing and on other livelihood options.

Some of the business options he had in mind included poultry, sheep-rearing and goat-fattening, but he lacked access to finance, because he didn't have a regular income so it was difficult to get a guarantor for a loan. He said some MFI staff had asked for a bribe to offer loans to youth. He said the MFIs' loan size was too small, and there were many deductions such as for mandatory savings, life insurance and service charges.

He was not a member of a SILC group but his wife was. He did not participate because he was busy and it was difficult for them both to fulfil the weekly savings commitment. However, he appreciated the SILC methodology due to the fact that it enhances saving culture, and the social fund was helpful. He said they sometimes received in-kind support like seeds of wheat, kidney beans and vegetables from the CRS Activities.

To improve the situation of youth in the rural areas, Ashenafi proposed the need for a change in FSPs' assumption that rural youth don't repay loans; awareness raising, training and coaching for rural youth in how to do business; and transparent loan processing by MFIs.

3.5.3. Building the capacity of people with disabilities (PWDs)

"People with disabilities are more likely to experience adverse socioeconomic outcomes than persons without disabilities." (Disability Inclusion, World Bank). So, the development consequences of disability should not be ignored, and understanding of exclusion and marginalization is the key to building a foundation for inclusive economic and social interventions. According to the International Labor Organization:

In Ethiopia, a vast majority of people with disabilities live in rural areas where access to basic services is limited … 95% of all persons with disabilities are estimated to live in poverty. Many depend on family support and begging for their livelihoods. A study in Oromia region, for instance, found that 55% of the surveyed persons with disabilities depend on family, neighbors and friends for their living, while the rest generate meagre income through self-employment, begging and providing house maid services. (ILO/Irish Aid Partnership Program 2013).

The study team held discussions with PWDs (especially those with physical disabilities). Some were already involved in income-generating activities, such as running a barber shop or animal trading, while others were students and were dependent on their parents. The major challenges they cited included limited travel options and a lack of appropriate employment opportunities in the localities. In businesses like barber shops, they could only work for a limited number of hours before they need to rest to avoid the pain of standing for many hours. Some had stopped such businesses due to pain. Some were not members of SILC groups due to their limitations.

It was suggested by most of them that business activities like shops were more appropriate for their situation. Those who were involved in barber shops, for example, said they could hire other people to run it. However, they could not surmount their current challenges due to a lack of access to finance to start a business and to buy the necessary materials. In addition, it was mentioned that there was also a lack of business knowledge. They did not seek a loan from financial institutions because they felt they would be rejected on the grounds of the disability and their choice of business. For most PWDs, it is very difficult to improve their situation with limited PSNP food and cash support. Even if they have business vision, they have the perception that PSNP support is for basic needs rather than for business activities.

Case Study 2: Young people with disabilities

Mamuye Beyene is 16 years old, has mobility challenges and is a grade 3 student. He lives with his parents, who have 0.35 hectare of land on which they mainly produce maize. His parents are PSNP clients and he is part of a SILC group.

He saves ETB 5 per week. He has not yet taken a loan from the SILC group but in future will do so to buy clothes and school materials. His vision is to complete his education. At his walking speed, supported by a stick, it takes him 30 minutes to walk to school.

To support his family, Mamuye also begs and puts some of the money toward his weekly SILC savings. He decided to save at SILC to improve his situation, but sometimes he cannot get the 5 ETB he needs to save per week. Also, he has to walk 30 minutes to reach to the SILC meeting place and he has found this difficult to do every week. He said if could get access to finance, he would like to have a business like a shop to buy and sell items like soft drinks, bottled water and candy.

3.5.4. BDS support facilitated by the program

Tailored BDS support plays a critical role in supporting vulnerable households to emerge from poverty. This includes the trainings at SILC meetings on livelihoods pathways, business planning, financial education, etc. SILC members also receive material assistance and skills trainings—which facilitate engagement in livelihoods like beekeeping and poultry—as well as seed for crops. Unfortunately, inadequate BDS support is one of the greatest constraints to households. But some good efforts were observed. A KII with a program livelihoods expert suggested that the Diversification for Nutrition and Enhanced Resilience (DiNER) fair program was facilitating access to some critical inputs by many PSNP households. Such support included a free supply of poultry, vegetable seeds (cabbage, carrot and beetroot) as well as for haricot beans, maize, groundnuts, etc. HCS has also supplied water pumping equipment for 20 out of 38 kebeles for irrigation use. the distribution is based on the voucher system, through few youth cooperatives.

3.6. Demand-side access and use of financial services

SILC members have received various trainings and capacity-building support to accumulate small savings, and access small credit amounts for investing in appropriate on-farm or off-farm business, and diversify income sources to better manage risks and absorb shocks without having to deplete productive assets. From many in FGDs and KIIs, it was clear that all the members were actively participating in the SILC groups' savings and insurance (social fund) services, but only some were accessing small loans from SILC groups. Trainings on financial education would prepare them to eventually access financial services from formal FSPs.

Members benefit from accessing such services from their SILC groups under flexible terms and conditions that better meet their needs and demands. The loan period is flexible enough to accommodate the needs of fellow borrowers. Interest rates are also determined through discussion by members, in many cases ranging between 5% and 10% per month. While apparently relatively expensive compared to other formal and semi-formal[10] sources, borrowers seem less sensitive to this cost, perhaps because of the advantages of the service: that they can access it from within the village, easily negotiate the terms and conditions, avoid bureaucracy, and there is potential flexibility should they face unexpected challenges while running their business, etc. In many areas, in response to requests by members (especially in Muslim-dominated areas), groups provide interest-free loans. Many are also members of RuSACCOs, where they are shareholders and can access loans.

Borrowers use a small loan (often ranging from ETB 300 to 1,000) on small businesses (but also for consumption smoothing, and meeting other emergencies). The businesses often include crop production, livestock (goat/sheep-rearing, poultry) and trading (buying and selling in same area, buying items from the locality and selling them in nearby towns, buying items from other areas and selling them in the locality). In many contexts, however, farming is said to be a less attractive and risky, as it is often subject to recurrent environmental challenges (like drought), is little served by modern technology, and other support from local actors (DAs of agricultural offices) may be limited. In many cases farmers, especially those who are very poor in remote villages, do not have any support from agricultural offices, or any other opportunity to learn, and as a result they often have to search for private sources (e.g., local kiosks) even for the very basic services and products like fertilizer, chemicals, etc, where there is no quality control[11].

From many FGDs, it looks like such highly risk-averse clients only want to progress gradually on external loans (e.g., from ETB 1,000 to ETB 2,000, to ETB 3,000, etc.) which may not be an attractive prospect for formal FSPs like MFIs. Many such clients are otherwise afraid of MFIs' loan terms and conditions, especially the group-lending modality (the dominant modality used to create access to loans for poor people who have no material collateral, or other guarantors). The methodology often requires having to form groups (of 3 to 5, or 7 or 10, etc.) with people, including those living in another village, about whom members may have little or no information, especially when it comes to their financial behaviors. The loan size taken by other people can also be comparatively high, and therefore very risky if they can't repay it, compared to loans from SILC groups, where the borrower only needs to bring a guarantor from within the group, and they are not required to cover defaults for other people. Finding a guarantor from within the SILC members for smaller loans is not as problematic, and the SILC group also has flexible arrangements in case of genuine business (or other social) challenges.

Yet there are also other complaints about products and services offered by formal FSPs. Often mentioned was the level of bureaucracy, including preconditions for loans (KYC), as well as products' terms and conditions, including repayment schedules, repayment periods, and rigidity on timely loan repayment. Increasingly, a high dependency on collateral (especially land

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[10] Semi-formal financial services are organizations which are not licensed to do financial intermediation by respective authority (the National Bank of Ethiopia), while they are registered at the National Cooperative Agency.

[11] In many of these areas, agriculture, a key source of livelihoods in many other rural areas, provides little opportunity, because of drought as well as little technological support. For example, participants in one FGD (Dodota) suggested that land and labor productivity was very low because of the limited use of fertilizer and improved seed. Because of limited availability of improved seed in the area, they had been using fourth and fifth generation seed especially for wheat and teff. Some households have to share inputs. For example, they buy 100 kg of fertilizer and take 25 kg or 50kg each, regardless of the recommended amount for the available land size.

certificates) is posing considerable challenges to potential clients, who are afraid of pledging the certificate (a highly valued resource) to access working capital. Others (including some stakeholders in government and NGOs) were confused about the different levels of interest on loans, and why loans meant to be for the poor are even more expensive than bank loans. Many mentioned the bad (sometimes harsh) loan recollection practices by some frontline staff (including forced selling of livestock, confiscation of property, litigation and imprisonment). Such practices continue to create bad image of the MFIs. One of the FGD participants said:

> *"I borrowed ETB 5,000 from an MFI. I used part of the loan for farming inputs. The rest I used to buy three goats. Due to [bad] weather, I lost my produce and could not repay the loan. I had to sell the goats, repay the loan and start daily labor work.*

Another FGD participant said: "*I borrowed from an MFI in a group. Three group members defaulted. The rest of us repaid their loan. Since then, I have stopped borrowing from the MFI.*" In some cases, *kebele* meetings are also avoided by local people, considering such meetings can be used as an opportunity for MFIs to seek loan repayment.

Women's choice of activities and the ability to increase their income is further constrained, among others, by gender inequality in accessing complementary resources for investment, time poverty due to domestic work responsibilities, and a low level of mobility, all of which limit women's access to profitable markets, and their potential demand for investment finance from formal FSPs.

> Effective access transforms mere (physical) access into actual usage. In other words, a financial product is likely to be used when it is physically accessible, when it has a clear value proposition for the user (i.e. its utility outweighs the cost) and when the user is eligible for it. (DFID 2013)

For example, in Ethiopia, at the national level, some 41% of borrowers are women (AEMFI 2018) (no data specific to Oromia or program area). But having access to a loan does not necessarily mean actually using it. While detailed studies on this important issue are rare, some earlier studies (Amha 2008) suggest that only 38% of women borrowers who accessed loans from MFIs in Ethiopia have actually used it on their own business, while the rest handed over the money to husbands and others. There are a number of research reports especially in the microfinance sector on the issue of women being used only as "fronts" for accessing loans by others (Kabeer et al. 2012, Kabeer et al. 2011).

"Women's access to credit is a double-edged sword" (Crookston, et al 2019).

In particular, where such micro-credit services are not accompanied by other essential services in business, skill development, labor-saving technologies, etc., cases have been observed in many other contexts where women have been increasingly indebted. Studies indicated that in some instances, inability to make on-time repayment and increased debt has been the greatest 'source of stress' for poor women, and there are many real cases of suicide committed by poor women in India and elsewhere (Getaneh 2011).

As much research in developing countries suggests, for the majority of vulnerable poor women, credit may not be the most preferred product (Collins et al. 2009, Banerjee et al. 2014). The majority of such vulnerable people are highly risk averse, and trying to survive under low, variable, and unpredictable income situations. For most of them, other financial products like savings and insurance could be more appropriate. The study team observed the very high value attached to services like the social fund and regular savings provided by the SILC groups. But again, such services were generally not offered by formal FSPs, or, if available, were not well known by such potential target groups[12] and, as a result, informal sources continue to be favored in the localities.

Youth in most cases appeared to be more interested in quick gains, and less motivated to engage in gradual changes. Organizing them into SILC groups is more challenging, especially because they tend to be more mobile. For example, in one *kebele*, youth (mixed group) FGD participants said they had formed a separate youth SILC group a year or so before, and started saving ETB 30 per month, but that savings and regular meetings were discontinued because they saw no benefit in the savings and the training. Participants said that they needed "meaningful sums" of money (about ETB 5,000 to 10,000) for them to engage in some kind of business.

Apart from the general constraints faced by others in accessing financial services, youth in FGDs raised the additional challenge of negative attitudes of formal FSPs toward serving youth. The federal and regional governments and city administrations have been allocating a lot of funding to finance youth for employment creation through government-owned MFIs. Due to the MFIs' limited autonomy in proper client screening and loan decision-making, there has been huge loan default among youth borrowers. As a result, MFIs' portfolio at risk (PAR) has been increasing and the repayment rate has been dropping below the standard (95%). This has created the impression that youth in general don't repay loans. As a result of this stereotype, the majority of youth with feasible business plans, who could borrow and repay a loan, have been excluded.

Many parents seemed reluctant to become guarantors of FSP loans taken by their children. Many FGD participants were not sure if there was adequate support from government or NGOs to equip youth with the appropriate skills, behavior and attitude for business. Parents worried that ineffective capacity-development programs by NGOs and government actors, and inadequate facilities (BDS, access to finance), resulted in their children not settling in the localities, but rather considering migration.

For people with disabilities, it was even more difficult to form groups to access loans, especially from MFIs, as they could not easily find people to form a group with, and nor did they have material collateral. There seemed to be a strong bias against serving PWDs, and some formal financial service providers still maintained a policy that excluded PWDs from their services. The prevailing view and attitude in the community and in institutions toward PWDs also meant that such people also excluded themselves from groups and some services. In KIIs, PWDs recommended appropriate, tailored products and MFI lending methodologies that suit PWDs, as well as selection of appropriate loan disbursement and collection locations, including a special

[12] In spite of the expansion of branch outreach by FSPs like MFIs, their products and services (especially related to voluntary savings) were little known by potential clients. This has been acknowledged by the NBE's (2017) National Financial Inclusion Strategy, as limiting potential use of such services.

loan for three-wheeler motorcycles so they could be actively involved in business as this would facilitate their easy mobility.

3.7. Supply side landscape, products and services of financial services

3.7.1. General landscape on access to finance

Financial services could play a critical role in sustainable economic growth, poverty reduction and food security in Ethiopia. Financial services are essential for protecting and improving the livelihoods of rural populations. Because only a few financial institutions serve rural areas in Ethiopia, the agricultural sector and rural areas face gaps in access to financial services, and product quality and quantity.

The main financial institutions offering financial services are banks, insurance companies, microfinance institutions, cooperatives and informal financial institutions. Ethiopia is one of the most under-banked countries in sub-Saharan Africa. According to a study published in the *International Journal of Economics* (Andualem 2017) about 36.5 million adults (66.14%) in Ethiopia are "unbanked", i.e., without an account. According to the study, the main barriers to bank account use were lack of money, distance, cost, documentation and other barriers like another family member already having an account, lack of trust and religious reasons.

According to a 2017 NBE study, 56% of adults did not have a savings or loan account at formal institutions, and 38% of Ethiopian SMEs reported needing financing but did not have access to loan. Although agriculture contributed 38.7% of the GDP of Ethiopia and 85% of the employment, it received only 11.7% and 9.3% of the total loan portfolio to private sector by commercial banks and MFIs, respectively. According to a rural financial services (RFS) strategy developed by ATA in 2014, approximately 6% of the rural adult population (one-quarter of the national total) had access to financial services through rural-focused institutions (MFIs, RuSACCOs). The estimated rural "credit gap" is ETB 38 billion to 60 billion for smallholder farmers alone and up to ETB 160 billion for the rural sector in general. Insurance penetration remained low, 0.44% for life and nonlife insurance together. In terms of financial literacy level, a study by World Bank Development Research Group in 2014 on 140 countries and 150,000 adults indicated only 32% of adults were financially literate.

Microfinance institutions are the most common formal financial institution to provide financial services to rural areas in Ethiopia. The national data from AEMFI (2018) indicates that the 34 licensed MFIs are serving a total 4.59 million active borrowers, of whom 41% are women (no disaggregation data for youth, PWDs, low-income people, etc.). The services provided by MFIs include collecting savings, providing group and individual loans, micro-leasing activities, micro-insurance and domestic money transfer services. The data indicates that most MFIs provide mostly credit and limited saving services. While the savings products are limited to a few (including compulsory saving), the number of credit products continues to be diversified, as many MFIs continue to explore the untouched markets (especially after NBE relaxed the regulatory environment), including reaching out to those in urban areas, like salaried people. As a result, many of the MFIs (especially those established a decade or so ago) have five or six loan products, while some big MFIs have as many as 12 credit products. Because the demand for microcredit outstrips the supply, an estimated 80% of the demand for loans is still uncovered (Amha and Alemu 2014). This huge potential market provides FSPs with an opportunity to focus on the most profitable market segment, leaving out other segments that involve high transaction costs, including poor people and those living in rural and remote, drought-prone areas, although the vision and mission statements of most MFIs imply that reaching out to the poor and addressing poverty are also part of their institutional objective.

On the other hand, there are about 27,000 cooperatives (multipurpose and SACCOs) of which about 30% are SACCOs. These member-based organizations (especially RuSACCOs) are easily accessible to low-income and rural people, and could better respond to the needs and demands of members to strengthen social cohesion and members' economic empowerment. But as discussed below, they suffer from a lack of capacity.

The other important sources of rural finance in Ethiopia are informal. The major informal finance sources are relatives and friends, moneylenders and informal community-based organizations like *equb* and *iddir* (Aredo 2004). An *iddir* is an informal insurance group intended to mitigate emergency situations such as the death of a household member, loss of livestock and other shocks, while an *equb* is an informal rotating savings and credit association. Besides these, keeping livestock and jewelry are other in-kind saving options of rural households.

3.7.2. Financial landscape in the study areas

Generally, there is always weather-related risk in agriculture. Most of the PSNP areas visited were drought-prone and beset by cyclical and unpredictable weather-related problems, which made financial services in those contexts riskier. As a result, there was a limited presence of FSPs in those areas. Below, we consider the cases of MFIs and RuSACCOs, as well as how SILC groups are trying to fill the gap.

3.7.2.1. Microfinance institutions

Microfinance institutions are formal financial institutions licensed by the NBE to provide demand-based financial services to less-served sections of the population both in urban and rural areas. But few are operating in the rural areas, especially in drought-prone ones. In some areas, for example, the only formal FSPs available at least at the *woreda* level were OCSSCO and Metemamen, operating in *woreda* towns and in selected rural areas. On the invitation of the project and incentives like the loan guarantee of 25% to 35%, MFIs like Metemamen, Vision Fund and Meklit started intervening in a very few PSNP *kebeles*. Other than these, other MFIs were not available in these areas or, if available in the nearby towns, only focused on urban areas. This situation was even worse in HCS areas. Of the formal FSPs, in the rural areas, only OCSSCO or Dire MFIs were available depending on the area.

The existing financial products of MFIs are more suitable for farming activities, but such activities are not ideal in drought-prone PSNP areas beset by weather-related problems. There has not been a serious effort by MFIs to assess and understand the context and the financing potential of clients, especially that of marginalized people like women, youth and PWDs in PSNP *kebeles,* and to design suitable financial products accordingly. Some MFIs have already experienced huge loan defaults (detailed below). As a result, they have fully or partially withdrawn from providing especially loan services. Logistically, some PSNP *kebeles* are very far from FSP offices. From a business perspective only, some of these areas are risker and it might be too costly to operate there. There are not enough financial incentives for FSPs to work with the poorest of the poor.

Some MFIs, especially those with experience in the locality (and field staff deployed there) are willing to serve poor clients. However, MFIs have a minimum level for profitable loan size, below which they may consider the amount too small, and involving high transaction costs. From various KIIs, it was found that this minimum loan size was typically ETB 5,000 to 6,000 per client, which was often beyond the absorptive capacity of microbusinesses, and exceeded the risk appetite of most SILC members. Many MFIs originally had the vision/mission of serving the poor (and the poorest of the poor). The NBE 1996 regulation required that MFIs not lend more than ETB 5,000 to any individual borrower, to keep them focused on serving the poor, largely through the group-lending modality. Yet, it appears that MFIs have increasingly become more focused on the business objective, preferring to continue serving existing clients, about whom they have adequate information, especially on repayment history (and whose demand for loan size has substantially grown over time) than serving the newest, especially relatively poorer, customers.

Gradually MFIs have also learned the market, and started to diversify their products, as well as their markets, and nontraditional customers have become their potential customers. Such potential customers include those in non-agricultural sectors (e.g., trade), urban people, SMEs, salaried people, etc., where they enjoy alternative profitable markets. The NBE regulation has also become increasingly relaxed to accommodate the interests of MFIs. Current permitted loan size for an individual borrower can be as high as 1% of MFI equity (and 4% for groups). As a result, many MFIs can now extend a loan of ETB 100,000, while larger MFIs can lend ETB 1 million to individual borrowers. Indeed, the MFIs are enjoying a very large potential market for their existing traditional product, especially focused on credit. As a result, people in remote villages and poor customers in drought-prone areas, like PSNP clients, might appear unattractive to MFIs unless greater incentives are offered to serve them.

MFIs receive various supports to encourage them to offer services to the less served. Yet, in KIIs with MFI officers, there seemed to be a general consensus around the lack of a level playing field among different MFIs in the country. Some are government-backed, some NGO-based, and others private. Government-backed MFIs especially have been enjoying access to capacity support (soft loans, staff training, logistical support, etc.) due to their responsibility to support government development programs. However, this has created challenges that have negatively affected the competitive position of other players that do not enjoy similar support, thereby limiting alternative access to finance by the majority of low-income people. There should be some exploration of whether purely profit-driven MFIs should receive the same support and access to vulnerable clients as pro-poor NGO-run MFIs. The cases of some MFIs are discussed below.

Oromia Credit & Saving Share Company (OCSSCO) is one of the largest, government-supported MFIs, with an extensive network of branches throughout Oromia. It often deploys frontline officers to reach virtually every *kebele*. MFIs like OCSSCO, backed by the regional government, often bear primary responsibility for promoting and supporting national and regional development agendas, focused on poverty alleviation and sustainable development. To that end, the MFIs must often adjust their internal policies and procedures. In line with this, some branches of OCSSCO (e.g., Siraro) mentioned that OCSSCO had introduced some flexibility in its procedures to meet the needs of PSNP clients. Thus, for PSNP clients, interest on credit was 13% (compared to 17% for regular clients), no compulsory saving was required, and there were no service charges (compared to 3% for regular clients).

However, OCSSCO has faced numerous operational challenges. For example, in one *woreda*, OCSSCO coordinated with the *woreda* Micro and Small Enterprise Office to organize and train youth groups to engage in income-generating activities by accessing finance from the MFI. In the small town of Midega, such support has been given to a number of groups for livestock-rearing (six groups of five members each, ETB 75,000 per group) and farming a 15 ha plot of land (five groups of five members each, ETB 800,000 per group for tractor leasing). These youth are using the traditional MFI interest-bearing loan products, despite it being against their Muslim religion, because there is no alternative. The loan is guaranteed by the *woreda* administration, so potential defaults would be covered for the MFI from the *woreda* budget. This is a rare opportunity for the youth in the area. The KII with officers of the *woreda* Micro and Small Enterprise Office and Youth and Sport Office suggested that although there were some non-PSNP members, most of these youth were from PSNP households, yet the two government officers interviewed had little or no information about the SILC program managed by HCS.

OCSSCO has complained of an accumulation of defaults in many PSNP areas. Working in partnership with the government meant that the MFI needed to collaborate on implementing projects aimed at local poverty alleviation and expanding employment opportunities (especially for youth). As a result, the MFI had to compromise many of its established working procedures (sometimes compelled by those in political authority), especially on screening criteria of potential borrowers. This has been further complicated by recent political unrest and disturbances in many parts of Oromia.

OCSSCO has a lot of uncollected loans in many localities. Pursuant to the NBE regulation of having to maintain a repayment rate of at least 95%, many of the MFI's branches have had to stop disbursing new loans in areas where there are a lot of uncollected loans, which negatively impacts borrowers who have not defaulted, and who still have feasible projects needing finance. For example, in Ziway Dugda, OCSSCO lent in 21 PSNP *kebeles* in 2015. A total of 5 *kebeles* defaulted about ETB 1.9 million. Similarly, in Dodota, OCSSCO disbursed loans in 12 *kebeles* in 2015, and all but one defaulted, on amounts ranging from ETB 83,347 (48 borrowers) to ETB 813,000 (245 borrowers). The MFI branch offices strongly believe that there is a high level of dependency syndrome in the localities, and the majority of the people living there were said to only be looking for grants. In an FGD (adult men), it was also mentioned that some used their PSNP ID to access loans from traders (local lenders) or agents who effect PSNP payments, handing over the PSNP ID as loan security. Loans to youth have been particularly challenging, with the repayment rate being very low (e.g., only 30.9% in Dodota). OCSSCO field officers repeatedly said that they were no longer getting adequate support from local partners (*kebele* administration, Office of Agriculture, the police, local courts, etc.) as they used to some years ago. The current political unrest might have contributed to this situation.

Metemamen MFI is one of the NGO-backed MFIs working in CRS/MCS project areas, and with a genuine interest in supporting poor and vulnerable households. Arsi Negele branch manager for Metemamen said that the MFI implemented the GRAD-supported PSNP program from 2012 to 2017, and repayment performance of PSNP beneficiaries was good (over 99%). The MFI had introduced preferential treatment to such marginalized groups of the population as those engaged in growing crops (*boloke*) and raising livestock (goats). For example, interest on credit was 18% (compared to 21% for a conventional loan), compulsory savings was only 5% (compared to 10% for a conventional loan), there was no service charge (compared to 3% for a conventional loan), etc. This showed that a special effort had been made by the MFI to reach out and benefit marginalized groups. In some *kebeles* of Arsi Negele, the MFI is no longer offering services to PSNP clients because of a high default rate by PSNP clients (as a result of drought in 2015-2017, with many households still recovering). The CA estimated that some 25% to 30% of households faced the challenge, and many had had to rent out their land to cope.

On the other hand, the Sire branch operated in only six rural *kebeles* and one urban *kebele*, out of a total of 17 *kebeles*, because of the remoteness of villages (with no transport means) and fear of default. Earlier, the MFI had exited three rural *kebeles*. In Heben Arsi, Metemamen field office has assessed potential clients. FGD participants said that they had been promised by staff a year or so before that they would have access to credit, but no one from the MFI had visited them again since then. In some areas, like Ziway Dugda, Metemamen provided a financial service in close collaboration with Feed the Future Ethiopia Livelihoods for Resilience – Oromia field office to PSNP households in 5 *kebeles* (of a total of 21 *kebeles*).

KIIs with Metemamen HQ officials (CEO and operations head) confirmed that the Loan Guarantee Fund (LGF) from CRS was 25% (reduced from a previous 50%), which appears (to an extent) to have impacted the MFI's interest in engaging with the intervention, which for them is a bit challenging. The project areas are Sire, Heben Arsi and Shala, which face a "harsh" environment (few opportunities for feasible income-generating activities), and most community members are aid-dependent. The SILC groups were in villages too far from the MFI office, which exposed the MFI to higher transaction costs.[13] MFI operation in those PSNP areas carried multiple risks and the MFI complained of a lack of adequate support[14] from partners, including the government offices.

The officers said the MFI had previously had a good experience working with SILC groups under PSNP (Sire, Arsi Negele, Shala, etc.). That was when the established MFI's regular procedures, steps, terms and conditions were well maintained, including the group-lending methodology (10 to 15 people), regular monthly meetings, etc. In fact, the MFI had a track record of serving very poor people with other programs, including the PROMIC project supported by the Swiss government to facilitate access to finance for marginalized sections of the population, especially women engaged in microbusinesses. They recommended, among other effective BDS support to vulnerable households, raising the permitted ceiling of the LGF from the current 25%; liquidity support (access to soft loans, as well as on capacity on saving mobilization); promoting experience-sharing with Amhara, Tigray, etc.; and raising awareness of MFI operations, on interest rate setting, etc.

Meklit MFI joined a partnership with CRS in 2018, and the objective of the agreement is to improve the livelihoods of food-insecure people living in ATJK through the provision of appropriate financial services. The operation focused 26 of 42 rural *kebeles*, targeting poor people organized in SILC groups. CRS was to provide capacity to the MFI, which included

[13] The MFI policy defines "reachable distance" to be maximum of 40 kms from the MFI branch office.

[14] Including changing the mentality of the population on charity, building BDS support, improving infrastructure, etc.

provision of all office equipment and furniture in a new office, a motorcycle, and staff training to strengthen understanding of the project. CRS also agreed to provide a loan guarantee fund amounting to 35% of the loss from potential default.

Considering this was a relatively new market segment, the MFI conducted mini market research to understand the context of potential clients. Based on that assessment, the MFI designed a tailored credit product that could minimize potential risk. Such a product was to finance diversified income-generating activities for a potential client, specifically farming and livestock. Accordingly, the agricultural loan component was to finance farmers on farm input, for a maximum of a half hectare, while the other part of the loan (livestock) was to finance the price of two goats. Accordingly, the maximum loan size for a borrower was estimated to be ETB 6,000. Those who chose not to engage in livestock-rearing were permitted only ETB 3,000 for farm input. The MFI was flexible enough to accommodate the needs and demands of borrowers, allowing them to take suitable loan sizes, often lower than the predetermined loan sizes.. Although there was a delay in opening the new branch at Ziway, the MFI managed to operate the planned activities in three selected *kebeles*, and disbursed loans to 229 borrowers, under a group guarantee methodology.

The KII with MFI officials suggested that the SILC groups established by MCS were well-organized and committed. Moreover, because the groups were well established with regular and frequent meetings, it provided a good opportunity for MFI field officers to easily contact members for any supervision and training, reducing the burden of having to establish groups, providing training, group animation and other activities. As a result, loan repayments of borrowers were very good, much better than previously perceived.

Meklit appears to have a relatively sound commitment to serving the poor, devoting time to understanding the contexts of the poor, and tailoring products and services, as well as staff behavior and attitudes, to the needs and demands of clients from different market segments. Head office staff frequently visited (sometimes supported by MCS) the field offices and clients as well as potential clients. It is piloting a program to finance youth organized under a youth association. In Meki area, the MFI collaborated to support youth in their efforts to secure livelihoods through poultry production. The youth, who had already secured a work space, underwent appropriate training by a partner NGO called Child Fund (CF), which also facilitated access to young chickens, while Meklit MFI facilitated access to credit. The MFI tried to match the loan product to the needs of the youth association. They did a step-by-step disbursement of the loan (instead of a one-time disbursement), involving space clearance and fencing, food preparation, chicken purchase, vet service, etc. The head of the MFI visited the area, held discussions with members of the youth association, creating awareness of the objective, vision and mission of the MFI and how it operates, as well as demonstrating the commitment of the MFI to supporting them in their endeavors to come out of poverty. Such an effort was said to have been highly appreciated by the youth, a rare opportunity for them to be contacted by a higher official, thus building their morale and inspiring them. The members of the association need tailored financial education and entrepreneurial skills, as well as linkages to marketing opportunities.

3.7.2. 2. Rural Savings and Credit Cooperatives (RuSACCOs)

Rural Savings and Credit Cooperatives offices are open in most of the rural *kebeles*. However, only few are operational and providing savings and credit services. They are the most accessible financial institutions but have limited management and financial capacity to provide finance in these areas. Due to limited savings mobilization, they cannot access loans from SACCO unions to lend to their members. Those that have been providing financial services are also suffering from high loan default. According to Kalata SACCO Union for example, loan repayment from members of RuSACCOs had been deteriorating (about 85% during this assessment). Similarly, the discussion with Duro Shala SACCO Union also indicated a growing loan default (at the time of this assessment, ETB 5.6 million since 2015). There is limited loan screening and management knowledge and skills.

The maximum loan a member can access from RuSACCOs is based on the level of their saving: in most cases, the loan is three times the amount of the member's savings. Some RuSACCOs collaborating with CRS through the Loan Guarantee Fund have revised their policy to enable members to access a larger loan of 10 times the individual's savings. In Siraro *woreda*, facilitated by the CRS Activities, Duro Shala Credit and Saving Union lent to RuSACCOs, which directly distributed to PSNP participants. This practice has given rise to some complaints from the local cooperative office. The view by the cooperative office was that direct loans to RuSACCOs can help them to avoid the interest margin (15%) enjoyed by the Union, which adds no value to the process.

Some RuSACCO leadership considered SILC/LG groups as potential competition (and therefore a potential threat) to formal RuSACCOs. Some RuSACCO members were reportedly withdrawing their savings from RuSACCos and depositing them with SILC groups. RuSACCO leadership continued to lobby and recruit SILC members to join RuSACCOs. Some stronger SILC groups have the potential to eventually be promoted to RuSACCOs by forming new RuSACCOs or merged with the existing RuSACCOs. However, the law prohibits the establishment of more than one RuSACCO in a *kebele*.

Thus, strengthening RuSACCOs is a must. Capacity building can help RuSACCOs to attract more members, including from SILC. Injecting liquidity (by MFIs) and training would improve RuSACCOs, who could also utilize the Grameen-type group lending[15] modality.

3.7.2.3. Savings and Internal Lending Communities (SILC) groups

The Savings and Internal Lending Communities (SILC) groups are trying to meet some of the demands for financial services (including savings, insurance and credit services) of their members. Yet, it is obvious that these groups cannot provide full-fledged financial services.[16] In many contexts, only limited members are accessing loan services from SILC groups. Typically,

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[15] Originally from Grameen Bank in Bangladesh, the group lending methodology is an innovative intervention to expand access to financial services, especially credit, through organizing poor people who cannot afford conventional collateral, into homogenous peer groups to co-guarantee each other for the loan taken from FSPs.

[16] "Full financial inclusion is a state in which all people who can use them have access to a full suite of quality financial services, provided at affordable prices in a convenient manner, and with dignity for the clients. Financial services are delivered by a range of providers, most of them private, and reach everyone who can use them, including disabled, poor and rural populations" (SEEP Network 2013).

the loan size available from SILC/LG groups is often low (often ranging from ETB 300 to 1,000). For some members, who have relatively good business ideas, this may be too small, and they may want larger loans. Such people often have acquired better business sense, having made some progress through taking smaller loans. Opportunities to access suitably designed financial services are very limited in many contexts.

The available data on SILC from MCS to date suggests that the number of clients participating in SILC is 18,573, of whom 49% are female, while youth (aged 15-29) constitute 20.1%. While all members are participating on internal savings, about 53% accessed loans from their groups. The data shows that 57.7% of women members, and 50.6% of youth members benefitted from the loan service. Some also accessed loans from formal FSPs as a result of the linkages facilitated with such institutions. The data suggests that 1,764 (9.5% of all members) accessed such loans, but only 9.3% of female members and less than 1% of youth members accessed such services.

The data doesn't indicate if members were linked with FSPs for voluntary savings (savings services not linked to a loan). But from many FGDs and KIIs, it was clear that such linkages were unlikely to exist. Our demand analysis, as well as global experience, suggests that the vulnerable poor demand appropriately designed savings and insurance services,[17] even more than credit services (Collins et al. 2009, Banerjee et al. 2014). The savings and insurance services of SILC groups are highly appreciated by participants, as these services have saved them from having to seek assistance from friends or relatives, from going from neighbor to neighbor, or looking for other individual lenders to meet their emergency needs,[18] but it was also highlighted that savings in SILC groups were not risk-free, while the long-term savings needs of members could be provided by formal FSPs. Yet, such valuable services are not well-promoted to potential clients. Although MFIs were allowed by NBE regulation (1996) to mobilize public savings from day one of obtaining a license (a unique opportunity in the microfinance industry), so far only 12.9% of households have trusted MFIs with their cash savings (AEMFI-EIFTRI, 2017).

There is also no disaggregated data on PWDs' access to such services either from SILC or FSPs. The specific challenge they face, including accessing and using financial services, has been touched upon above. They have little chance to access financial services like microcredit since they have little or no property to offer as collateral, and have difficulty securing a guarantor or finding people to form groups with. In fact, in a community that has already been identified as poor and needs interventions such as the PSNP, disability creates multiple layers of

[17] "The hidden burden of living on $1 a day per person (or wherever the global poverty line is set at) is that rarely does anyone actually receive $1 per person each and every day. Instead, farmers have high and low seasons, laborers have better and worse months, and many people are vulnerable to the ups and downs created by boom and bust economic business cycles. The financial problem of being poor, then, is both an issue of low resources on average and an issue of the uncertainty and unpredictability of those resources (Collins et al. 2009). Institutional failure at savings mobilization in Ethiopia has been assed quite recently, see Practical Issues in Local Saving Mobilization by MFIs (Gobezie 2014).

[18] "Poor and vulnerable households' liquidity management is the never-ending process by which social capital gets built up, leveraged – and sometimes abused Mas (2015)." Mas refers to this as "liquidity farming," "the practice of nurturing potential sources of future liquidity, beyond one's income, assets and saved resources that can be harvested when they need some extra money to meet daily shortfalls or emergencies."

discrimination. In targeted *woredas*, PWDs complained of a lack of mechanisms to ensure their participation in SILC and other similar approaches due to mobility constraints, as well as community and institutional perceptions of, and attitudes toward, PWDs.

In summary, the most commonly available sources of finance for PSNP clients are such as ~~money from PSNP,~~ cash from PSNP tranfer, livestock sales; borrowing from families, friends and neighbors; and cash and in-kind borrowing from traders in their areas. For example, the interview with non-PSNP members in Shala indicated that local traders were a major source of finance. People under financial pressure deposited their grain with a trader and got some money in return. An FGD with adult men in Ziway suggested that non-PSNP members access loans from traders for business activities, and such support was only provided for a few highly trustworthy people. The arrangement was that the trader and the borrower share the profit (often 50% each) from the business. It is short-term loan and mainly used for ~~quick~~ businesses like grain and animal trading. The trader follows closely how the business of the borrower goes, and in some cases they share a loss.

Unable to access adequate finance to create their own income-generating activities, many people (especially youth) seek employment in others' businesses to earn very little income. In many cases, landlords lease land on condition that the lessee prepares, maintains, farms and harvests using his own seed, fertilizer, chemicals, oxen, etc., and the harvest to be divided equally between land owner and lessee. Those with capital also buy vehicles (e.g., motorcycles and animal-drawn carts) and lease them to young drivers who get ETB 20 of every ETB 100 generated from transporting people. In some localities, well-to-do families buy boats, and employ youth for fishery, with the condition that the income from every sale will be shared equally. Young women sometimes get employment at hair salons and the daily earnings are shared between the employee and the owner. In some areas, poor people get a female goat from rich people, which they have to keep, feed and take care of. The kids born to the goat are shared, and finally the mother goat is returned to the owner.

Other financial services needs, apart from credit, are largely met by informal sources. Thus friends, relatives, neighbors, social groups (including *iddir*) and networks continue to serve as informal insurance mechanisms, while households also self-insure through saving cash at home, investing in livestock (especially small ruminants), etc. In the program areas, SILC groups are playing increasing roles in meeting some of these needs.

4. CONCLUSION AND THE WAY FORWARD

4.1. Conclusion

The Ethiopian Development Food Security Activity and the Feed the Future Ethiopia Livelihoods for Resilience – Oromia Activity have been organizing PSNP households into SILC groups, and providing them with capacity building on business and financial management to enable them to engage in small savings, with the hope that these can gradually grow into larger sums, enabling vulnerable households to absorb shocks without depleting productive assets and to engage in diversified livelihoods activities.

The SILC approach is one of the most relevant models for graduation with resilience for the very poor. PSNP members meet regularly in groups, which creates a great opportunity for them to learn from each other, not just about business, but also about many other social and economic issues. These meetings also provide a platform or entry point for development actors to integrate their interventions. Engaging in small savings and loans provides an opportunity for members to learn about running small businesses and managing finances, before accessing institutional financial services like RuSACCOs and MFIs.

There were positive observations on the empowerment of women, more socially than economically. From many FGDs, it was clear that gender training was effective, at least in encouraging discussions and debates at the household level on women's empowerment issues, such as division of labor, financial management and decision-making. Women are participating more in household decision-making. This is encouraging. However, an issue to consider is what happens at the community level, especially in communities with a strong patriarchal system. The social norms (which dictate what is expected, valued and allowed for women/men) also need to change. Many "changed" husbands in FGDs said they were ridiculed by neighbors, while many women said they still valued the old patriarchal system. The SILC trainings seemed less focused on economic empowerment issues, like skills development and linkages with BDS, which are critical for ensuring effective use of finance by women, especially from formal FSPs.

Youth, organized in SILC groups, have new hope of building meaningful livelihoods, especially through enhanced self-employment. This is more likely when skills and business development, especially opportunities in off-farm employment, are stronger and in contexts where local authorities help youth claim some entitlements (e.g., access to communal lands). Most youth still faced limited access to appropriate skills training for wage and self-employment (e.g., from agricultural TVETs), including on entrepreneurship. Changes are needed in youth's attitudes toward blue-collar jobs (e.g., agriculture, crafts) before youth will explore these livelihoods. Access to suitably designed financial services largely remains a work in progress. The fact that youth generally have very low social capital further limits their access to financial services (both formal and informal). This has been further complicated by the recent supply-led, unsustainable distribution of loans for "employment generation" to a few youth groups (which remain largely uncollected), which has created a negative image of youth as loan defaulters. Youth's key source of livelihoods are their parents, finding (often irregular and low-paid) employment in others' businesses, and migration.

Other vulnerable sections of the population, especially people with disabilities, are largely marginalized from opportunities, and mainly dependent on the handouts from the PSNP programs. In addition to limited access to resources, services and other opportunities, PWDs also face additional challenges from negative community and institutional perceptions, which limit them from enjoying whatever opportunities are in the localities. Some FSPs still maintain a policy that excludes PWDs from accessing services. Often, this also leads to PWDs self-excluding themselves from seizing such opportunities.

SILC groups are trying to meet some of the demands of their members for financial services (including savings, insurance and credit). While all members take part in savings and the social fund, only some access loans from the group. Typically, the loan size available from SILC/LGs is low (ETB 300 to 1,000). For some members who have made progress by taking out smaller loans and have relatively sound business ideas, the loan may be too small for further growth, and they want larger loans. Our demand analysis, as well as global experience, suggests that the vulnerable poor demand appropriately designed savings and insurance services, sometimes even more so than credit services (Collins et al. 2009, Banerjee et al. 2014). The SILC savings and insurance services are highly appreciated by participants, as these save them from having to seek assistance elsewhere, but it was highlighted that savings at SILC are not risk-free, while the long-term savings needs of members could be provided by formal FSPs.

RuSACCOs are available in most rural *kebeles.* They are more accessible to PSNP households than other formal FSPs like MFIs, and some SILC members are also members of RuSACCOs, and make regular savings deposits. However, only a few RuSACCOs are operational and providing savings and credit to members. Most have limited management and financial capacity to provide financial services in these areas.

MFIs were licensed by the NBE to provide demand-based financial services primarily to less-served sections of the population both in urban and rural areas. MFIs are enjoying a huge unmet market for their services. Increasingly, the NBE regulation has been relaxed, allowing MFIs to also serve the less poor. There is less competition for potential clients, and the institutions can sustain and make profits just by selling their existing, traditional products to established customers. While most of these institutions also maintain poverty alleviation and serving the poor in their vision and mission statements, it is apparent that, for most, business is their primary objective. As a result, there has been no serious effort or interest among MFIs to assess and appreciate the context and financing potential of PSNP members, especially marginalized people like women, youth and PWDs, and design suitable financial products.

The existing credit products, terms and conditions (loan size, period, length of repayment, group-lending, collateral, etc.) as well as the KYC requirements of MFIs are more suitable for the less poor, and are not suitable for activities in PSNP areas. Other financial services, with potential high demand among the target population, like savings and insurance, are in very limited supply. Logistically, most PSNP *kebeles* are too far from MFIs' offices, and institutions' frontline staff generally have very limited knowledge of PSNP households. Most MFIs have limited capacity, including staff and liquidity. The support to such institutions to encourage them to serve the poor has been directed at only some. As a result, the opportunity to access financial services from formal FSPs in those contexts is extremely limited, especially for women, youth and PWDs. Although there are some good initiatives, the FSPs (especially MFIs) still seem less convinced about the business case for working with such communities. This is not just a matter of physical distance from the SILC villages, but also the low capacity of the potential clients' business to service a loan and ensure its full repayment, and the transaction costs involved.

Unable to access adequate financial services to create their own income-generating activities, or meet emergencies, the target communities resort to informal sources. In the program areas, SILC groups are playing increasing roles in meeting some of these needs.

4.2. Recommendations

4.2.1. Short term (one year)

Support MFIs in developing tailored financial products. The terms and conditions of microfinance products and services are often not tailored to the businesses of potential SILC members. The traditional MFIs' product features, including KYC requirements (e.g., ID card, photo, *kebele* support letter, land certificate, guarantor(s), etc.) are applied on PSNP households as well.

Strategies:

- Support MFIs in their efforts to develop client-focused financial products (credit, savings and insurance) through participatory market research. Alternative approaches to financing could also be explored, including Muslim-friendly finance, and in-kind financing of technologies by FSPs.
- MFIs can begin by convincing SILC leadership to begin by saving at least a certain portion of the social fund. The SILC share-out event also provides an opportunity for MFIs to promote savings and offers them a first-mover advantage to cross-sell diversified products and explore SILC-MFI linkages.
- Frontline staff (i.e. the FAs/CAs and MFI staff) need to closely support the PSNP households on building a more realistic/implementable/ business plan, and payment schedules, etc.

Facilitate access to liquidity for MFIs. Liquidity constraints limit MFIs from extending their services to target SILC members.

Strategy:

- A strategy needs to be developed whereby MFIs can access soft loans, which they can use to expand access to loans by SILC members. There is ample past experience showing that, in the context of a huge, untouched market for MFI services and a less competitive atmosphere, such a strategy could serve as an effective incentive (even more meaningful than the LGF) to the institutions to serve a certain target segment of the population, or targeted sector, geography, etc.

MFIs need to be more transparent on the level of interest and other fees they are charging. There seems to be controversy on the level of interest charged by MFIs. Households often ask why they see different interest rates from different sources. Many implementing partners (especially in government and NGOs) ask why FSPs should charge any interest, and why micro-credit—which is meant to be for the poor—is even more expensive than bank loans.

Strategies:

- MFIs need to be more transparent about their charges (if any). This could be done at SILC meetings.
- ~~More transparency on microfinance operations should also be created to implementing partners~~ Microfinance operations should be more transparent with implementing partners to promote mutual understanding and facilitate more collaboration. For example, when there is no consensus on a “reasonable” interest rate to be charged by MFIs, awareness should be raised (e.g., through organizing occasional workshops) on - the actual interest rate and the logic behind it.

Facilitate communication between MFI staff and SILC groups. The field visits indicated that implementing partners would need to supply transport facilities and other logistical support to incentivise MFI field officers to visit and serve SILC.

Strategies:

- **Create more awareness of the SILC program among MFI staff, through an MoU.** MFI staff (especially those in the field) need to have more opportunity to appreciate SILC groups and how they work. The regular SILC meetings could be an attractive way for MFIs to easily follow up on clients. This may include supporting MFIs to better equip their frontline staff with the right behavior and attitude toward serving the target poor, especially women, youth and PWDs. Apart from recruiting the right staff, having a pro-poor friendly scrupulous business practices with the MFI are important.
- **Promote integrated training on financial literacy for the poor.** Considering the effort required by MFIs and CRS to increase the financial literacy of potential clients, it is recommended that training material be consolidated for use by both MFIs and CRS.
- **Design mechanisms to ensure MFIs use the Loan Guarantee Fund** (LGF) and conditional capacity-building support more for targeted project areas e.g., the conditional capacity-building fund could be used for transport facilities (e.g., motorbikes), as well as opening satellite offices.

Link SILC with RuSACCOs. Further possibilities should be explored to link SILCs with the stronger RuSACCOs. In most cases, RuSACCOs are near to SILC groups, and there is often interest among SILC groups to work closely with nearby RuSACCOs.

Strategies:

- **Consider appropriate capacity-building program for RuSACCOs** (especially on financial management, product development, risk, etc).
- **Inject new liquidity into RuSACCOs through MFIs**, which could then be retailed to poor clients in rural areas where RuSACCOs are operating.

Promote credit with education, using regular SILC meetings as an entry point for more development interventions. The regular FA/CA contact with SILC/LG groups is an important platform for further development interventions, because members that are normally difficult to reach meet regularly in a fixed location, which can facilitate cost-effective service delivery.

Strategies:

- The FAs/Cas, while facilitating discussions with SILC members, need to proactively encourage discussion on challenges faced by SILC members when running their business, and collect adequate information on the issues. Such issues then need to be quickly communicated to respective government and/or NGOs as well as private actors (e.g., agro-dealers, where appropriate) for possible solutions.
- The FA/CA can refer SILC members to where they can get solutions to business challenges, or the relevant partners can be invited to a SILC meeting to raise awareness, promote products, etc.

Strengthen skills training and BDS support for women, youth and PWDs. For vulnerable people to be economically empowered, in addition to accessing suitable finance (credit, savings), the BDS support needs to be effective. The interventions on livestock and some crops are a good start. But so many challenges, especially lack of follow-up support (e.g., feed, vet services, etc.), mean some participants lose resources, and this discourages others from involvement in such businesses.

Strategy:

- **Facilitate better coordination with service providers (government and NGOs) at the grassroots.** These include *woreda* Micro and Small Enterprise Offices, TVETs, DAs, agro-dealers and other NGOs.

Support strong market-based value chains. In the PSNP *woreda*s visited, cereal production held little promise as a reliable source of livelihoods due to weather-related challenges, Hence assisting poor households to diversify their income is a crucial step.

Strategies:

- Given that there are significant market opportunities, especially in Djibouti and the Middle East, for vegetables, live animals and processed meat, there is an urgent need to identify strong value chains that could have a larger impact at the community level. This requires a comprehensive assessment, and strong collaboration between different actors in the areas of BDS services, access to technology, access to finance, and input and output market linkages.

Empower youth to effectively utilize available opportunities and entitlements. The FGDs with youth in Sire *woreda* suggested they were facing real challenges when trying to claim entitlements.

Strategy:

- Those in government, including the office of Women, Children and Youth Affairs in collaboration with *woreda* Micro and Small Enterprises and other offices need to take prime responsibility for proactively promoting effective utilization of youth entitlements, including communal lands, as well as access to finance and other business supports.

Promote parental support for loans taken by the youth.

Strategy:

- Joint discussion forums could be organized at the local level to foster understanding between young people and their parents, and for action planning. Such a forum should demonstrate the capacity building done for youth, and persuade parents to take part in efforts to better youths' future.

Ensure that development opportunities are more inclusive of PWDs. PWDs are mainly dependent on the handouts from the PSNP programs.

Strategy:

- While tailored business support and access to suitable financial services is essential, more also need to be done to raise awareness on the issues around disability among partner institutions and their field staff.

Proactively use role models as an entry point. Poor people often do not make investments, even when returns are high. One possible explanation is that they may have low aspirations. Research by IFRPI (Bernard et al. 2014) in Ethiopia demonstrated that aspirations *can be influenced* by effective interventions through role models.

Strategy:

- Successful local people can be identified to demonstrate and teach others better ways of managing livelihoods. They can be incentivized with cash or in-kind support.

Promote more integration of CRS, MCS and HCS with local government and nongovernmental organizations. In most areas visited by the study team, many in government had little understanding of the program details, which potentially limited their interest and collaboration.

Strategy:

- Organize occasional workshops, at least with key implementing partners and stakeholders, to create awareness of objectives, strategies and operational modalities to promote better coordination and collaboration.

Lobby regulatory bodies. Support the creation of an enabling environment for private and NGO-based MFIs. There seems to be a general consensus on the lack of a level playing field among different MFIs in the country. This has created challenges that negatively affect the competitive position of those that do not receive such support, thereby limiting alternative access to finance for the majority of low-income people. There should be some exploration of whether purely profit-driven MFIs should receive the same support and access to vulnerable clients as pro-poor NGO-run MFIs.

Strategy:

- Discussion forums could be created where all stakeholders could discuss the way forward.

Advocate on MFI autonomy in client screening and selection. The federal and regional governments and city administrations have been allocating a lot of funding to youth for employment creation though government-owned MFIs. Due to limited MFI autonomy in client screening and loan decision-making, there has been a huge loan default. This has created a negative image of youth as loan defaulters. As a result, most youth with feasible business plans, and who could borrow and repay a loan, have been excluded.

Strategy:

- This requires discussion forums for MFIs, especially with regulatory bodies like the National Bank Ethiopia (NBE), as well as professional bodies like AEMFI.

4.2.2. Medium to Long Term

Promote competition by FSPs in rural areas. As MFIs are often focused on business objectives, it still is very difficult to convince them to tailor their products and services to fit the business circumstances of the target poor. Although most MFIs have a social as well as a business ("double bottom line") objective, as indicated in the vision/mission statements of their strategic plans, most are focused on business objectives. They are in a very large potential market, where they face little or no competition, setting their terms and conditions, including interest rates, freely, with no one intervening.

Strategies:

- The competition in rural areas could be enhanced by supporting many MFIs to open branches and satellite offices, and to introduce agents and mobile banking in rural areas to expand their outreach; strengthening RuSACCOs; or supporting the establishment of new rural microfinance institutions.

Create better opportunities for youth self-employment and wage employment

Promote demand-based skills trainings. Opportunities for youth to receive skills training at TVETs are still limited, especially in rural areas. Also, there is evidence that there is a mismatch between skills gained at such trainings and employment opportunities: not everyone who graduates finds wage employment, or engages in self-employment. Youth unemployment, particularly voluntary unemployment, is partly as a result of young people shunning blue-collar jobs.

Strategy:

- Changing the *attitude* and *mindset* of young people would require understanding the root causes, such as the education system, parental expectations, the psychology of society, culture, religion, etc.

Empowering vulnerable groups requires a coordinated and sustained effort

There have been considerable changes in gender relations at the household level. Yet the social norms still persist in many contexts. Some men said they were ridiculed by neighbors when they participated in household activities. There were also many women who said they still value the old patriarchal system. Similarly, biased attitudes toward youth and PWDs, in the community as well as in institutions, continue to negatively affect effective utilization of livelihoods opportunities. Such societal norms cannot be expected to change in the short term.

Strategy:

- A collaborative effort to create awareness of vulnerable groups at the community and institutional level.

The empowerment of women, youth and PWDs can be guaranteed if SILC groups are stronger. Stronger groups can be strong voices for members in the value chain system, and for claiming entitlements.

Strategy:

- Build groups' management capacity in collaboration with partners.

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