



Graduation with Resilience to Achieve Sustainable Development

GRAD is a five-year USAID-funded project designed to help the Government of Ethiopia find sustainable solutions to chronic food insecurity. The project supports households currently enrolled in the government's Productive Safety Net Program (PSNP) so that they may access microfinance, improve on- and off-farm productivity, and improve links to markets. In addition, GRAD improves household and community resilience by: increasing women's empowerment; improving nutritional practices; and introducing local climate change adaptation mechanisms. CARE Ethiopia leads a consortium that includes REST, ORDA, CRS, Agri-Services Ethiopia, SNV, and Tufts University. The project works in 16 districts in Amhara, Tigray, Oromia and SNNPR.

GRAD Learning Brief #1: Outstanding Loans

The background/problem: Like the larger government-managed Household Asset Building Programme (HABP), GRAD seeks to link PSNP households with productive credit, usually provided through private microfinance institutions (MFIs) or rural savings and credit cooperatives (RuSACCOs). In order to qualify for loans, each household first receives training in basic business skills and improved production techniques, is helped to develop a business plan for his/her selected value chain, and is linked with sustainable input supply and output markets. GRAD's experience is that virtually all PSNP households supported this way generate income (some by as much as \$1,000/year), repay loans, and advance towards graduation.

However, a well-known problem prevents large numbers of households from receiving credit. These households are said to have "outstanding loans" provided from many sources, some dating back more than 10 years. Although some households have surely acted irresponsibly, most stakeholders attribute the problem to factors outside of the households' control, such as poor or no information provided to recipient households, no technical support provided to make loans profitable, weak accounting systems and weak efforts in loan collection.

Current government policy, as understood by relevant stakeholders, prevents MFIs or others from providing new loans to households with outstanding debt, no matter the source or circumstance. Our experience is that, although the logic behind the policy appears sound (e.g. avoid increasing household debt-load, discourage defaulters, etc.), the result is that many thousands of poor households cannot be supported to escape poverty and that PSNP graduation targets cannot be met. Nearly 60% of otherwise eligible PSNP households in SNNPR are excluded due to outstanding loan issues and that number is close to 80% in the Amhara Region. The case below illustrates the disadvantages of rigid exclusion of households with outstanding loans.

Case #1: Household excluded from GRAD activities due to outstanding loan

Mrs. Sara Tekare, from Hawassa Zuria woreda, heads a household with six members. The household has received PSNP support since 2004, complementing the meager production and income available to them. The family grows enset and haricot bean on a small parcel of land and also raises poultry for income. Food is in short supply during certain months of the year. A few years ago, Mrs. Tekare was the beneficiary of a family package credit of 3,600 birr, provided by the Woreda Food Security Office. She used these funds to purchase a cow but received no additional training or support. Unfortunately, the cow died soon thereafter, meaning that the loan received provided no benefit. She has been making small payments against this debt but does not know her unpaid balance or how long before she will have paid it off.

This household has been engaged in the GRAD project since early 2012. Mrs. Takare is a member of the local VESA, has been trained in basic saving and credit and other topics and has saved about 12 birr per month in the VESA account. She borrowed 400 birr, which is being used by her eldest child for income generation. However, this credit is inadequate for significant participation in value chains and IGAs promoted by the project. Her dream is to become involved in livestock fattening and expand her poultry production. Without credit from the local MFI, she will not have that opportunity and will not be helped to pay off her old loans and graduate from PSNP.

What we have done: GRAD is working closely with MFIs and government counterparts to look for ways to extend credit to serious and responsible PSNP households, trained to participate in value chain activities, with viable business plans, even when they are officially labelled as having outstanding loans. GRAD's loan repayment rates are strong (close to 95%) and these households are saving at higher rates and investing in their enterprises by taking 2nd and 3rd cycle loans. The case presented below showcases the positive outcomes that can be expected from this approach.

Case #2: Household succeeding in GRAD despite outstanding loan

Mrs. Rakb Molla is 49-years-old and the single parent to her five kids. She lives in rural Tigray, hundreds of kilometres from the regional capital Mekele. Rakb joined a GRAD VESA in March 2013, where she learned about sheep rearing, cattle fattening, and income generating activities such as petty trading. Before this time, her survival was dependent on safety net transfers from the government and a very small plot of rented land, which she farmed only when the rains were adequate. Years earlier she had taken out a loan, but was unable to make the payments because she had not received any training on how to make effective use of the money. She was left with a debt of 1500 Birr (\$78). Following the VESA training sessions, and despite her outstanding debt, DECSI provided Rakb with a loan of 8,000 Birr (\$416). With this loan she bought four sheep, an ox, and some animal feed. The remainder was used for trading, bringing in additional income for her family. She now has the ox and 12 sheep, four of whom are pregnant. She produces barley and wheat on her land, and has *totally repaid the previous outstanding loan using the profits from trading*. Rakb is also investing for the future: she is not only making monthly contributions to her VESA, she has also joined the formal banking sector by saving with DECSI and at her local RuSACCO. She has saved a combined total of 2,400 Birr (\$208). Rakb credits GRAD and her VESA for getting her on this path. *"Now through different trainings and technical supports I have gained sufficient knowledge, capacity and confidence how to manage and handle shoat production and income generating activities. In addition I have accrued assets, secured my family and graduated from the PSNP."*

DECSI - GRAD's partner MFI in Tigray - has been providing loans to project households, even in cases where they have outstanding loans. DECSI was initially sceptical about lending to people who had defaulted in the past, but has been pleasantly surprised; the recipients of new loans have been able to repay both new and old loans, and many are graduating from the PSNP program. Ato Abraham Tadeg, who is the DECSI sub-branch manager in Alamata, Tigray, is highly enthusiastic: *"There is a 84% loan repayment rate which we consider as a great success."* DECSI values the GRAD approach because the project provides appropriate orientation, training, and follow-up to loan recipients. Ato Samuel (DECSI Operation Division Head) noted that almost all households that received new loans are properly repaying both the old and new loans. Encouraged by this, he said, DECSI has increased its outstanding loan ceiling to 2,000 Birr and will consider GRAD households as regular DECSI clients in the future.

GRAD Learning: Based on the practical experiences outlined above and consultation with numerous stakeholders, GRAD feels strongly that:

- **Poor, food insecure households held responsible for old and un-payable debt will not progress towards graduation;**
- **A majority of the many thousands of PSNP households listed as having outstanding loans are not irresponsible or intentional defaulters; they can be helped along the road to graduation;**
- **PSNP households with old loans but that are serious and responsible, receive training and follow-up support, and have a viable business plan should be considered for new loans;**
- **New loans, if complemented with training and other support, yield income that will be used to repay both new and old loans and move the household towards graduation.**