Financial Products and Services
Developed by STARS in Ethiopia
**STARS IN ETHIOPIA**

In Ethiopia, STARS is working to improve access to finance and markets for 66,000 smallholder farmers, impacting a total of 330,000 household members. To reach this direct and indirect target, STARS works with five microfinance institutions to develop crop specific loans. By mid 2020, STARS in Ethiopia was on track to reach its target, with 41,125 farmers already benefiting from crop-specific loans.

STARS also works with key value chain actors such as input suppliers and processors, business development service providers, cooperatives and unions, to strengthen the value chain and create access to markets, skills training, farm inputs, storage facilities and agricultural equipment.

**ABOUT STARS**

The Strengthening African Rural Smallholders (STARS) program is a five-year program (2017-2021) implemented by ICCO Cooperation in partnership with Mastercard Foundation. Adopting the market systems development approach, STARS improves access to finance and markets for over 200,000 smallholder farmers, with emphasis on women and youth, in Burkina Faso, Ethiopia, Rwanda and Senegal.

**STARS’ THREE PILLARS**

To make sure that markets work for the poor, especially for women and youth, STARS works on two main pillars:

- **Access to finance**
- **Value chain development.**

A third pillar - Program Embedded Reflection and Learning (PERL) - was introduced to measure and safeguard the interventions’ positive influence on the development of market systems.

**FINANCIAL PARTNERS**

STARS supports the following six microfinance institutions:

- BG MFI
- WASASA MFI
- SFPI
- METEMAMEN
- HARBU
- OCSSCO

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**STARS IN ETHIOPIA**

To date, 41,125 farmers received an agri-loan in Ethiopia

6,161 female farmers received a loan (15%)

5 loan products were developed to date

Over 6.3 million USD disbursed to farmers (152 USD average loan amount)

6,161 female farmers received a loan (15%)

STARS supported 6 microfinance institutions in Ethiopia.

In 2019, 10 training sessions were given for MFI staff members on A-CAT, Risk Management and agricultural loan products
To develop tailor-made agricultural loan products for the vegetables maize, teff, wheat and chickpea value chains, the STARS team invested a lot of time in really getting to know its farmers. Once we understood the cycle of their agricultural activities, costs, risks and benefits, we were better able to analyze their economic performance and predict their capacity to repay their loan. To help us do that, ICCO Cooperation/Terrafina developed the Agri-Credit Assessment Tool, or A-CAT.

With A-CAT, a loan officer estimates the expected loan amount needed to finance inputs and other costs, as well as the expected income from agricultural activities. Based on this cash flow, MFIs can determine the ideal loan size for a particular farmer and whether the client can repay the loan from the investment.

Thanks to A-CAT, MFIs offer more agricultural loans because they have better knowledge, skills and more confidence in managing agricultural finance, reducing the risk of default. Financing agriculture is no longer a risk but becomes an opportunity for MFIs.

Six microfinance institutions in Ethiopia are using the A-CAT tool to develop loan products.

The A-CAT tool is mainly implemented on individual irrigation loans for vegetable farming, primarily tomato, onion, and cabbage.

To date, 6274 clients received a loan through A-CAT. The average loan amount developed with A-CAT per farmer is 417 USD.
STARS works with international investors to support the MFIs it works with, in the other STARS countries. This is, however, rather difficult in Ethiopia where there are strict conditions for foreign currency repatriation. The forex shortages make it challenging for foreign investors to receive back their invested euros or US dollars. This situation has resulted in STARS not being able to find investors to support the partner MFIs in Ethiopia.

To support MFIs to improve their liquidity in other ways, STARS supported them to develop more savings products. STARS, together with the Busara Center, started three savings trials with MFIs. The trials gave some interesting insights into savings behaviour and how to influence it. The interventions are piloted in three well-performing MFIs (Metemamen, Wasasa and Bussa Gonofa Microfinances). The interventions that are tested are client referrals, commitment savings and rental accounts.

Shortly after introducing the pilot, the MFIs started to see a change in the number of clients and they noticed an increment in their saving balance. Although most MFIs offered savings accounts before, MFI did not offer a savings account for specific purposes, such as for paying rent for example.

### STARS LESSONS LEARNED DURING THE SAVINGS PILOT

- Clients are indeed willing and able to save, but they need a clear savings goal. Clients need to be incentivized to get started and keep going.
- STARS learned that loan officers need to be incentivized too, since their workload is heavy and focussed on providing loans. Loan officers need to be trained properly on the benefits of savings products. If they do not understand the benefit of the product, they will not be able to market it to their clients effectively.
- By offering easy ways to save, such as frequently visiting clients in their homes or offices, MFIs can make saving as convenient as possible.
- By providing clients the option to save small amounts as low as USD 1-6 per week, and setting monthly targets that are easy to reach, clients find it less hard to save and are less embarrassed by the small amounts they can set aside.

“My loan officer told me how saving is important then I opened an account, having an account helps me to work hard because the loan officer will come and see me often to collect some money if I have it. I am saving for different purposes like emergency, to extend my business or to pay it for my annual taxation,” Addisalem, client at Metemamen MFI explains.
POTATO SEED LOAN

STARS linked farmer cooperatives to Senselet, a food processing company sourcing potatoes from farmers to improve their market challenges. Both farmer cooperatives and Senselet entered into contract farming through the support of STARS.

As a next step, STARS, together with Wasasa MFI, introduced the idea of a group loan for potato seeds to farmer cooperatives. The MFIs use a groups liability approach as a collateral for the loan. Accordingly, the total of 40 farmers received potato seed loans and they were able to access the new potato seed variety namely RUMBA from Kogaveg. This variety resulted in a 50% higher yield compared to the existing variety. The farmers were able to repay the loan before the due date and some of them have received second round loans from Wasasa MFI.

One of the key challenges in the potato value chain is the unavailability of new potato seeds. STARS collaborated with the government, research institutes and private sector to produce and multiply and market new seed varieties. As a result, 10,000 tissue culture plantlets of the Gudane variety are under propagation stage at the Waginos private laboratory. The next step will be to approach the partner MFIs and to develop new potato seed loans based on this new variety.

As a pilot, 40 farmers received a potato seed loan, with an average loan amount of USD 102.

MFIs are interested in developing more potato seed loans for other varieties that are in demand by food processing companies.

The potato value chain is valuable as it plays a great role in food security in Ethiopia.

This year, I accessed a loan to invest in my potato production for the first time. Using this loan, I bought the new variety of potatoes seed (Rumba), chemicals and fertilizers. This was planted on half a hectare of irrigated land. From the harvest, I got a net profit of USD 2,000 in cash and I stored some potatoes for the next planting season. I am so grateful for ICCO-STARS and the new seed variety that was introduced for the first time to our village. With this profit, I renewed my house, saved some cash in a bank. I also bought inputs for my cereal production which is planted in this rainy season. In the previous years, I used to sell my cattle or grains to get cash to buy these inputs. It is for the first time that I bought these inputs without selling anything."

Ato Dereje, from Telecho potatoes PO in Walmera Woreda.
MFIs traditionally provided their clients with improved seeds, and essential agro-chemicals for malt barley production, instead of giving farmers cash credit for them. This meant that MFI branch offices were sometimes functioning as storage rooms for these inputs. In 2019, the Arsi zonal government issued a ban on these practices. MFIs were expected to provide cash credit only, whereas the distribution of inputs should be handled by mandated input providers, like POs or Farm Service Centers (FSCs).

With an aim to create sustainable access to agricultural inputs for malt barley producers, STARS piloted an input supply model with MFIs and FSCs. In this collaboration, MFIs took the responsibility for credit provision only, and FSCs were responsible for the input distribution against commission.

STARS also partnered with six MFIs to develop more knowledge on how the barley value chain works, and how to best adapt loans to the needs of farmers.

To date, almost 25,000 smallholder farmers have accessed a group input loan and received high quality inputs from the Farm Service Center. STARS also links farmers to seed providers like Heineken.
In addition to developing tailor-made individual loans for farmers, STARS developed a sectoral risk management program for MFIs. The objective of this program is to assess the risk management measures already adopted by MFIs. Based on an assessment of the gaps in capacities and internal systems of the MFIs, STARS will design an agricultural credit risk management training manual for MFIs and provide continuous coaching throughout 2020.

Together with the MFIs, STARS will design strategies, tools and methodologies that help MFIs to better manage the quality of their agricultural lending portfolios and their liquidity.

The idea is that MFIs will internalize their risk management, which will allow them to better assess their loan risks on a monthly basis, taking into account new risks related to agricultural credit, partnership, digitalization, cash flow and liquidity.
A male farmer in Wasasa saying hi to the photographer.

Photo: ICCO Cooperation