PATHWAYS OUT OF POVERTY
CASE STUDY

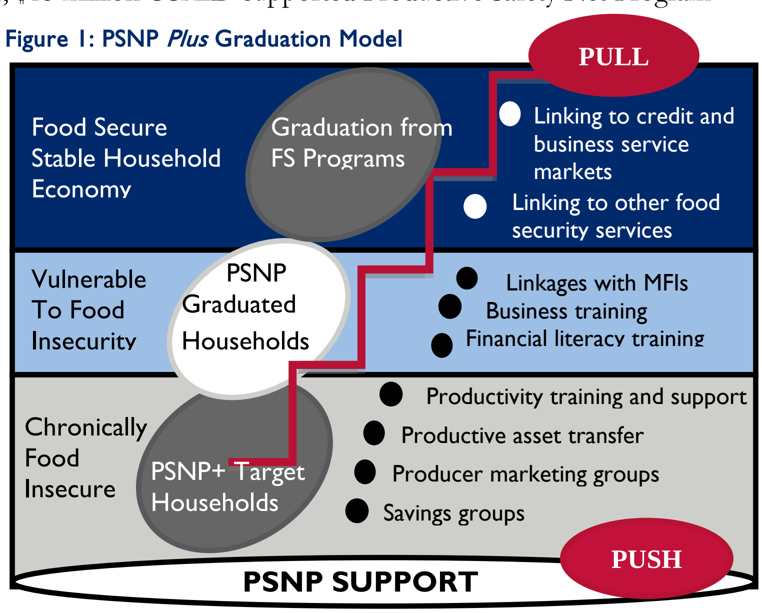
SAVINGS GROUPS ON THE PATHWAY TO GRADUATION: PSNP PLUS IN ETHIOPIA[1]

INTRODUCTION

Within Ethiopia, nearly 39 percent of the population of 85 million people is considered poor,[i] while approximately 8 million households suffer from chronic food insecurity.[ii] This is due to a range of factors, including the lack of a stable asset base and poor resiliency to shocks, which contribute to consistently high levels of malnutrition, mortality and poverty. A majority of these households are rural and cultivate cereal crops on less than an acre of land, primarily for subsistence. Their market interactions are usually informal, intermittent and non-transparent, generating minimal or negative returns. Periodic shocks like drought force households to liquidate productive assets like small ruminants, limiting their ability to invest in activities with higher returns. Few households have access to savings or affordable credit services, and women-headed households with less labor availability and fewer assets are particularly challenged. The Government of Ethiopia and several international donors launched the Productive Safety Net Program (PSNP) in 2005 to improve the food security of very poor households in marginal areas. During the seasons of food insecurity (between three and nine months), PSNP provides an unconditional monthly cash transfer of 50 Ethiopian Birr (approximately $3) per person to extremely marginalized households and a conditional transfer of the same amount to economically active households in exchange for labor on public works. Four-year livestock loans are also available. Over seven million people are presently receiving support from PSNP,[iii] which continues until 2014.

Launched in 2008 and ending December 2011, the three-year, $15 million USAID-supported Productive Safety Net Program *Plus* (PSNP *Plus*)[2] was developed in recognition that PSNP transfers alone will not *sustainably* resolve chronic food insecurity or prevent recipients from backsliding once transfers end.[iv] Led by CARE in collaboration with Catholic Relief Services, Relief Society of Tigray, Save the Children UK, SNV and the Feinstein International Center at Tufts University, PSNP *Plus* piloted additional interventions with a sub-set of PSNP's target households to support sustainable graduation—defined as no longer needing PSNP transfers to meet annual food needs and withstand modest shocks. In most cases, clients were selected based on their interest in participating. Recognizing the many hurdles that such households face in engaging with profitable value chains—few assets; social and economic exclusion—PSNP *Plus* piloted a "pathways" approach that sequenced interventions to steadily build value chain readiness and financial inclusion (see Figure 1).

Figure 1: PSNP *Plus* Graduation Model



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[1] This paper was written by Ben Fowler of Ben Fowler Consulting Inc. and Teshale Endalamaw of CARE Ethiopia for ACDI/VOCA with funding from USAID under the Accelerated Microenterprise Advancement Project (AMAP) Knowledge and Practice II task order. The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

[2] PSNP *Plus* operates in Amhara, Tigray, Oromia and Southern Nations, Nationalities and People's Regions and targets 47,414 households.

To support transition along the pathway, PSNP *Plus* employed a "push-pull" strategy that identified and supported market opportunities ("pull") while strengthening the capacity of its target beneficiaries to engage in and benefit from markets ("push"). On the push side, PSNP *Plus* staff promoted the establishment of savings groups (SGs) and producer marketing groups (PMGs) among project participants as platforms to enhance capacity, productivity and access to resources. Staff trained SG members in income generating activities (independent of the promoted value chains), business skills and financial literacy. The project also promoted market mechanisms via microleasing—referred to as "asset transfers" within Ethiopia—by providing loan capital to microfinance institutions (MFIs) to on-lend to project clients, enabling them to acquire productive assets relevant to the project's target value chains (cereals, beans, honey and small ruminants [sheep, goats]). MFIs have agreed to use the repayment revenue to continue offering these tailored loans following the project's end. On the pull side, the project has enabled targeted households to sustainably engage as producers in four value chains that were purposefully selected for their suitability for the target population (see text box). PSNP *Plus* staff supported engagement by participants, some of whom were already involved in the value chains, by identifying and linking lead firms to the PMGs and providing technical training on the specific value chain. Multi-stakeholder platforms with key value chain actors were also held to address challenges and identify solutions, such as lead firm purchasing arrangements and embedded training provision.

Selecting Pro-Poor Value Chains
PSNP *Plus* used 15 criteria to select target value chains, including the existing participation of the target population, the ability of the value chain to contribute to income growth, risk levels and barriers to entry, congruence with the resource base of the target areas, congruence with government policy, consortium experience, and potential for scale. The project then reviewed the top ranked value chains to ensure balance between consumption and income generation, simplicity and complexity, varied growing seasons and production cycles. Based on this, cereals, beans, honey and small ruminants were selected.

PSNP PLUS'S SAVINGS GROUPS STRATEGY

This paper focuses on the role that savings groups[v] (SGs) have played in supporting chronically food insecure households to progress towards graduation. SGs supported this in six ways: 1) providing an *accessible entry point* for the very vulnerable, including female-headed households, to engage in programming, 2) enabling very poor men and women to *build financial assets* (savings) to improve resilience and reinforce other asset building interventions, 3) *reducing the cost of borrowing* small amounts, 4) *reinforcing social safety nets* through the social fund, 5) *providing a platform* for the project's "push" training activities and the delivery of financial services by MFIs, and 6) enhancing social capital, self-confidence and aspirations. PSNP *Plus* staff usually introduced SGs first, as an entry point to many other project interventions. To ensure that the very vulnerable were included, staff targeted their messaging to the public work sites where PSNP recipients gathered. Nevertheless, SGs were self-selected and many non-PSNP participants often joined.

PSNP *Plus* savings groups consisted of 15 to 25 people who met weekly or fortnightly to jointly save an agreed-upon amount of money and to lend out the money available to interested members. Though most SGs' bylaws allow each member to save variable amounts at each meeting, many groups decide to save equal amounts to increase solidarity and simplify record-keeping. Members wanting to save more register themselves twice or three times in the group, join multiple groups or invite family members. To accommodate the seasonality of cash flows, many SGs periodically raise or lower the share value based upon the agreement of a majority of group members. Once sufficient savings accumulate, funds are lent to applicants within the group for a period of up to three months. SGs set their own interest rate, which typically varies between 5 and 10 percent per month. Savings groups typically distribute earnings (consisting of savings, interest paid on loans and any revenues from fees) at the end of a fixed cycle, typically of one year. However, 95 percent of PSNP *Plus*'s SGs retained all or a portion of their savings in the group at the end of the cycle to increase the amount available for lending in the subsequent cycle. All SG members also contribute to a social fund that provides donations or interest-free loans to cover deaths, medical emergencies and social needs (e.g. school fees). The social fund is particularly important for the poorest SG members, who lack other self-insuring mechanisms.

This paper draws from the findings of midterm and end-of-project longitudinal impact studies in four of the project sites, three of which compared outcomes of project participants with those of a control group. Conducted by Tufts University, a rigorous evaluation methodology was applied to a substantial sample in each location, though the studies were conducted before the full impacts of the crop and honey value chains could be realized and an area-specific approach to survey design limited to some extent the ability to draw project-wide conclusions and results. The paper also draws on a qualitative survey conducted in 2011, sampling roughly equal numbers of male-headed and female-headed households who had successfully or unsuccessfully improved their asset levels. With a sample size of 64 households, the study was not representative but did provide important insights into PSNP *Plus's* performance and why households did or did not succeed.

RESULTS

PSNP *Plus's* experience makes clear that in Ethiopia, SGs are critical to supporting the financial and market inclusion necessary for households to achieve food security, graduate from PSNP support and progress towards participation in value chains.

Financial Inclusion: Access to financial markets is key to graduation (defined as no longer requiring PSNP transfers) of very poor and chronically food insecure households by enabling them to accumulate liquid assets and invest in income-generating opportunities. With few banks operating in rural areas and MFIs focusing on relatively less poor households who they perceive as a lower credit risk, money lenders are the traditional source of credit for PSNP *Plus* target households. Introducing SGs as a local, convenient savings method with essentially no user fees and nominal operating costs enabled dramatic shifts in savings behavior. Across the project's targeted areas the percentage of households saving increased from fewer than 10 percent at project baseline to 75 percent at midterm, in a survey of 1,928 households.[vi] This shift was encouraged by training SG members on household consumption planning; whereas households cultivating cash crops described having previously spent "extravagantly" following harvest, many now carefully monitor their expenditures and plan their expenses. These behavior shifts resulted in savings of $317,471 among the 36,209 SG members by September 2011. Though this seems like a small amount saved per SG member, it is an important step for extremely poor households towards asset accumulation, developing savings behavior and investing in small income-generating activities (IGAs). An end-of-project evaluation found that SGs were a "major contributing factor" to the increase in assets of SG members over the duration of PSNP *Plus*.[vii]

With the inception of SGs, access to credit for investments[3] has also improved. The cost of capital, which was routinely cited as 100 percent per month from local money lenders, is available for five or ten percent monthly from the SGs. For larger loans, PSNP *Plus*'s linkage-building activities with MFIs have allowed many SG members to access credit from a formal financial institution for the first time. This has been particularly important for female-headed households; female headed households that accessed MFI loans were 39 percent more likely to increase their assets than female-headed households who did not, compared with 19 percent for male-headed households. As SGs increase their capital and financial activities, MFIs have been increasingly willing to lend to them. This may enable SG members to access loans from MFIs following the end of the project.[4] The combination of greater savings and access to external capital has supported the financial inclusion of targeted households.

Market Inclusion: SGs have supported the market inclusion of PSNP *Plus* households in several ways. First, SGs have improved household resiliency, without which any economic progress is vulnerable to being reversed by future shocks, like drought. Whereas data indicates that loans from traditional sources are primarily used for household consumption,[viii] the project found that SG members were more than twice as likely to have established a new IGA than non-participants.[ix] The diversification of household livelihood activities through additional IGAs spreads risk; common non-agricultural ventures such as petty trading reduce household vulnerability to severe drought and improve access to income outside of the harvest period. The SG social fund increased member risk tolerance and willingness to make new investments. One member said she only felt comfortable making investments in IGAs once she knew the social fund was available to cover the risk of an illness that could affect her business. The contribution of SGs to improved resiliency was particularly evident in Dodota Woreda, where program participants – of which most were engaged in SGs –recovered certain types of livestock faster than non-participants after a severe drought occurred in the first year of the program.[x]

[3] Savings are not used for consumption smoothing during the cycle because SGs' rules prevent savings from withdrawal prior to share-out.
[4] Further research is required to assess MFI repayment levels of PSNP *Plus* clients and the extent of MFI lending to PSNP recipients.

As households have improved their resiliency and increased their risk tolerance, SGs have contributed to upgrading. In many areas these investments were in small ruminants, one of the value chains promoted by PSNP *Plus*. In Doda Woreda, for instance, 24 to 54 percent of total household expenditure on livestock came through SG loans or loans from MFIs (typically routed through SGs), leading the final project survey to note that SGs there have had “a considerable impact on asset accumulation”.[xixii] Given the key role livestock play in rural household security - both as an asset that can be sold in the face of sudden shocks and as an income earner – these results illustrate the importance of SGs as part of a successful graduation strategy for chronically food insecure households in Ethiopia. Even when SG loans were not sufficient to enable investments in larger assets—for which linkages to MFIs were encouraged—loans from the SGs were often used to finance value chain-related inputs (e.g. fertilizer, pesticide, forage and bee colonies).[xiii]

Graduation: Based on the government’s criteria, the PSNP *Plus* project has supported 2,821 households to graduate from PSNP, meaning they no longer need government assistance in order to remain food secure. While this figure is below the initial target of approximately 33,000 households graduating, total graduates are likely underreported as not all households are re-assessed by the government each year and the full impact of the project will not be realized for some time. Yet, while the relative contribution of individual interventions in an integrated program such as PSNP *Plus* is difficult to definitively measure, the balance of evidence makes clear that SGs have played a critical role in supporting household progression towards graduation. With respect to participating households’ growth in assets—a critical measure of their ability to progress—SGs were ranked as a strong contributor across many of the PSNP *Plus* implementation areas. Qualitative research found that among PSNP *Plus* clients, female-headed households who participated in SGs were 23 percent more likely to increase their assets relative to non-SG-participating female headed households.[xiv] This is higher than for male-headed households, who are more likely to have access to other credit sources. Overall it was clear that SGs made significant contributions by improving the economic status of the participating households (see text box).

Moving Up the Pathway

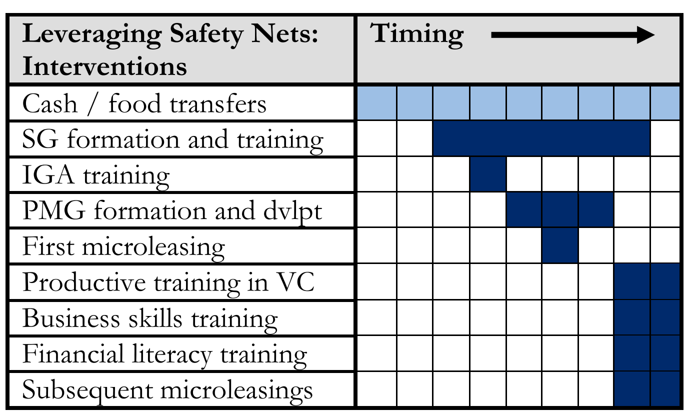
Kuni Fanta, 25, is a single mother of one child. Her family is very food insecure, and received PSNP transfers for five years without graduation. Joining a SG in 2010 through PSNP *Plus* **was** a turning point. She used a $29 loan from the SG to begin selling food and beer to the local community. Generating $70 in her first year, she used part of the profits to start trading butter. This second business is now very important to her, as she sees it as less vulnerable to drought than the pea farming she has always relied upon. With these new activities, she is now saving at least five dollars per month. In 2009 she obtained a MFI loan to fatten and sell five goats. She has used profits from her first sales to purchase new goats and finalize her home construction.

LESSONS LEARNED AND RECOMMENDATIONS

Safety net programs like PSNP make a substantial contribution to building assets and improving the resiliency of chronically food insecure households. Indeed, many PSNP *Plus* participants ranked PSNP transfers as critical to their ability to engage in PSNP *Plus* interventions, while the PSNP screening process greatly assisted the project by having already identified the very poor. Where an existing safety net program does not exist, implementers will need to consider how to address these needs.

Intervention Sequencing: While SGs were often designed as the first PSNP *Plus* activity, seasonal and logistical factors meant a variety of intervention sequences were tested across the various PSNP *Plus* locations. A qualitative assessment of the impact of these variations on household asset accumulation suggested an optimal sequence of project interventions, (see Figure 2), which best supports economic strengthening for very food insecure households. This begins with SG formation to build resiliency, social capital and assets. Both male- and female-headed households were more successful when SGs were introduced at least eight months before microleasing, reflecting the impor-

Figure 2: Recommended Sequence of Interventions[I]



tance of building up liquid assets before engaging in higher value market opportunities.[xv] Over the first year, SG members receive periodic training in the operation and management of the SG that supports a savings culture. Once members begin to build capital, training focuses on identifying and starting small IGAs to build liquid assets and support livelihood diversification, which in turn enables them to take advantage of the introduction of producer marketing groups and linkages to appropriate value chains through loans for productive assets. Follow-up technical training on in-depth business skills and financial literacy as a link to accessing external capital are all relevant once this initial base has been built and household resilience and risk tolerance has improved. Implementers wishing to reach the very poor with value chain programming should consider using savings groups as an entry point.

Outreach: The experience of PSNP *Plus* confirms that SGs are an excellent mechanism to improve livelihoods and strengthen resilience of the very poor; however SGs cannot always reach the absolute poorest and implementers should have realistic expectations of what SGs can accomplish. In many communities, chronically food insecure households who are not receiving the PSNP payment at all or who have only had one or two of their family members covered by the payment are considered too poor to join SGs. In other cases they are the very elderly, sick or disabled who lack the capacity to earn income. In the absence of a safety net system, the more vulnerable are likely to lag behind, drop out or be unable to join at all.

Targeting: The project's targeting strategy did help to ensure the very poor joined SGs. For instance, in Sidama Zone, CARE aimed to include at least 75 percent PSNP recipients within its first 200 groups but subsequently dropped this target. This reduced the number of PSNP recipients involved from 68 percent in the first 200 groups to 42 percent among later groups. Implementers should carefully build an outreach strategy into their SG mobilization planning that 'over-samples' in order to ensure the initiative actually reaches its target clients. Setting high SG membership goals increase the likelihood that SGs will include the very poor without compromising the importance of self-selection for SG success. PSNP *Plus* achieved this by, for instance, forming SGs involving 300 people to reach the target of 200 PSNP recipient participants). It is unclear how the participation of the very poor in SGs will change over time, though the drop-out rate to date has been just 0.4 percent.

Appropriate Savings Products: Fixed savings products are often ill-suited to the variable income flows of rural poor and generally prohibit savings withdrawals before the end of the cycle for ease of record keeping. Implementers should consider encouraging flexible savings products within SGs that permit variable savings and withdrawals.

Combining Interventions: PSNP *Plus*'s experience makes clear that synergies from multiple interventions are needed to support graduation for chronically food insecure populations.[xvi] Despite their benefits, most members considered SGs alone to be inadequate to support graduation and market engagement. Further, linking households to multiple value chains helped diversify their livelihoods; PNSP *Plus* households often participated in one chain focused on crop production for consumption (beans, maize, etc.) and one focused on income generation (honey, shoats, etc.). Qualitative research found households that engaged in a larger number of interventions were more likely to graduate than those that did not.[xvii]

Supporting Larger Investments: SGs alone can rarely provide adequate amounts of capital to make larger, more lucrative investments such as cattle purchases.[xviii] Designing SGs to carry all or some of members' savings over to the next cycle and linking with other financial institutions can support the generation of additional capital. Creating financially literate, cohesive SGs may be an attractive, lower-cost platform for MFIs to reach bankable clients, though the extent to which this will occur remains to be seen. Nevertheless, implementers need to carefully consider how to manage linkages to credit providers to avoid excessively increasing risks for SG members.[xix]

Timing and Value Chain Selection: While PSNP *Plus*'s three-year timeframe was adequate to test its approach to graduation, it was inadequate to facilitate changes among chronically food insecure populations that are sufficiently robust to withstand future shocks. This is particularly the case in the development of crop-based value chains, which can take several seasons to impact and are vulnerable to weather variations (a major drought affected most of PSNP *Plus's* targeted areas). The small ruminant value chain activities, in contrast, started faster given their more frequent production cycles. Implementers that aim to incorporate value chain approaches into their graduation programming should aim for a longer period of investment.

END NOTES

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[iv] Ministry of Agriculture and Rural Development, Food Security Programme 2010-2014: Household Asset Building, Ministry of Agriculture and Rural Development: Addis Ababa, August 2009, 7.

[v] Both CARE and Save UK use the Village Savings and Lending Association (VSLA) methodology, adapted to the Ethiopian context, while CRS uses its Savings and Internal Lending Communities (SILC) model. An overview of the savings groups methodology is presented in *Savings Groups: What Are They? (*Allen and Panetta, 2010*).* http://www.seepnetwork.org/-resources-175.php

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[x] Burns and Alemayehu, Impact Assessment of Small Ruminant and Cereal Value Chain Interventions: Final Impact Assessment of the PSNP *Plus* in Arsi Zone, October 2011, 41.

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[xiii] Trousseau and Legesse, PSNP *Plus* Impact Study, 29-30.

[xiv] Trousseau and Legesse, PSNP *Plus* Impact Study, 18.

[xv] Trousseau and Legesse, PSNP *Plus* Impact Study, 29. Further research is needed to analyze the performance of female-headed households.

[xvi] Burns and Alemayehu, Linking Poor Rural Households to Microfinance and Markets in Ethiopia: Baseline and Mid-Term Assessment of the PSNP Plus Project in Doba, March 2010, 65.

[xvii] Trousseau and Legesse, PSNP *Plus* Impact Study, 17.

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