



# El Niño and Indebtedness in Ethiopia

## Impacts of drought on household debts in Oromia National Regional State

### Introduction

In Ethiopia in 2015 and 2016 a major drought affected the country, caused by failed spring *belg* rains in 2015, followed by erratic and poor summer *kiremt* rains associated with El Niño the same year. AKLDP Field Notes described the early impacts of the drought on rain-fed smallholder farming communities, including in East and West Hararghe zones of Oromia National Regional State.<sup>i</sup> These impacts included stress sales due to a decline in income from agricultural production, and reduced purchasing power due to the declining terms of trade of cereals versus livestock.

In these Field Notes the AKLDP explores the impact of the 2015 El Niño episode on household indebtedness in two drought-affected areas of Oromia region in Ethiopia.

### Methodology

The study was conducted in June 2016 in two severely drought affected *woredas* in Oromia, namely Dodota in Arsi Zone and Babile in East Hararghe Zone. In Ethiopia there is a large-scale social protection program called the Productive Safety Net Programme (PSNP), which includes capacity to provide additional support to households affected by crises through food or cash transfers. Households in a drought-affected area might receive support from the PSNP, or more typical emergency assistance. Therefore, the study also assessed indebtedness in PSNP and non-PSNP households. The fieldwork included visits to drought affected communities and used:

- focus group discussions – 6 with non-PSNP households and 6 with PSNP households
- individual interviews using a questionnaire – 90 households in Dodota and 100 households in Babile *woreda*
- interviews with *kebele* and *woreda* officials in each location.

### Study Findings

#### 1. Rural livelihoods and the 2015 El Niño

Most rural households are dependent on rain-fed farming in both assessment areas. Sorghum was the main staple crop in Babile *woreda*, and wheat and barley in Dodota. Livestock rearing is also practiced in both *woredas*, with draft oxen being a priority for cultivation purposes. Off-farm seasonal employment is an important supplementary source of income, especially for poorer households who are not able to produce enough to meet their food and income needs from agriculture. Seasonal petty trading also contributes to livelihoods, but is limited to certain households. The major food insecurity problem for farming households is recurrent droughts.

The failure of the spring *belg* rains and the erratic and poor summer *kiremt* rains in 2015, resulted in poor and failed harvests across Eastern zones of Oromia region. Rain-fed crop harvests were very limited, and livestock production deteriorated due to shortages of feed and water. Income earned from livestock reduced significantly while the prices of staple foods steadily increased, eroding the purchasing power of rural households.<sup>ii</sup> Increasingly, productive assets were sold to buy grain and for other household needs.

#### 2. Food security programs and emergency assistance

The study confirmed that Dodota and Babile *woredas* were chronically food insecure and that even in a normal year, many rural households were unable to produce adequate food to meet their dietary and

income needs. Reasons offered for chronic food insecurity included: variable and erratic seasonal rainfall and periodic drought, small farm size, and a lack of draft animals. Due to lack of draft animals, poorer households usually either rented their land or shared it with better-off households, and this contributed to food insecurity, particularly in Dodota areas. The food security situation in these *woredas* meant that they were enrolled in the PSNP in 2016, with 11,441 beneficiaries in Dodota (14% of the *woreda* population) and 27,313 beneficiaries in Babile (22% of the *woreda* population).

PSNP informants reported that full-family targeting had been discontinued under the current phase of the program (PSNP4), following the introduction of a capping of household support to five members per household. The program has transferred either cash or food to beneficiaries for six months from January to June 2016. Cash was transferred for three months while food (grains and pulses)<sup>iii</sup> was provided for the other three months in both *woredas*.

Based on information from PSNP households, it was learned that PSNP4 is providing support to approximately 76% of household members in Dodota *woreda*. Based on the availability of funds, some of the family members from PSNP households were also considered for emergency assistance. In contrast, only around 52% of PSNP household members were supported in Babile *woreda* (Table 1).

Table 1: Estimates of family members targeted by PSNP and emergency assistance in 2016 in Dodota and Babile *woredas*

Woreda	Proportion of family members receiving assistance by source	
	PSNP	Emergency assistance
Dodota	76% (n=51)	99 % (n=39)
Babile	52% (n=50)	55% (n=48)

Each year the government and international development partners issue a Joint Government and Humanitarian Partners' Document (HRD) that outlines humanitarian requirements for the following year. The 2016 HRD confirmed the steadily rising impact of the 2015 El Niño drought, noting that 4.5 million people were in need of emergency food assistance in August 2015. Following a pre-harvest rapid assessment in early October 2015, this number was increased to 8.2 million people, and following further assessment in October and November 2015, the figure was revised again to 10.2

million people, including 3.7million in Oromia National Regional State.<sup>iv</sup> The number of people receiving emergency assistance in Dodota and Babile is 41,537 (49% of the total population) and 41,895 (34% of the *woreda* population), respectively.<sup>v</sup>

Non-PSNP focus groups reported that some drought-affected households had benefited from food assistance distributions since the end of 2015. Household data collected from non-PSNP households showed that emergency food assistance reached more than 99% of the household members in Dodota. Furthermore, some family members from PSNP households were also targeted for emergency assistance in Dodota *woreda*. In contrast, emergency assistance was provided to only 55% of family members in Babile areas (Table 1). In Babile, key informants indicated the major reason for this coverage was that the number of people demanding assistances was far higher than the availed quotas for aid. In turn, many people were forced to migrate, seeking off-farm labor in Ethiopia and abroad to try to fill food gaps and pay off previous loans.

### 3. Household debts

#### Levels of household debts

Information on pre-existing households loans (before the drought in 2015) and loans taken out from September 2015 is summarized in Table 2.

The figures show that total debts increased by between 61% (non PSNP households in Dodota) and 71% (non PSNP households in Babile) due to the additional loans taken out related to the drought. Informants explained that earlier loans, initially invested on productive purposes such as fertilizers, seeds and land rents, were lost to droughts. Similarly, other productive loans were consumed through the sale of livestock particularly in Dodota areas. Therefore, the farmers particularly the poor lack capacity not only to repay the debts but also lacked capacity to pay for farm input particularly for seeds and fertilizers in this 2016 cropping season.

Table 2: Average household long and short-term loans in Dodota and Babile *woredas*<sup>vi</sup>

Type of loan	Dodota			Babile		
	PSNP HHs (n=49)	Non PSNP HHs (n=41)	Total (n=90)	PSNP HHs (n=48)	Non PSNP HHs (n=52)	Total (n=100)
Proportion of households with pre-existing loan, before El Niño	88%	64%	77%	98%	96%	97%
Average pre-existing loan size (Eth birr)	5,290 (US\$ 252)	3,905 (US\$ 186)	4,690 (US\$ 223)	3,908 (US\$ 186)	5,838 (US\$ 278)	4,912 (US\$ 234)
Average additional loans – Sept 2015 to June 2016 (Eth birr)	3,386 (US\$ 161)	2,397 (US\$ 114)	2,958 (US\$ 141)	2,542 (US\$ 121)	4,122 (US\$ 196)	3,363 (US\$ 160)
Total loan size as of June 2016 (Eth birr)	8,676 (US\$ 413)	6,302 (US\$ 300)	7,648 (US\$ 364)	6,450 (US\$ 307)	9,960 (US\$ 474)	8,275 (US\$ 394)

### Causes of household debts

The main immediate and longer-term causes of rural indebtedness in Dodota and Babile were:

- El Niño induced drought in 2015 – poor summer *kiremt* rains and poor *meher* harvest and lost livestock production
- Steadily rising costs of agriculture inputs, but in particular fertilizer
- Inappropriate timing of loan repayments, in the immediate post-harvest period, when farm-gate prices are the lowest in the year. Typically, those able to buy and store cereals and pulses at the point of harvest benefit from higher prices
- Unproductive and wasteful expenditures- community expenditures most commonly during dry season or at the end of harvest period when basically the price of crops is relatively low
- Group debts - sometimes a system of group collateral resulted in indebtedness because the entire group is forced to pay the share-loan and interest of failed members to Oromia Credit and Saving Share Company (OCSSCO).
- In Babile, drought (71%), chronic poverty (17%) and other (12%) were the major causes of indebtedness in 2016 cited by focus groups; in Dodota the figures were 68%, 24% and 8% respectively.

### Source and size of loans

Between September 2015 and June 2016, the Oromia Credit and Saving Institution (OCSSCO) and relatives or friends were the major sources of loans for rural households.

- In Dodota, 62% of PSNP and 69% of non-PSNP households took loans from OCSSCO, and some households also accessed loans from cooperatives since September 2015. On average, PSNP and non-PSNP household borrowed Eth birr 2,112 (US\$ 101) and Eth birr 1,654 (US\$ 79) from OCSSCO in Dodota since September 2015 (Figure 1).
- In contrast, relatives or friends were the most main sources of loans in Babile areas, accounting for more than 90% of loans for both PSNP and non-PSNP households; the remaining loans were borrowed from OCSSCO. On average, loans received from relatives and friends amounted to Eth birr 2,402 (US\$ 114) for PSNP and Eth birr 3,768 (US\$ 179) for non-PSNP households in Babile areas since September 2015 (Figure 2). Loans from informal sources sometimes require repayment in kind e.g. groundnuts in Babile, but when grain prices are high as well. There are also hidden interest charges, requiring the borrower to provide labor service to lender.

Figure 1: Sources of loans for households in Dodota *woreda*, September 2015 to June 2016

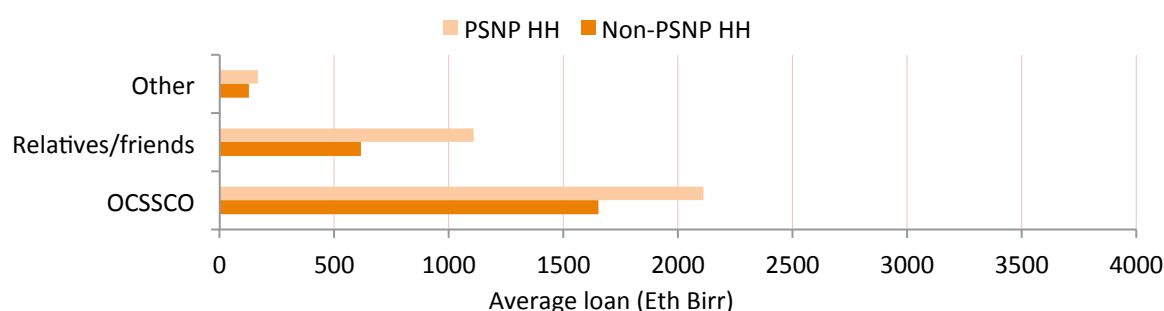
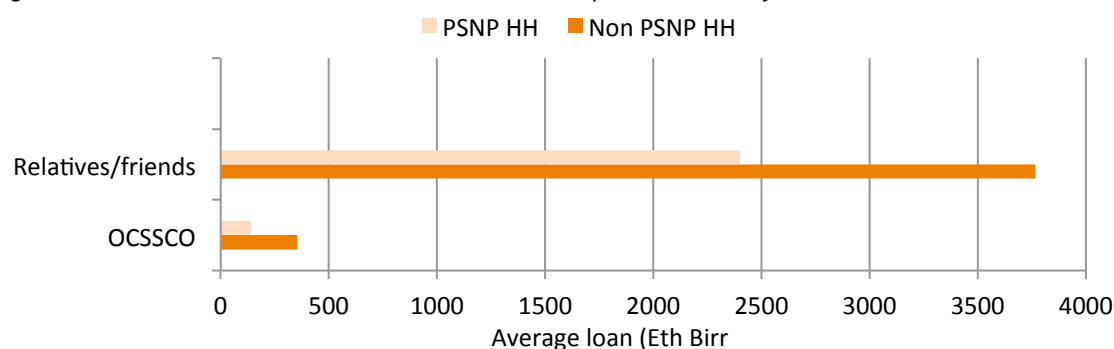


Figure 2: Sources of loans for households in Babile *woreda*, September 2015 to June 2016



### Purpose of borrowing

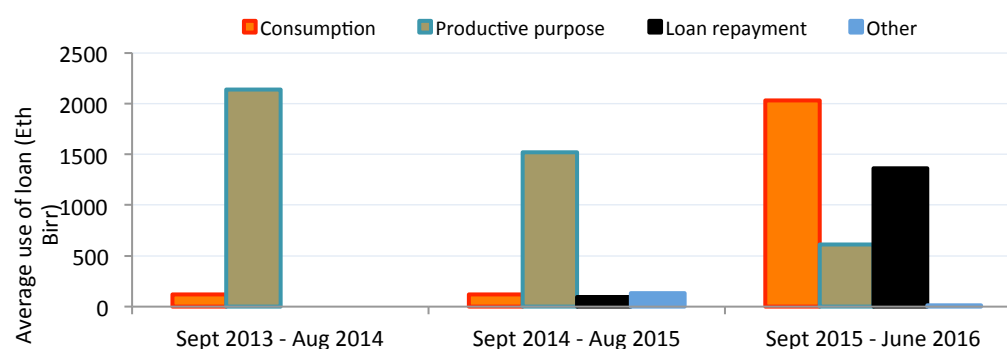
In a normal year, informants explained that they usually borrowed for productive purposes e.g. purchase of draft animals, fattening costs, and the purchase of seeds and fertilizers. However, since September 2015 loans were taken out by poor households to bridge the gap between household income and expenditure - to buy food and other basic domestic needs. Specifically, PSNP households estimated that an average of Eth birr 2,476 (US\$ 118) was spent on food, and that this accounted for around 92% of recent loans in Babile (Table 3). Likewise, non-PSNP households spent about 51% of the loans on food-on average estimated at Eth birr 3,488 (US\$ 166) since September 2015.

Table 3: Household loan utilization - September 2015 and June 2016 Babile areas (Eth Birr)

Wealth category	Consumption	Productive purpose	Other	Total
PSNP households	2,476 (US\$ 118)	202 (US\$ 10)	-	2,678 (US\$ 128)
Non PSNP households	3488 (US\$ 166)	534 (US\$ 25)	80 (US\$ 4)	4,102 (US\$ 195)
Average	2,982 (US\$ 142)	368 (US\$ 18)	40 (US\$ 2)	3,390 (US\$ 161)

In Dodota, most loans were spent on consumption, averaging Eth birr 2,031 (US\$ 97) for PSNP and Eth birr 1,668 (US\$ 79) for non-PSNP households since September 2015. The changing use of loans over time is shown in Figure 3.

Figure 3: Trends in loan use in Dodota *woreda* by PSNP households, 2013 to 2016

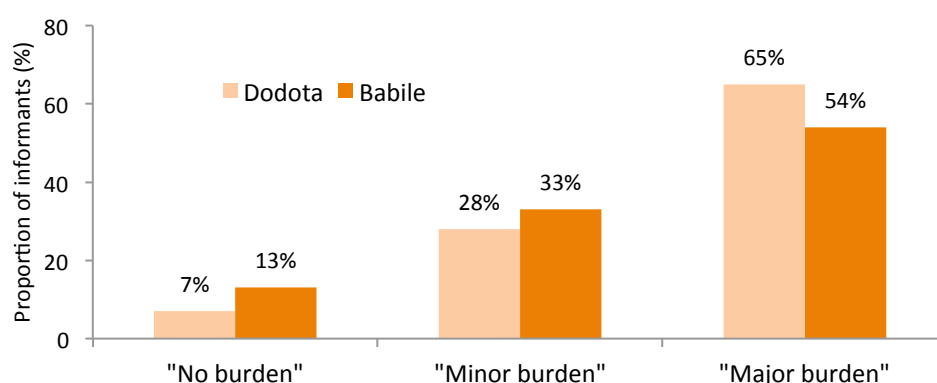


### Perceptions of indebtedness

Most households lost their productive assets during drought in 2015, and then struggled to fill their food gaps through grain purchases, as well as cover basic household needs. Farmers, particularly in Dodota, had spent much of their loans on the purchase of farm inputs such as fertilizers, improved seeds, renting of land, and purchases of draft animals in 2015. However, they ended up with no benefit and then a high debt burden in 2016.

Between 87% and 93% of informants viewed their current level of indebtedness as a burden, and between 54% and 65% saw their debts as a 'major burden' in 2016 (Figure 4). To clear these loans, households would need to take out further loans and so become caught in a cycle of indebtedness from one year to another.

Figure 4: Local perceptions of debt in Dodota and Babile *woredas*, June 2016



## Conclusions

This study illustrates the important long-term negative impacts of the 2015 El Niño episode on rural farming communities in affected areas of Oromia Region. Most households lost their key financial assets needed for food purchases and to cover basic household needs between September 2015 and June 2016. Specifically, more than 90% of informants reported selling livestock, especially draft animals, in response to the drought in 2015 and into 2016. Therefore, many farmers lost both key assets and the capacity to pay for seeds, fertilizers and other inputs, leading to poor harvests in 2016. The impact of the El Niño induced drought could continue into 2017.

Many rural households are increasing their debt burden by taking new loans from formal and informal sources to meet their basic food and other needs. On average, around 66% and 88% of the new loans were used for consumption in Dodota and Babile respectively. Furthermore, those loans initially used for productive purposes were reutilized for non-productive purposes through the sale of livestock. This increases the overall level of indebtedness, making it very difficult for farmers to repay the original loan.

At present, chronic indebtedness will be a major concern in these drought-affected areas. Without continued and increased assistance, households are concerned that they will not have the capacity to clear off their debts.

## Disclaimer

The views and information in this document are an output of the AKLDP project and do not necessarily reflect the views of USAID or the United States Government.

## Acknowledgements

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## Endnotes

<sup>i</sup> AKLDP Field Notes (2016). El Niño in Ethiopia. Early impacts of drought in Oromia Regional State in <http://www.agri-learning-ethiopia.org/wp-content/uploads/2016/01/AKLDP-Oromia-Field-Notes-sf.pdf>

<sup>ii</sup> AKLDP Field Notes (2016). El Niño in Ethiopia. Early impacts of drought in Oromia Regional State in <http://www.agri-learning-ethiopia.org/wp-content/uploads/2016/01/AKLDP-Oromia-Field-Notes-sf.pdf>

<sup>iii</sup> The PSNP program has transferred 15kg wheat grain and 4 kg pulses to each person per month

<sup>iv</sup> Joint Government and Humanitarian Partners (2015). 2016 Ethiopia, Humanitarian Requirements Document

<sup>v</sup> Early Warning and Response Reports (2016) of Dodota and Babile *woredas* of Oromia National Regional State

<sup>vi</sup> In terms of comparing the loan values to household incomes, household income data for 2015 is not readily available. A baseline survey for the USAID-funded GRAD project reported average household income of US\$ 423 in 2012. Using this figure, the loans as a proportion of pre-drought annual income were: pre-existing loans between 44% and 66% of annual income; new loans since September 2015 between 27% and 46% of annual income; total loans as of June 2016 between 71% and 112% of annual income. However, annual pre-drought incomes for poorer households were probably far lower than average, and income during the drought was far lower than a normal year.