



Agriculture Knowledge, Learning, Documentation and Policy (AKLDP) Project
Field Notes
June 2016

El Niño and Household Debts in Amhara National Regional State, Ethiopia

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 Wag Himra, South and North Wollo zones of Amhara National Regional State.ⁱ There were substantial declines in crop production, including arable crop losses of between 50% and 90%ⁱⁱ, and rising cereal prices, steep declines in livestock prices, and reduced opportunities for seasonal on-farm labor. The Field Notes also described local coping strategies such as the rising importance of emergency assistance and out-migration, including to the Middle East, and informants prioritized short and medium-term emergency assistance and recovery interventions.

In these Field Notes the AKLDP explores the impact of the 2015 El Niño episode on household debts in two drought-affected areas of the Amhara National Regional State in northern Ethiopia.

Methodology

The study was conducted in May and June 2016 in two severely drought affected *woredas* in Amhara, being Sekota in Wag Himra Zone and Raya Kobo in North Wollo 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 PSNP households and 6 with non-PSNP households
- household interviews – 97 interviews with household heads in Sekota and 105 interviews in Raya Koboⁱⁱⁱ
- key informant interviews, including *kebele* and *woreda* level officials.

Study Findings

1. Rural Livelihoods

Crop and livestock productions were the major sources of livelihoods in both Sekota and Raya Kobo *woredas*. Crop production is rainfed although the arable land is scarce and highly degraded in Sekota, and associated with poor livelihoods. In contrast, much of the land in Raya Kobo was relatively fertile with less gradient and some potential for irrigation. Wheat and barley were the major crops in Sekota while sorghum and teff were the staple food crops particularly in Raya Kobo. Livestock were an important productive asset, with dependence on access to natural pastures as well as crop residues for feeding.

2. The 2015 El Niño and household purchasing power

The rain failures in 2015 caused a decline in food security in Wag Himra and North Wollo zones. Rainfed crop harvests were very limited, and livestock production deteriorated due to shortages of feed and water. Income earned from livestock reduced significantly while grain prices steadily increased, eroding the purchasing power of rural households.^{iv} Increasingly, productive assets were sold to buy grain and for other household needs.

3. Food security programs and emergency assistance

Interviews confirmed that Sekota *woreda* was ‘chronically food insecure’ and that even in a normal year, many rural households were unable to produce enough food to meet their basic dietary and income needs. This situation was attributed to small farm sizes, due to the repeated division and sub-division of land, poor soils and soil erosion due to long-term deforestation, and uncertain rainfall and droughts. However, erratic rain or rain failure was seen as the main reason for food insecurity in Raya Kobo in recent years.

In January 2016 the fourth phase of the PSNP (PSNP4) was launched with a total national caseload of 8 million people, including 1,890,985 in Amhara National Regional State.^v Due to high levels of chronic food insecurity, Sekota and Raya Kobo, these *woredas* were included in the PSNP and in 2016 the number of beneficiaries was 43,583 in Sekota (36% of *woreda* population) and 42,354 in Raya Kobo (18% of *woreda* population). People targeted under PSNP4 were supposed to receive six months of transfers from January to June each year (for a total of five years). Focus groups in Sekota reported that cash had been received for one month, followed by food transfers for the remaining five months. In contrast, only cash was transferred to the PSNP beneficiaries between January and June 2016 in Raya Kobo *woreda*. However, the cash transfers in Raya Kobo were reported to be untimely, and took place every two months rather than monthly. This led to extreme hardship for these affected households, and increased the risk of these households taking out loans. It was also reported that full-family targeting had been discontinued under PSNP4 (from January 2016), following the introduction of a capping of household support to five people per household.

According to household interviews, in PSNP households (n=55) in Raya Kobo, 62% of family members received support, whereas in Sekota PSNP households (n=59), 78% of family members received support. According to local key informants, the main reason for the program not reaching all family members in target households was that the number of people needing assistances was far higher than the quotas set by the program in each *woreda*. Therefore, many people were forced to migrate to find off-farm labor in Ethiopia or abroad, to fill food gaps and to make debt repayments.

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 rising impact of the 2015 El Niño drought and that “... a government- multi-agency assessment on the impact of agriculture yield and livestock concluded that 4.5 million people were in need of emergency food assistance in August” and “... the government led a pre-harvest, multi-agency rapid assessment in early October that concluded the number of people requiring emergency food assistance had increased to 8.2 million, following which an addendum to the 2015 Humanitarian Requirements Document was released”. Following the government-led multi-agency assessment of October and November 2015, the number of people requiring emergency food assistance was revised to 10.2 million, including 2.2 million in Amhara National Regional State.^{vi} The number of people targeted for emergency assistance was 66,417 in Sekota (55% of *woreda* population) and 99,502 in Raya Kobo (41% of *woreda* population).^{vii}

Table 1: Estimates of family members targeted by PSNP and emergency assistance in 2006 in Raya Kobo and Sekota *woredas*

Woreda	Proportion of family members receiving assistance	
	PSNP	Emergency Assistance
Raya Kobo	62% (n=55)	90% (n=50)
Sekota	78% (n=59)	79% (n=39)

4. Household indebtedness

Levels of household debts

On average PSNP and non-PSNP households had long-term outstanding loans of Eth birr 3,858 (US\$ 184) and Eth birr 6,161 (US\$ 293) respectively before the drought. In Sekota, 84% of households took out additional loans between September 2015 and May 2016, and these new loans averaged Eth birr 2,861 (US\$ 136) for PSNP households and Eth birr 4,328 (US\$ 206) for non-PSNP households (Table 2).

In Raya Kobo, existing loans before El Niño averaged Eth birr 7,324 (US\$ 349) in PSNP households and 5,067 (US\$ 241) in non-PSNP households. Between September 2015 and May 2016, 86% of households took out additional loans and these new loans averaged Eth birr 4,387 (US\$ 209) in PSNP households and Eth birr 3572 (US\$ 170) in non-PSNP households (Table 2).

Table 2: Average household long and short-term loans in Sekota and Raya Kobo *woredas*

Type	Sekota			Raya Kobo		
	PSNP (n=59)	Non PSNP (n=39)	Total (n=98)	PSNP (n=55)	Non PSNP (n=50)	Total (n=105)
Proportion of households with loan, pre-El Niño	75%	92%	84%	95%	76%	86%
Average pre-existing loan size (Eth birr)	3,858 (US\$ 184)	6,161 (US\$ 293)	5,010 (US\$ 239)	7,324 (US\$ 349)	5,067 (US\$ 241)	6,196 (US\$ 295)
Average additional loan- Sept 2015 to May 2016 (Eth Birr)	2,861 (US\$ 136)	5,795 (US\$ 276)	4,328 (US\$ 206)	4,387 (US\$ 209)	3,572 (US\$ 170)	3,980 (US\$ 190)
Total loan size as of June 2016 (Eth birr)	6,719 (US\$ 320)	11,956 (US\$ 569)	9,338 (US\$ 445)	11,711 (US\$ 558)	8,639 (US\$ 411)	10,176 (US\$ 485)

Causes of household debts

The main immediate and longer-term causes of rural indebtedness in Sekota and Raya Kobo were:

- El Niño induced drought in 2015 - rain failure led to poor crop harvests and in turn, lower incomes for rural households. In addition, farmers in Wag Himra explained that droughts had reduced income from employment opportunities, particularly in neighboring Raya areas.
- Chronic poverty - sub-division and fragmentation of land due to population growth, and which in Sekota resulted in more cultivation of steep slopes and soil degradation; these changes were associated with poor crop harvests.
- Inappropriate timing of loan repayments - in the immediate post-harvest period, when farm-gate prices are the lowest in the year.
- Steadily rising costs of agriculture inputs – especially fertilizer.
- Unproductive and wasteful expenditures- several religious and social functions were practiced immediately after harvesting periods. For this reason, farmers are usually forced to receive unproductive loans during hunger periods, commonly between June and September.
- 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 Amhara Credit and Saving Institution (ACSI).

Size of individual loans

Information on the value of additional loans taken by households as a result of the drought is provided in Table 3. Loans ranged in size from less than Eth birr 1,000 (US\$ 48) to more than Eth birr 10,000 (US\$ 480) since the onset of the drought in September 2015.

Figure 1: Causes of debt in Sekota *woreda*, May 2016 (n=6 FGDs)

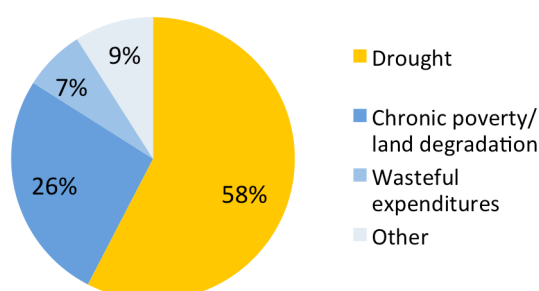


Figure 2: Causes of debt in Raya Kobo *woreda*, May 2016 (n=6 FGDs)

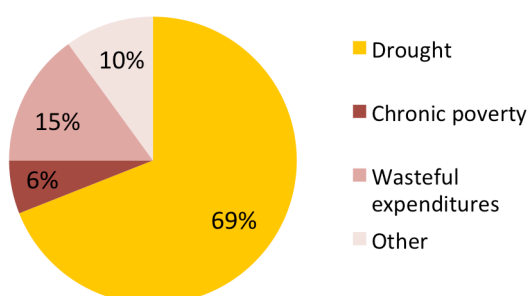


Table 3: Size of loan distribution by *woreda*, September 2015 and June 2016

Loan size (Eth birr)	Proportion of households receiving loan	
	Sekota	Raya Kobo
< 1,000 (US\$ 48)	9%	8%
1,000-4,999 (US\$ 48-240)	35%	31%
5,000-9,999 (US\$ 240-480)	38%	33%
≥10,000 (US\$ 480)	18%	28%

Source of loans

ACSI was the main source of loans in Sekota, accounting for 80% and 76% of loans for PSNP and non-PSNP households respectively since September 2015 (Figure 3). In addition, some poor households had also accessed loans through cooperatives (RUSACCO) with the fund available from NGOs and the Household Asset Building program (HABP). These funds were provided to the project's poorer and distressed households, as identified by NGOs.^{viii}

In Raya Kobo, ACSI and relatives/friends were the most important sources of loans for PSNP households (Figure 4). In contrast, non-PSNP households received loans mainly from relatives or friends, followed by ACSI.

Figure 3: Sources of loans for households in Sekota *woreda*, September 2015 to June 2016

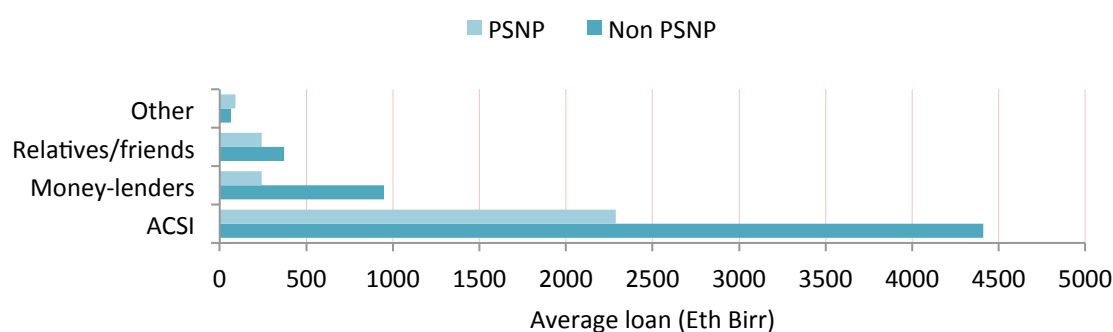
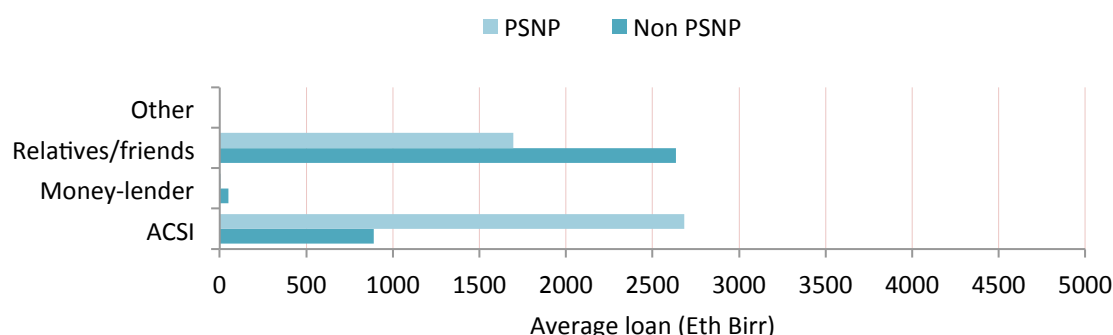


Figure 4: Sources of loans for households in Raya Kobo *woreda*, September 2015 to June 2016



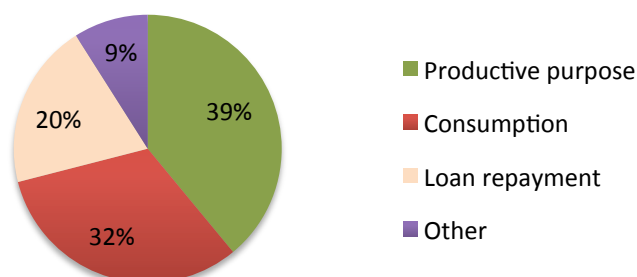
The PSNP households reported that both formal and informal loan providers lacked confidence in them and so the provision of loans was inadequate. Loans from friends and relatives involved no interest charges, and these loans agreements were largely based on mutual trust and understanding between lender and borrower. Furthermore, informal market loans might require high rates of in-kind repayment, and could carry hidden interest charges, such as requiring the borrower to provide labor to the lender. Focus groups reported that it was difficult to secure new loans during times of severe drought due to large number of people affected by drought in 2015.

Purpose of borrowing

In poor households in a normal year, loans were used for more productive purposes and to generate additional income, which in turn, helped to pay off a loan. In contrast, between September 2015 and May

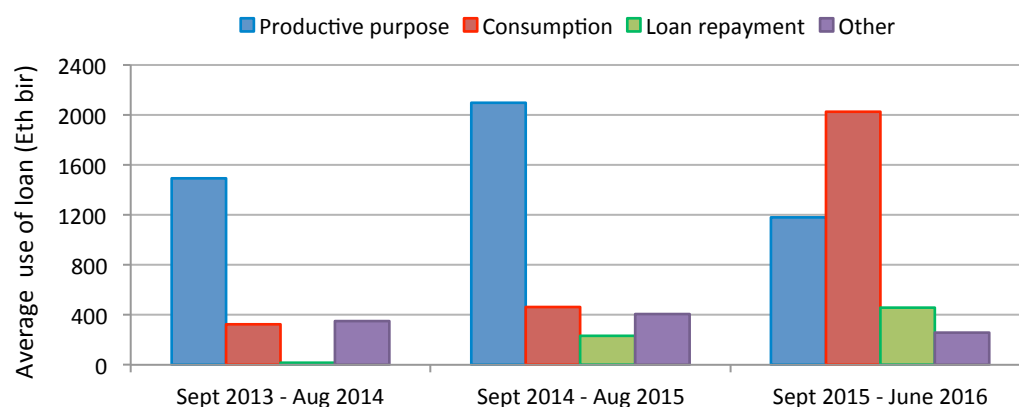
2016, about 32% of loans in Sekota were used for consumption i.e. to buy food (Figure 5) and in total, more than 60% of loans were used for nonproductive purposes. On average, Eth birr 1009 (US\$ 48) and 1,392 (US\$ 66) were used for consumption by PSNP and non-PSNP households, respectively. Initially, people will borrow from ACSI but then take loans from individuals to repay ACSI, and then receive new loans from ACSI. This approach means that they can get relief for one year with repaying for individual lenders. Around 20% of loans were used for loan repayment up to May 2016.

Figure 5: Use of loans in Sekota woreda, September 2015 to May 2016



Trends in loan use from 2013 up to May 2016 in Raya Kobo woreda are shown in Figure 6, with a clear shift towards the use of loans to buy food (consumption) and repayments, and a corresponding decline in loan use for agriculture (production). Overall, around 52% of loans (by value) were used for consumption since the onset of drought in 2015. Although loans were also used for productive purposes such as fertilizer, draft animals, seeds and so on for the 2015 cropping season, crop yields were very poor that season.

Figure 6: Trends in loan use in Raya Kobo woreda, 2013 to 2016

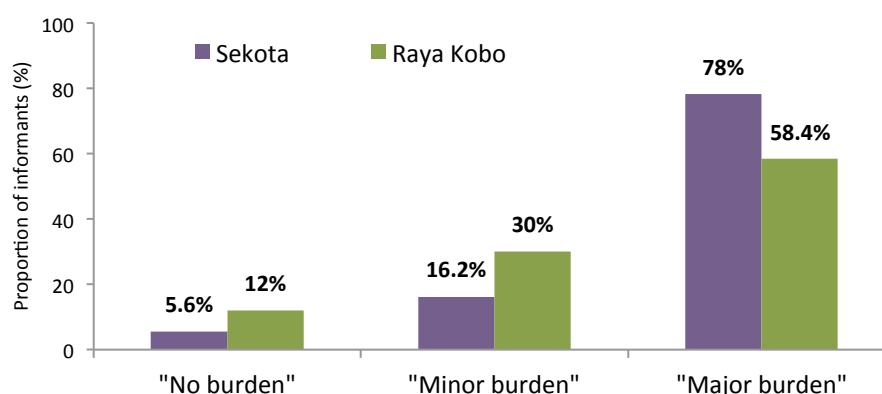


Views on indebtedness

The drought in 2015 had serious impacts on people's capacity to pay off their existing loans, while also forcing people to take out more loans. With lower incomes and more marked food gaps in 2015 into 2016, farmers were far less able to pay off loans from the previous year, and accumulated increasing levels of debt and interest payments. Compounding this situation was the widespread loss of productive assets, some of which had been bought using loans. For example, many of the animals that were sold by PSNP households during the drought had been purchased with loans taken out before the drought in 2015. The net result was that households were struggling to fill in their food gaps through purchases of grains, or cover basic household needs such as healthcare and schooling.

Between 88% and 94% of informants viewed their current level of indebtedness as a burden, and between 58% and 78% saw their debts as a 'major burden' (see Figure 7). People described chronic cycles of indebtedness with no clear pathway to escape these debts – as old loans are cleared, new loans are needed. For many smallholder farmers particularly in Sekota, the land is degraded and agricultural production is so low, that agricultural production alone is unlikely to relieve debt burdens.

Figure 7: Local perceptions of debt in Sekota and Raya Kobo *woredas*, May 2016



Conclusions

The impacts of the drought, induced by El Niño in 2015, are ongoing in May 2016. 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. In some areas, there was a 94% increase in debts (Table 2) and in absolute terms, household debts reached US\$ 569.

The loans used for productive, mainly agricultural purposes, reduced from 69% in 2014 to 39% in Sekota, and from 68% to 30% in Raya Kobo (Figure 6) between 2013 and 2016. Many loans that were initially directed towards productive purposes i.e. livestock purchases were reutilized to meet basic food and other needs, through the sale of livestock. This situation makes it very difficult for farmers to repay the original loan.

At present, chronic indebtedness will be a major concern in these drought-affected areas, with agriculture alone being unlikely to lead to levels of production or income which will enable people to pay off their debts.

Disclaimer

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

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Endnotes

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

ⁱⁱ Joint Government and Humanitarian Partners (2015). 2016 Ethiopia, Humanitarian Requirements Document

ⁱⁱⁱ Individual households were selected at random from the focus groups participants.

^{iv} AKLPD Field Notes (2016). El Niño in Ethiopia. Early impacts of drought in Amhara Regional State in <http://www.agri-learning-ethiopia.org/wp-content/uploads/2016/01/AKLPD-Field-Notes-Amhara-Jan-2016.pdf>

^v <http://documents.worldbank.org/curated/en/164341468203680278/pdf/ISR-Disclosable-PI46883-03-09-2016-1457561885644.pdf>; Overview of PSNP: PSNP 4 FM manual training 19-23, March, 2008

^{vi} Joint Government and Humanitarian Partners (2015). 2016 Ethiopia, Humanitarian Requirements Document

^{vii} The *Woredas* Office of Agriculture and Natural Resources- Early Warning and Response Reports (2016) of Sekota and Raya Kobo.

^{viii} Through cooperatives, NGOs, namely Save the Children, ACF and FH/ORDA have provided funds for development to be provided to the targeted poor households in Sekota *woreda*.