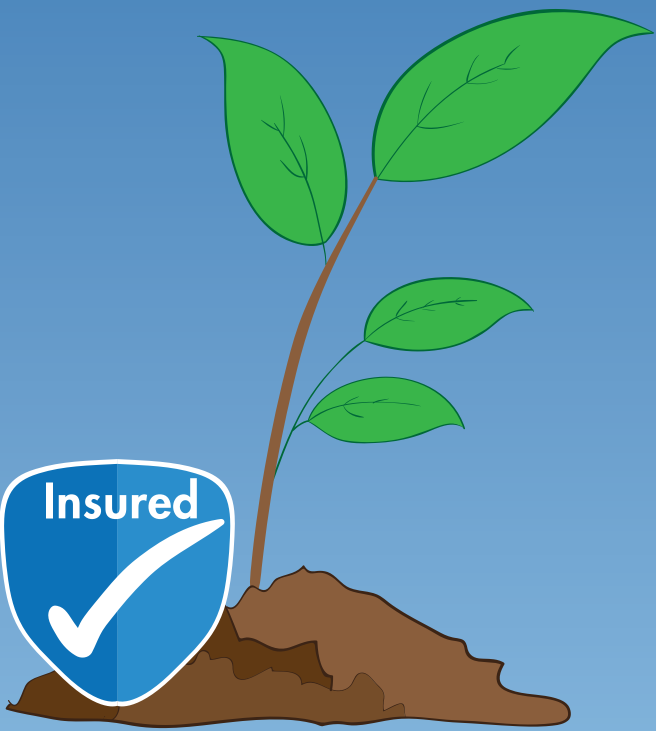
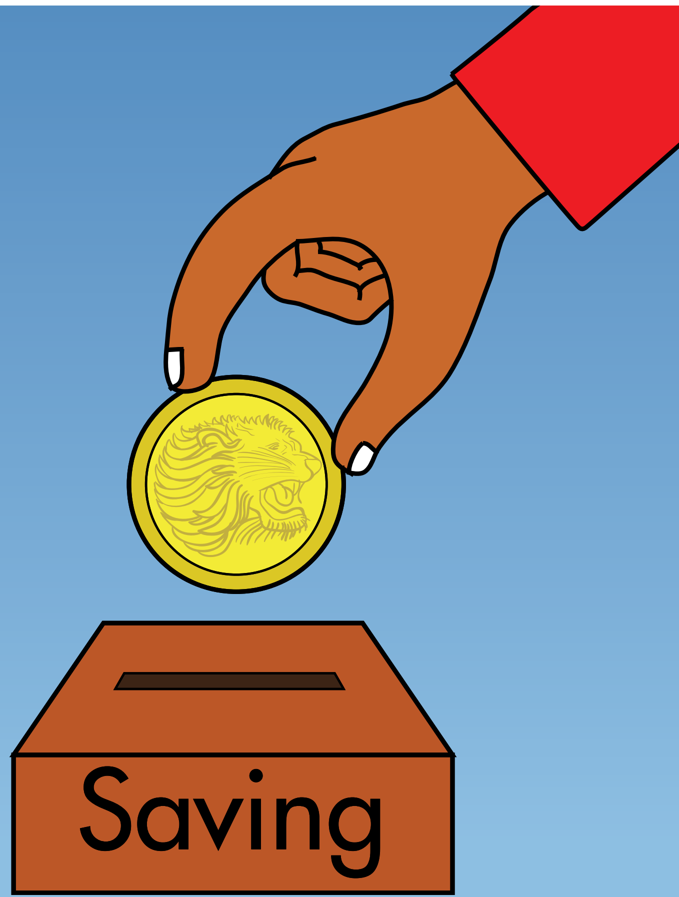
FINANCIAL EDUCATION GUIDELINE





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Agricultural Transformation Agency
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ITC
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CONTENTS

Introduction

According to the world bank 2015 data 78.2% of Ethiopians are not financially included, i.e. they do not access any formal financial products or services like a bank account. With overall literacy rate of about 40%, it is estimated that financial illiteracy, i.e. knowledge about basics of financial services like savings, credit etc. is as high as 70%.

Majority of the financially illiterate are in the rural areas of Ethiopia where access to financial services is the lowest. Due to this, there is a growing concern about their financial well-being.

The financial literacy program's content is focused on basics of inclusive financial services, with a focus on savings and insurance. In the rural areas of the country, agriculture is the main livelihood and hence developing an understanding of the risks that agriculture is exposed to and how insurance can mitigate them and also how having insurance helps the farmer get better access to credit is a key message of the program.

Overall, the guidelines include the basics of financial literacy and also the mediums through which the messages will be made available to the targeted audience so that they can take the maximum advantage from the program.

1. What is financial literacy?

What is financial literacy?

Financial Literacy refers to the set of skills and knowledge that allows individuals to make informed and effective decisions regarding money matters.

1.1. What does it mean to be financially literate for a smallholder farmer?

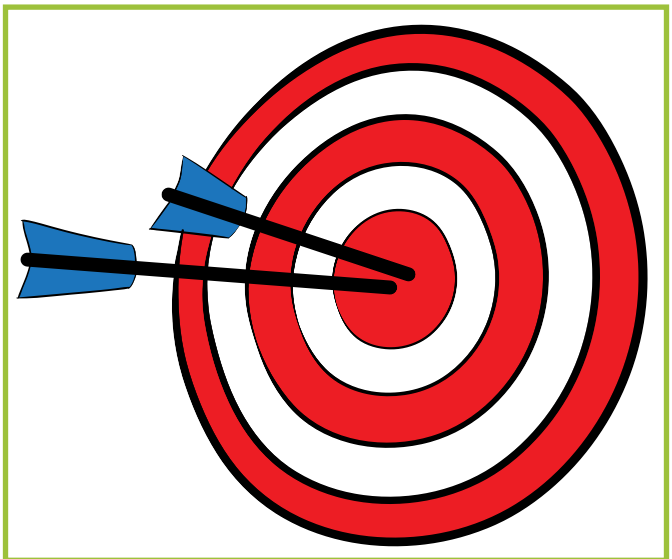
Being financially literate means that you understand the basic financial principals such as:

- Why it is important to save your money.
- How and where to open an account with a financial institution that you can save our money.
- Keeping proper records of your financial transactions so that you can manage your income and expenses wisely.
- Understanding agricultural risks and financial instruments, which potentially mitigate them.
- How to access financial assistance in forms of loans so that you can sustain and grow your business.

1.2. Why is it important to be financially literate?

When you can make good decisions on money matters then you are more likely to succeed in your agricultural businesses. Also you will be able to have money to meet emergencies and for other important things like paying school fees for your children. When you are financially literate you will also be able to convince others to lend you money. When people are not financially literate; there is a big chance that they will make poor decisions that can harm their families and their businesses.

2. Objective of the awareness



Ojective

- Creating awareness about the relevance of MI to change farmers life, by protecting them prospect risks
- How farmers can mitigate draught related risks and how the risks affected smallholder farmers
- The importance of financial management: setting goal, saving, spending, and insurance
- Create understanding about MI: how it work, where they can fiend, what problem it solve, how much it cost them.

3. Main Subject Overview

What is insurance

3.1. What is insurance

Insurance is a form of risk management primarily used to hedge against the risk of a contingent, uncertain loss. Insurance is defined as the equitable transfer of the risk of a loss, from one entity to another, in exchange for payment. Those who buy insurance always transfer a proportion of their insured risks to the insurance company in return for payment of an insurance premium which is the periodic payment/the actual amount of money charged on an insurance contract (policy). An insurer is a company selling the insurance. The insured, or policyholder, is the person or entity buying the insurance policy. The amount to be charged for a certain amount of insurance coverage is called the premium. Contract of Insurance Is a contract whereby the insurer undertakes to make good the loss of another called the insured by payment of some money to him on the happening of a specific event.

Formal insurance works this way, people who buy insurance pool their resources by contributing to an insurance fund. The fund is used to cover the cost of those who suffer the loss; however, the insured is expected to bear a defined proportion of the insured risk.

3.2. What is microinsurance?

Poor households have less access to formal insurance to protect themselves against risks such as the death of the family breadwinner, severe or chronic illness in the family, or the loss of an asset, including livestock and agriculture.

Microinsurance helps people manage unexpected events in return for payments proportional to the likelihood and level of a specific risk. Areas covered by MI include health, assets, agriculture, and death. As with all insurance, risk pooling under MI allows many individuals or groups to pool risks and redistribute the costs of the risky events within the pool.

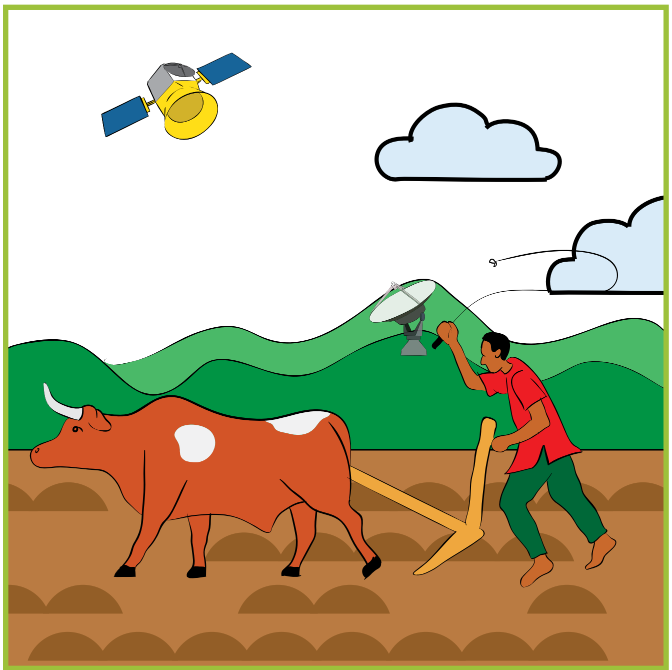
As microfinance institutions expand beyond credit to a broader array of financial products, they are becoming more interested in offering clients MI products in partnership with insurance companies. While commercial insurers provide the majority of the world's products, mutual, cooperative, and other community-based or community-led insurance organizations are emerging as MI providers. The greatest challenge for MI schemes is finding the right balance between adequate protection and affordability to deliver real value to the insured.

3.3. Why is microinsurance important for Smallholder farmers?

- Risk mitigation: weather is the main risk factor in Ethiopian farmers, majority of the smallholder farmers are financially excluded due to the country capacity to deliver the service. To mitigate the main risk of the farmer MI is the best solution.
- Financial Literacy: MI will let the farmers clearly understand and aware their risk and how to protect their agribusiness using financial instruments.

- Reputation: MI mitigate the farmer's agri cultural input credit risk. One's a farmer buy the MI it will be easy to be free from such a risk and keep their commitment to pay their credit on time.
- Saving Protection: when unpredictable risk happen the farmers spend their saving to protect the family, farm and other commitments, which are not sated in their saving goal. Such situation destroy saving but MI helps not this to happen.

3.4. NDVI based insurance



Satalite

Index based insurance uses a suitable and measurable proxy such as forage availability or rainfall to construct an indicator or index that is highly associated with event being insured (drought related livestock deaths or crop failure respectively). Index insurance establishes a defined limit of range of values over which compensations can be made. The limit often marks the point at which payments begin.

For example, an index insurance contract designed to cover the risk of drought related livestock mortality would begin making indemnity payments if forage availability fell below a certain threshold over a defined time period, such as a year. Index insurance is best suited for correlated risks (severe, widespread events such as droughts).

3.5. How NDVI work?

- NDVI: - Normalized Difference Vegetation Index (NDVI) is a long standing index used by national and international agencies to monitor the occurrence of drought.
- It is a simple graphical indicator that can be used to analyze remote sensing mea surements, typically but not necessarily from a space platform, and assess whether the target being observed contains live green vegetation or not.
- It is a measurement of the impact on vegetation of weather inputs like rainfall, wind, heat…etc using satellite map as an input. The result shows the green vegetation in the specific farm area.

4. Basic Financial management for farmers

Saving

4.1. Savings

What is saving?

Saving is putting money aside to use in the future. When you store money away, for some defined purpose, then you are practicing savings.

Why it is Important to Save?

- It allows people to meet their basic house hold needs- such as buying food and clothing self and family
- To expand agribusiness
- Purchasing other valuable commodities such as a livestock, which can provide meat and milk for family and easily salable,
- It is possible to use the money to buy improved seeds and fertilizers so that you can improve the performance of the farm.
- It is also important to save because; many organizations that provide loans will want to see that farmer's capacity to save before trusting their loan interest.
- Saving is also important because it allows you to deal with emergencies and unforeseeable events such as loss of loved ones, or medical emergencies.
- Savings enable households to meet education for children and other relatives

How and where can you save?

Normally after harvesting and selling the product, payment will collect and it is very important to save this money in a safe place. To save hard earned money, farmers can consider saving it in one of the following ways highlighted below:

Formal	Informal	Semiformal
Bank: Commercial Bank of Ethiopia Abay Bank Hibret Bank ...etc	Liquid Asset: Livestock	EKUB: Any Ekub around the village
Microfinance: SACCO's:	Commodity: Seed Marketable crop	Registered SHG: Women based Men based Mixed

Table 1: type of saving institutions

Important points to understand during and before saving

i. **Set goals:** Determine the big achievements you want in life, such as educating your children or building a permanent house.

ii. **Budget:** By budgetinThen try to understand smaller goals that you need to achieve that will eventually deliver those big goals g you look at all the money you receive and all your expenditures. It helps you to see how much you can save

iii. **Be realistic:** Set realistic savings goals. It is more important to develop the discipline than to punish yourself by saving more than you can afford.

iv. **Stick to it:** Keep it going. Once you develop the discipline of saving keep it going, and always remember that there are several other ways of saving such as investing.

v. **Invest:** You will feel very good when you can convert your savings into investments. You can invest your savings by buying assets like land, machinery, improved seeds or fertilizers

vi. **Insure it:** Insure your farm and keep your saving for your sated goal. Buying the microinsurance service will help you not to lose your saving.

4.2. Credit

Accessing Credit or Borrowing is defined as taking money in cash from a financial institution, a group or from any individual; with the commitment that this cash will be paid back at some defined time in the future.

Is accessing Credit important in the first place anyway?

Borrowing money can be very important for meeting the costs of farmer's agribusiness, meeting family subsistence needs. However borrowing money entails taking on risk, because when someone borrow, money, it has to be repaid back fully with interest, and normally within a given period of time.

Why should small scale farmers require access to credit?

Some of the reasons why borrowing money is important for Smallholder farmers or small-scale agribusiness owners are as follows:

A. Credit can be used to hire laborers, or rent tractors to clear and prepare the site for planting.

B. To acquire improved inputs for planting- such as seeds, fertilizers, and pesticides/herbicides. Poor yields from small scale farmers are often because of use of poor input seeds and lack of fertilizer. With access to credit, this situation can be improved

C. With access to credit, small holder farmers can increase their production, so that they graduate from subsistence farming to production for sale. Therefore credit allows farmers to grow their agribusinesses.

D. By borrowing, small farmers can solve any cash flow problems. For instance, the farmer might not have enough cash to bring in a big harvest, yet his produce has ready market. Accessing credit can allow the farmer to hire labor so that the proper harvest and post-harvest is done.

E. To buy machinery and equipment such as pump.

F. Credit is important also in fulfilling other personal and family needs such as paying school fees.

G. Ability to borrow also enables small scale farmers to deal with emergencies, such as medical emergencies or death of loved ones.

Without a doubt therefore, the ability to access credit can provide a significant improvement in the business operations of small-scale farmers.

Credit

Access credit

We have seen that ability to access credit is important for sustaining and growing farming operations. It is important however for borrowers to remember that loans are meant to be paid back in full, with interest and within a defined period of time. This is important because farmers must ensure that their farm operations enable them to both pay back the loans and generate enough profits for savings.

None performed loan/credit risk

The farmer must return the credit according to the return plan, if that not happen the credit might consider as non-performed (which is risk for the farmer). When the farmer took any credit (input credit) involved in a contract to return the credit in a specified period. Performing that agreement shows the performance of the farmer and it create positive reputation for the future credit plan.

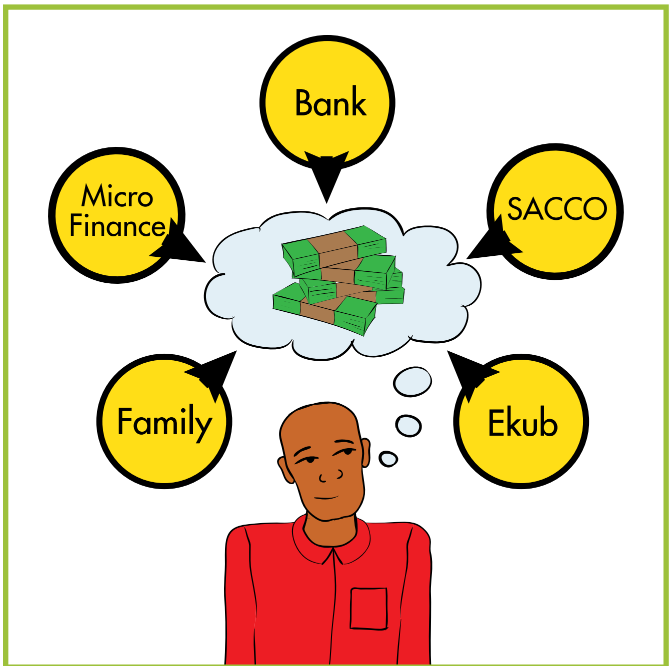
The main purpose of input credit is to increase yield amount. If the farmer lose the yield due to weather related risks and the farmer lose all production, it might leads the farmer not to perform/pay the credit. Such kind of risk can be mitigated by MI which is focused on weather related vegetation risk.

Where can smallholder farmers access loans?

There are different avenues for financing for smallholder farmers. You have to evaluate each of these options so that you can make the best choice for your business needs.

Type of sources:

- Formal financial institutions: bank, Micro credit institutions RUSACCOs and SACCOs.
- Family and friends
- Informal groups: Ekub, Money lenders and Edir



Source of loans

How Farmers evaluate FIs before using their credit service?

- Requirement: different institution has their own requirement to give a credit for their customers. Some of the requirements might be difficult to fulfill for all farmers. For instance: collateral backed credit, deposit as collateral, reputation, farm size… etc.
- Interstate: very crucial part of the credit is, its expense. The lowest interest always the better loan for smallholder farmers but they have to focus on the other costs too.
- Service charge: some institutions put high service charge and low interest; it is also good to focus and compare it in the evaluation checklist.
- Accessibility: the nearest institution is the better to access.
- Guidance in using and return plan: some institutions give training service how to calculate the interest and develop outstanding plan for the farmers, which is good to understand the loan very well.
- Credit risk mitigation package: ones the farmer took the loan he is the one who face the all the risks, buying insurance policy with little portion of the loan money might help to protect some of the risks which might affect the outstanding plan. For instance: small holder farmers can buy MI policy from their input credit provider institutions.

4.3. Managing your finances in your farm operations

4.3.1. Plan

It is a good practice to develop a clear workplan. This work plan should indicate all the details about what agricultural activity you are going to engage in. A good work plan should capture some of the following key information:

- What is being planted and how much (e.g you can indicate that you are going to plant maize on one acre
- The stages from planting, to selling and what needs to be done at each of these stages
- The amount of money required and the sources of these funds

To develop this workplan, you can try to reach your District Farmers Associations (DFA) or NAADS or even NGOs for training.

4.3.2. Budget

Develop a clear budget. This should indicate how much money you need for all the activities. After creating a budget you should be able to see how much savings you need to meet the budget. At the same time you will be able to see how much money you need to borrow to meet the budget.

4.3.3. Record Keeping

To ensure that you manage your finances within your business, it is important to keep proper records.

Why is Proper record keeping important?

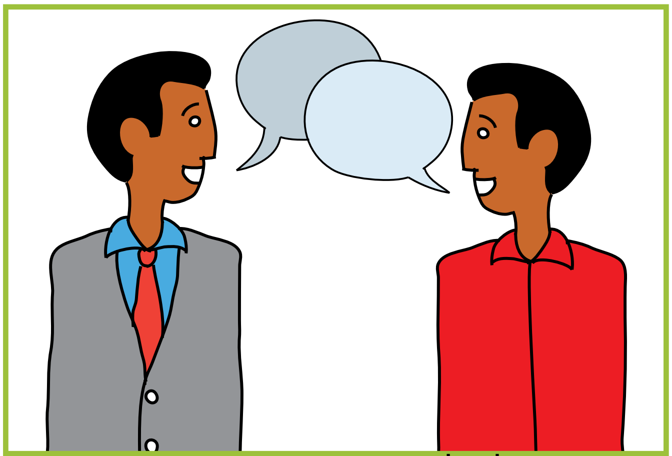
i. Proper records allow you to track the performance of your farm.

ii. Proper records will be a key requirement for you to convince the lenders such as Banks and Microfinance Institutions to lend you money

iii. When you have proper records, it allows you to plan properly. For instance, when you fill out the financial requirement record demonstrated below, it shows you at the end how much money you need, and therefore how much loan you need to apply for.

All the above can be done if you can learn to use and adopt the following records below.

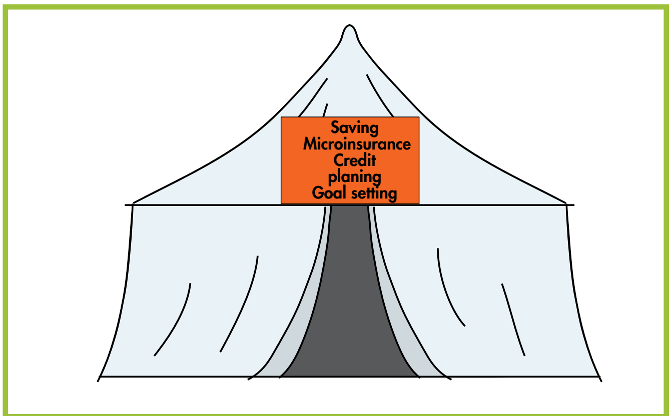
5. Methods of Communication



Communication methods

5.1. The awareness methods

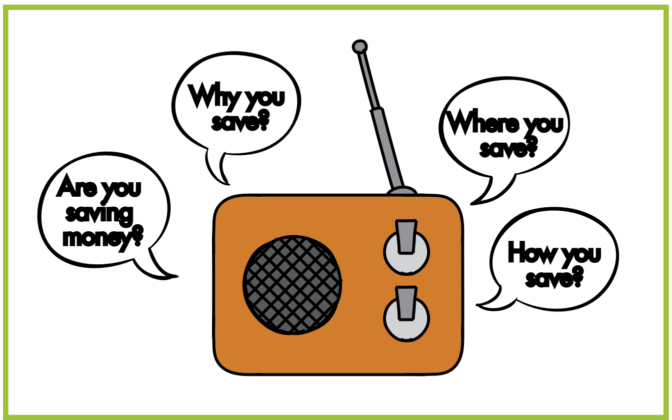
The initial campaign was intended to raise awareness of insurance, and particularly microinsurance, by using multiple channels to positively impact levels of insurance knowledge and attitudes among populations in the target districts.



Financial education clinic

- **Financial education clinic:** it is a temporary center, which tented in the middle of village/kebele market, which gives full information about the benefit of the MI and basic financial management and risk occurrence.Well trained development officer, MFI or Coops will be responsible to train the farmers about the basic finance with micro insurance emphasis. All the above issues will raise and discuss with the farmer, the agent will prepare case scenarios about the village best practice and risks which happened due to the weather impact, for instance draught or flooded.

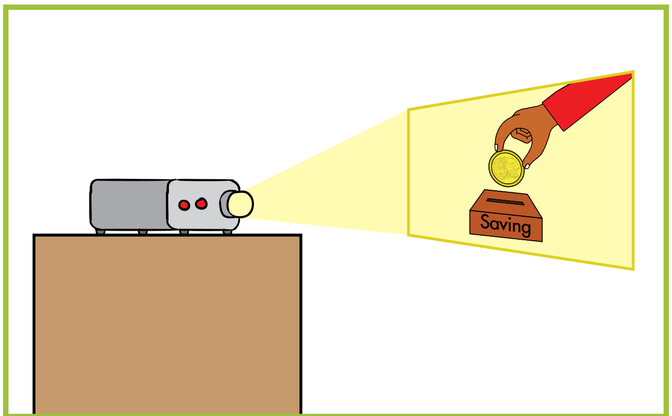
- **Advocates Campaign:** respected community members would be trained to become 'micro insurance advocates' who can organize information sessions on micro insurance and provide advice on claims procedures etc.



Radio based awareness

- **Radio based awareness:** educating the farmers about the MI using different radios, which are reachable in both, selected regions, with their own language. Drama and live programs, which entertain and transfer message about MI and its important to protect farmers against wether related risk.
  Road show: in some Kebeles, which have well facilitated infrastructure, road show might be an option to create awareness during market day.
  Radio Drama: A radio drama in a targeted regions local language (Amharic, Oromic and Tigringa) it will produce and aired with different regional FM radios which easly reach to the targeted woredas and kebeles. Airings will included radio quizzes offering mobile phone credit recharge cards as prizes for callers, quintals of fertilizer and seed.
  Radio Jingles: Key radio messages will prepare and in both three selected languages and will incorporate into jingles. For both languages and regions peoples who are specialized on agriculture-based programs will select and prepare jingles which create inspiration through the targeted farmers to remember about micro insurance and its importance.
  Radio Talk Show: The talk show will include and raise different issues regarding draught related risk and how to mitigate it using financial instruments like MI. issuing about basic financial education issues and assessing the targeted society's best practices.

- **IVR:** ATA is using the IVR method to disseminate information for the farmer and it will other means to reach to the farmers via to their mobile by using ATA IVR platform. It allow farmers to access information using their mobile phone by clicking their phone buttons and searching the needed information about MI with audio guidance.



Video learning

- **Video learning:** This methods helps for the development agent to have a clear view about the impact of the MI and to answer and train for the farmer.

- **Posters:** Educational posters which can address the MI issues, with financial education integration. Cartoon based dialogues, which will be well designed by cartoonist. Language, culture and other sensitive issues in consideration.

5.2. Key messages for campaign

Message	Descriptions
Insurance is good for you	Every farmer is exposed for weather based risk, which affect the farmers repeatedly & damage and destroy crop, farmers life, life in danger and put farmers in credit risk.
MI is affordable	MI is not expensive when the cost of not having is weight against the benefit one could drive from the claim pay-out received if an insured risk occurs
Know your responsibility	As an insurance client, you have to understand the policy detail. All the requirement to receive claims and what is accepted and not.
Know your right	If you have bought MI policy, you have the right to make claim whenever the insured event occurs(as per the term and conditions of the policy)
Save your money, keep it safe!	Use the branchless banking to safe your money, and keep it safe by recognizing all around risks which affect it, for instance weather risk.
Use credit opportunities, and mitigate the risk!	Weather based risk affect the agricultural output, if you lose the output you are in a risk you perform your credit commitment. Micro insurance is the way to support you.

Key messages of the campaign

5.3. Expertise

The awareness demand different expertise of organizations and individuals. Kifiya and the working team will integrate those who can help the awareness campaign.

The IVR and video material is well tested and practiced in different part of the country. ATA is using the IVR and DigitalGreen also well-known with the agricultural learning video making. The awareness will use their best practices and experience as a tool.

Different print awareness materials like Posters and learning tools for the financial literacy clinic and advocates and DEA, will develop by expertise which has well understanding for the MI service and the targeted groups. Language and culture is fully under consideration to develop the materials.

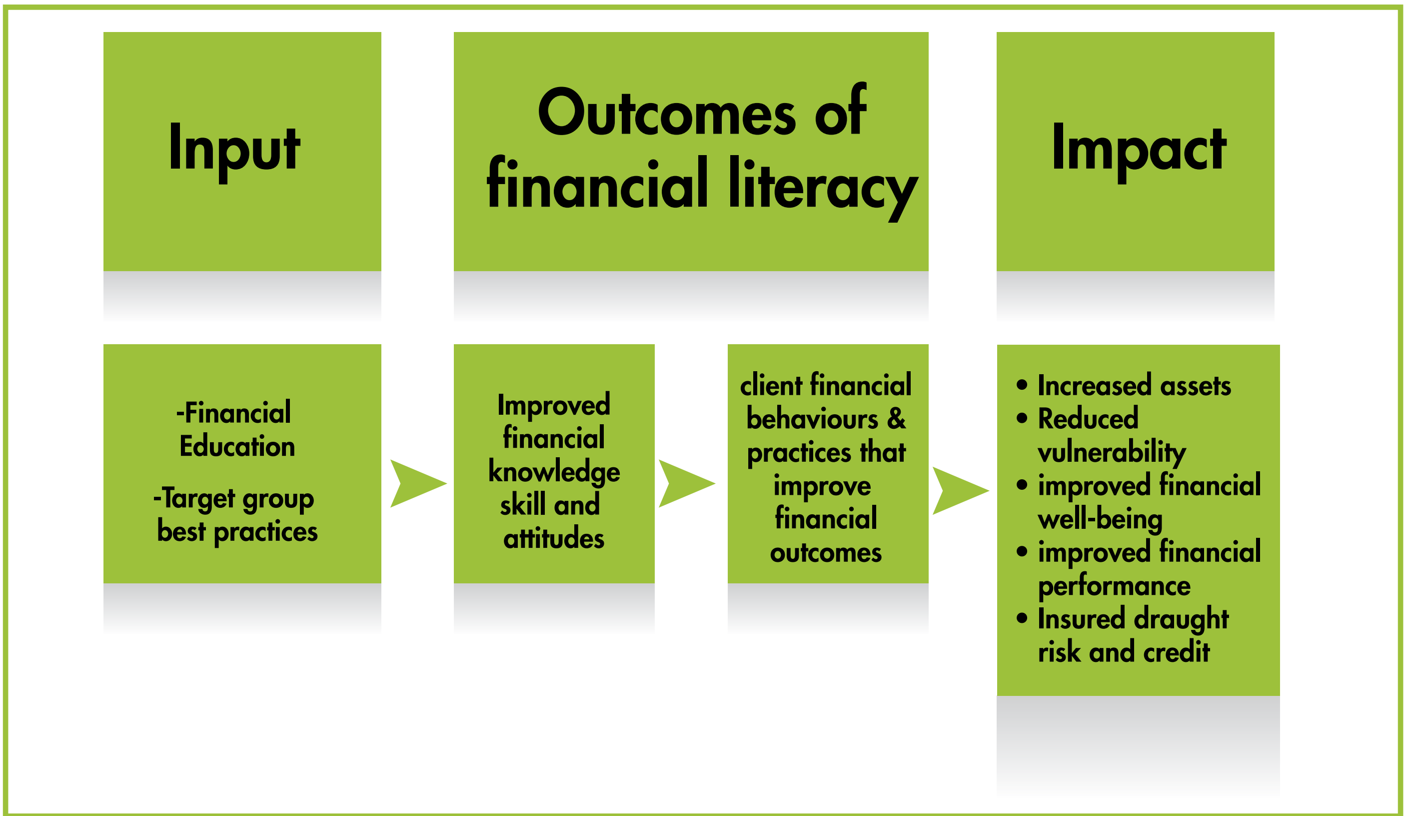
The radio based materials will develop by the regional experts which fully understand the farmer's way of life and their culture and understanding level.

5.4. Impact Assessment

The impact assessment leads to rethink about the method and content of the literacy program. Measuring the effect of the literacy program by testing the targeted farmers' level of understanding about the financial services, which are available around them.

The objective of the literacy program also leads to identify the change in level of awareness. Testing the achievement of the program by measuring the number of farmers, which are newly registered in the financial institutions around the kebele. Financial literacy survey is the method to measure the impact.

During the impact assessment it is very important to explain and analyze all the inputs, outcomes and impact, because it show the result in a simple way. The inputs for the literacy program has an impact for the outcome. Comparing the outcome with the objective which the financial education stand for will give the impact on the targeted smallholder farmers.



Framework for assessing the outcome and impact of Financial Education

PUBLIC FINANCIAL ENTERPRISE AGENCY (PFEA)

AGRICULTURAL TRANSFORMATION AGENCY (ATA)

ETHIOPIAN INSURANCE CORPORATION (EIC)

KIFIYA FINANCIAL TECHNOLOGIES (KFT)

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