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IFAD

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

Executive Board – Seventy-Fourth Session

Rome, 5-6 December 2001

REPORT AND RECOMMENDATION OF THE PRESIDENT

TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO THE

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

FOR THE

RURAL FINANCIAL INTERMEDIATION PROGRAMME

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TABLE OF CONTENTS

APPENDIXES

CURRENCY EQUIVALENTS

Currency unit	=	Birr (ETB)
USD 1.00	=	ETB 8.5
ETB 1.00	=	USD 0.12

WEIGHTS AND MEASURES

1 kilogram (kg)	=	2.204 pounds (lb)
1 000 kg	=	1 metric tonne (t)
1 kilometre (km)	=	0.62 miles (mi)
1 metre (m)	=	1.09 yards (yd)
1 square metre (m^2)	=	10.76 square feet (ft^2)
1 acre (ac)	=	0.405 ha
1 hectare (ha)	=	2.47 acres

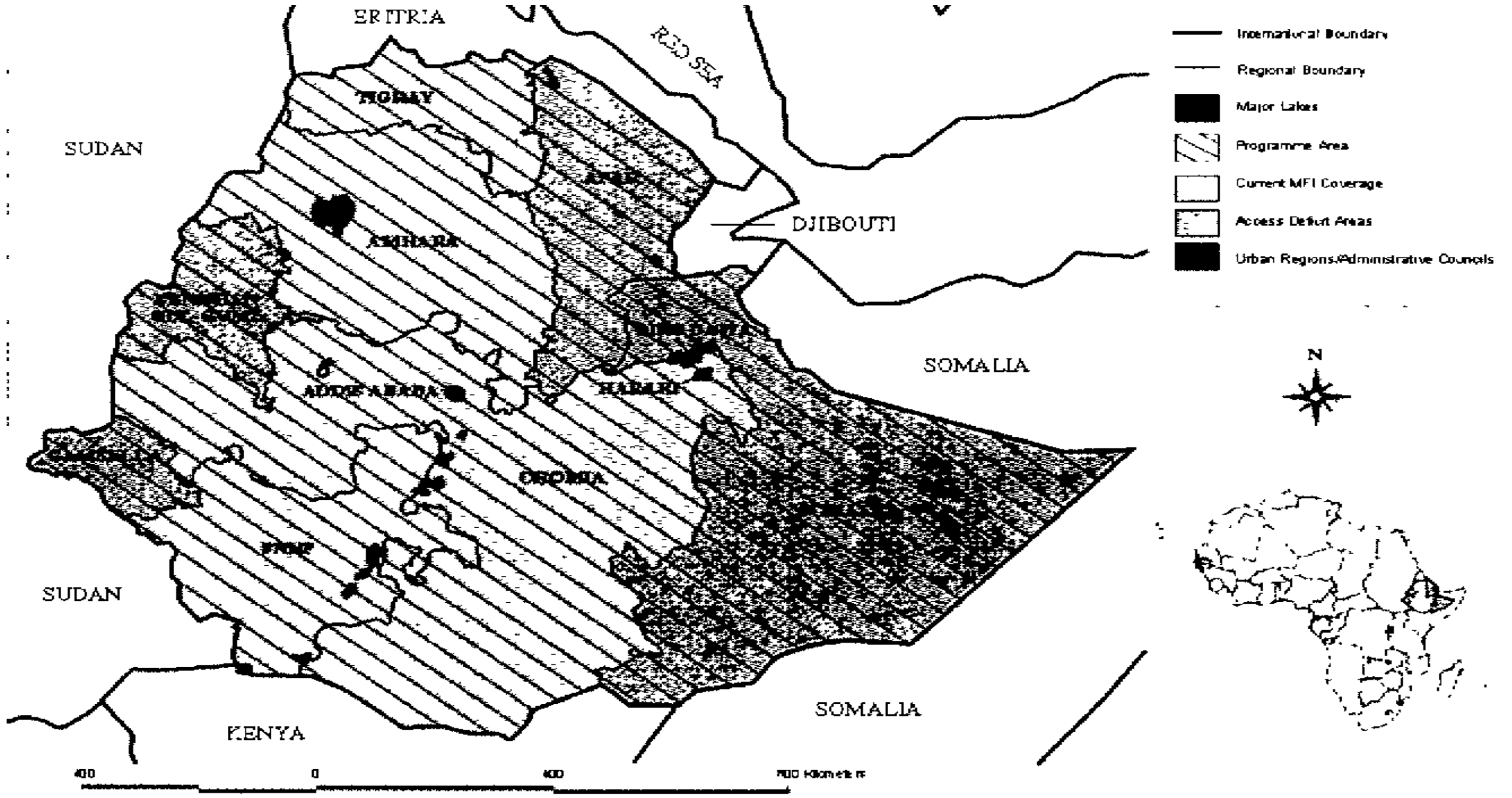
ABBREVIATIONS AND ACRONYMS

ADLI	Agricultural Development-Led Industrialization
AEMFI	Association of Ethiopian Microfinance Institutions
AfDB	African Development Bank
ARTP	Agricultural Research and Training Project
AWP/B	Annual Work Plan and Budget
COSOP	Country Strategic Opportunities Paper
DBE	Development Bank of Ethiopia
FCPB	Federal Cooperative Promotion Bureau
IDA	International Development Association
IPRSP	Interim Poverty Reduction Strategy Paper
MIS	Management Information System
MFI	Microfinance Institutions
NAEIP	National Agriculture Extension Intervention Programme
NBE	National Bank of Ethiopia
NGO	Non-Governmental Organization
PCMU	Programme Coordination and Management Unit
RCPB	Regional Cooperative Promotion Bureau
RUSACCO	Rural Savings and Credit Cooperative Society
UNDP	United Nations Development Programme
USAID	United States Agency for International Development

GOVERNMENT OF THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA
Fiscal Year

7 July - 6 July

MAP OF THE PROGRAMME AREA



Source: Appraisal Mission

The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

RURAL FINANCIAL INTERMEDIATION PROGRAMME

LOAN SUMMARY

INITIATING INSTITUTION:	IFAD
BORROWER:	Federal Democratic Republic of Ethiopia
EXECUTING AGENCIES:	Microfinance institutions (MFIs), rural savings and credit cooperative societies (RUSACCOs), cooperative unions, National Bank of Ethiopia (NBE), Development Bank of Ethiopia (DBE), commercial banks (CBs), Association of Ethiopian Microfinance Institutions (AEMFIs), federal and regional cooperatives promotion bureaux (FCPBs and RCPBs)
TOTAL PROGRAMME COST:	USD 88.7 million
AMOUNT OF IFAD LOAN:	SDR 20.15 million (equivalent to approximately USD 25.7 million)
TERMS OF IFAD LOAN:	40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum
COFINANCIERS:	African Development Bank (AfDB)
AMOUNT OF COFINANCING:	USD 37.5 million
TERMS OF COFINANCING:	To be determined
BORROWER:	Government: USD 4.5 million DBE/CBs: USD 20.2 million MFIs: USD 844 000
APPRAISING INSTITUTION:	IFAD
COOPERATING INSTITUTION:	International Development Association (IDA)

PROGRAMME BRIEF

Who are the beneficiaries? The beneficiaries are approximately 1.5 million poor rural households that will gain access to improved and reliable financial services either as clients of microfinance institutions (MFIs) or as members of rural savings and credit cooperative societies (RUSACCOs). With an annual per capita income of less than USD 110, most of the beneficiaries live below the national poverty line, defined as the income level necessary to maintain the minimum daily requirement of 2 200 calories per adult recommended by the World Health Organization. The beneficiary households live significantly below the internationally recognized poverty threshold of USD 1 a day. About 15–20% of them are *de jure* woman-headed households.

Why are they poor? Poverty among beneficiary households is attributable to: (i) their limited asset base, including landholdings of less than 1 ha on average; (ii) their lack of access to reliable financial services critical for agricultural diversification and intensification, including the adoption of improved crop and livestock production technologies; (iii) frequent droughts in predominantly low-input, low-output rainfed farming systems; (iv) the lack of access to essential rural and social infrastructure; (v) political and social unrest; and (vi) past misguided public policies, including neglect during the military *(derg)* regime. Additionally, the high dependence ratio, of about 48% at the household level, further exacerbates the degree of poverty.

What will the programme do for them? The programme will enhance access by beneficiaries to regular and reliable financial services so that they may, *inter alia*, adopt improved agricultural production technologies and undertake off-farm and non-farm income-generating activities with a view to improving food security and family incomes. Currently, the beneficiaries have no access to banking services on account of both the limited outreach and their own inability to meet collateral requirements in the form of tangible assets. They therefore depend on family, friends and moneylenders for consumption and production credit, often at exorbitant rates of interest, which further reinforces their poverty. By reducing the interest rates charged to beneficiaries, the programme will contribute to positive income-redistribution effects. In addition, increased access to efficient financial services will permit beneficiaries to build their asset base by unlocking untapped opportunities for agricultural diversification and income generation. In particular, women will be able to take up trading and other income-generating activities that would otherwise be out of reach to them owing to their lack of working capital. The increased household incomes will enable beneficiaries to cope better with external shocks and to gain access to the essential social infrastructure that is critical for sustained poverty reduction.

How will the beneficiaries participate in the programme? MFIs have a corporate philosophy to deliver financial services to poor rural households. The upper limit of their current loan size of ETB 5 000 (USD 588) is clearly intended to enhance access and expand outreach to the poorest. Their current average loan size is less than USD 100. Beneficiaries form into groups in order to access MFI financial services. The programme will support MFIs in institutionalizing a structured process of client training, with a view to building confidence and reinforcing a culture of credit discipline. It will also support annual exchange visits by about 14 000 centre and group leaders, at which they will share experiences on successful microfinance activities in other parts of the country. The programme will support MFIs in training about 40 000 women clients over the programme period in business skills development. It will also support about 100 baseline surveys with a view to diversifying financial products, and internalizing policies and strategies for beneficiary mobilization and empowerment. Equally important, the programme will encourage MFIs to diversify their ownership structures by offering shares to beneficiary households with a view, *inter alia*, to improving transparency and accountability. Within the cooperatives subsector, the programme will empower beneficiaries by promoting the establishment of 3 375 RUSACCOs as self-reliant, member-owned and managed, community-based financial intermediaries, whose activities will include member education and training.

REPORT AND RECOMMENDATION OF THE PRESIDENT OF IFAD TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA FOR THE RURAL FINANCIAL INTERMEDIATION PROGRAMME

I submit the following Report and Recommendation on a proposed loan to the Federal Democratic Republic of Ethiopia for SDR 20.15 million (equivalent to approximately USD 25.7 million) on highly concessional terms to help finance the Rural Financial Intermediation Programme. The loan will have a term of 40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum. The loan will be administered by the International Development Association (IDA) as IFAD's cooperating institution.

PART I - THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY[1]

A. The Economy and Financial Sector

1. **Country context.** With a population of approximately 63 million, Ethiopia is the second most populous nation of sub-Saharan Africa. Over the past three decades, its socio-political economy has been transformed from a quasi-feudal monarchy; to a Marxist State characterized by central planning, state control and ownership; to a liberalized market economy. The implementation of key institutional and policy reforms with probity and due attention to smallholder agriculture and poverty reduction under various structural adjustment programmes has underpinned economic growth, averaging about 6% per annum between 1992/93 and 1997/98. Price controls have been dismantled, the exchange rate devalued, state-owned enterprises divested and appropriate incentives given to the private sector, including the country's 7.5 million smallholder farmers who account for about 95% of the agricultural gross domestic product (GDP). These measures have contributed to macroeconomic stability, with lower inflation rates and reduced government budget deficits.

2. Ethiopia is an agrarian society. Its agricultural sector accounts for about 50% of GDP, provides approximately 70% of raw materials required by the industrial sector, generates more than 90% of export earnings and accounts for about 80% of employment. It is also the primary source of income for about 85% of the population. Notwithstanding its great potential for agricultural development, Ethiopia is one of the poorest countries in the world, with a yearly per capita income of USD 110, which is roughly one quarter the average for sub-Saharan Africa. Poverty is structural and endemic. The incidence of poverty is much higher in rural (47%) than in urban (33%) areas. Nonetheless, the incidence and severity of poverty is high across all rural regions, with little variation.

3. **The financial sector.** Ethiopia's commercial banking system, which has been traditionally dominated by state-owned enterprises, has been unable to respond to the needs of poor rural households, mainly because of those households' meagre asset base, high lender and borrower transaction costs, limited geographical outreach, inadequately trained human resources in microfinance, and the lack of suitable lending technologies for risk management. Historically, non-governmental organizations (NGOs) with a strong welfare and relief orientation have spearheaded the delivery of credit services to poor rural households under donor-supported

[1] See Appendix I for additional information.

programmes. The NGO credit schemes have not, however, promoted financial sustainability, and their overall outreach has been quite limited. Additionally, the government-guaranteed input supply loan scheme under the National Agriculture Extension Intervention Programme (NAEIP), which has reached up to 2.5 million smallholder farmers, has disproportionately weighed down and weakened the effectiveness of the decentralized agricultural extension services. The underdeveloped state of rural financial markets means that friends, relatives and moneylenders are the major sources of credit for poor rural households, often lent at exorbitant interest rates of up to 400% per annum.

4. **The microfinance subsector**. The limited outreach of the commercial banking system and NGO-supported credit schemes, and the uncertainty surrounding the future of the input supply loan programme have galvanized the Government to establish a legal and policy framework conducive to the growth of microfinance institutions (MFIs) and rural savings and credit cooperative societies (RUSACCOs). Since Proclamation 40/1996, 19 MFIs have been licensed by the National Bank of Ethiopia (NBE). Over the last four years, the microfinance industry has recorded remarkable growth, with a network of about 500 branches and sub-branches, an outstanding loan portfolio of about USD 33.5 million, net savings of about USD 16 million, and expanded outreach to nearly 500 000 poor rural households. Over 40% of the industry's clients are women. Overall the financial performance of the sector has been good, with operational viability averaging 135% over the past three years. Despite rapid growth, however, the overall outreach as of 31 December 2000 represented less than 5% of rural households. Ethiopians have a strong tradition of saving, which is evident from the widespread existence of informal rotating savings and credit organizations such as *iqubs* and *iddirs.* There is also a promising history in the country of successful savings and credit cooperatives in urban areas. Recent government policy and legal framework augur well for the development of politically independent RUSACCOs, owned and managed by their members.

B. Lessons Learned from Previous IFAD Experience

5. During the past two decades, IFAD has assisted Ethiopia with loans on highly concessional terms and with grants equivalent to USD 133 million towards the cost of nine development projects. Five of these projects were cofinanced with the World Bank, which was also the cooperating institution for seven projects. Four of the nine projects are still under implementation. The main thrust of these projects has been to improve household incomes and food security through a sustained increase in agricultural production and productivity, the effective delivery of core support services, the rehabilitation and development of farmer-owned and -managed small-scale irrigation schemes, the promotion of income-generating activities, and local capacity-building.

6. One key lesson learned, particularly in the wake of fundamental institutional and policy reforms undertaken by the Government, is that early and full integration of project coordination, management and implementation arrangements into the decentralized regional institutional framework is critical for success and sustainability. Second, to enhance ownership at the local level – which is equally important for ensuring timely implementation and sustainability – development projects should be compatible with the sector investment policies, in addition to being consistent with the priorities of the increasingly autonomous regional governments. Investment projects should include practical mechanisms for strengthening the institutional capacity of the regional governments, particularly at the zonal, *woreda* (district) and field levels.

7. Third, experience suggests that meaningful beneficiary participation is both feasible and necessary for the sustainability of investments. The active participation of beneficiary households has been critical in the successful multiplication of improved seeds by about 45 234 smallholder farmers under the farmer-based seed production and marketing scheme (the Informal Seed Component) of the IDA-cofinanced Seed Systems Development Project. Additionally, both federal and regional agricultural research centres are establishing farmers' research groups with a view to strengthening the linkages among the decentralized agricultural extension services, the farmers as end users, and the

national agricultural research system under the IFAD-cofinanced components of the ongoing Agricultural Research and Training Project (ARTP).

8. Fourth, experience strongly suggests that IFAD can positively influence the direction of public policy and resources in favour of the rural poor. To that end, the Fund has promoted comprehensive baseline surveys as useful mechanisms for targeting investment programmes and as having the greatest potential impact on household food security and incomes. Comprehensive baseline surveys have so far been used to define better the agenda of new agricultural research centres supported by IFAD under ARTP. Research at the centres includes a look into production technologies that would reduce the drudgery of farming operations undertaken mainly by women. The Ethiopian Agricultural Research Organization (EARO) has taken the cue and expanded the surveys to the country’s 18 agro-ecologies, with a view to ensuring that the national agricultural research system will henceforth respond better to the needs and priorities of poor rural households.

9. Fifth, experience shows that while the existing public accounting and reporting systems can be relied on to monitor the financial and physical progress of investment programmes, the lack of sound benchmark data has weakened performance monitoring and impact assessments. The mid-term review of the ongoing Southern Region Cooperatives Development and Credit Project reaffirmed that the lack of such data made it difficult to assess the potential impact of project investments on beneficiary households. However, this problem has been redressed through the recently concluded comprehensive baseline survey undertaken by IFAD within the framework of complementary social infrastructure being developed with cofinancing from the Belgian Survival Fund (BSF).

C. IFAD’s Strategy for Collaboration with Ethiopia

10. **Country strategic framework.** Within the framework of Ethiopia’s long-term strategy of agricultural development-led industrialization (ADLI), the agriculture sector has rightly been recognized as the engine for rapid and equitable economic growth. The recent Interim Poverty Reduction Strategy Paper (IPRSP) has provided a unique opportunity to revisit and update the ADLI strategy in a manner consistent with IFAD’s Country Strategic Opportunities Paper (COSOP), which has been discussed and agreed on with the Government. The IFAD country strategy calls for investment programmes with the greatest potential positive impact on household food security and incomes, primarily through a sustained increase in agricultural production and productivity. Currently IFAD support to Ethiopia includes participatory development and rehabilitation of farmer-owned and managed small-scale irrigation schemes; participatory generation of improved agricultural production technologies; multiplication of improved seed varieties by smallholder farmers; and development of multipurpose service cooperatives. The long-term sustainability of these investment projects, including the rapid adoption of improved production technologies critical for diversification and commercialization of smallholder agriculture, has nonetheless been hampered by lack of access by beneficiary households to reliable financial services.

11. **Ethiopia’s policy for poverty eradication.** To buttress the ADLI strategy, the Government has undertaken fundamental policy and institutional reforms to transform the hitherto centrally-planned economy into a liberalized market economy, including the devolution of powers and authority to the regional governments. The Government has also embarked on sector-wide investment programmes to improve the efficiency and productivity of the economy, and to contribute to the development of complementary social and rural infrastructure. In the absence of institutional arrangements for the provision of agricultural credit, the Government has embarked on a major input supply loan scheme within the NAEIP to provide improved farm inputs to about 2.5 million farmers. Together with institutional and policy reforms, occasional good weather and political stability, NAEIP has contributed to increased cereal production, leading to unprecedented reductions in food imports. Virtually all this production is accounted for by smallholder farmers operating on landholdings of less

than 1 ha on average. The increase in cereal production has clearly demonstrated the potential for closing the national food deficit gap from domestic sources consistent with the ADLI strategy.

12. However, under NAEIP, the role of field-level extension staff has been expanded to include the distribution of farm inputs and the management of the resultant credit. In the absence of alternative institutional arrangements, this expanded role may be justified as a stopgap measure within the immediate objectives of the ADLI strategy. Nonetheless, the continued involvement of extension staff in the input supply loan programme has eroded their effectiveness by shifting attention away from their core functions. It has also tended to create conflicts between them and farmers, thereby diminishing the degree of trust that is critical for the effective delivery of extension services. Development agents are themselves ill equipped and ill trained to administer the input supply loan programme. The need for an institutional framework to deliver effectively efficient financial services to rural households, together with the gradual withdrawal of extension staff from the management of input supply loans, has been rightly recognized in both the IPRSP and COSOP as a critical and necessary condition for the realization of the ADLI strategy.

13. **The poverty eradication activities of other major donors.** In compliance with Proclamation 40/96, both local and international NGOs have transformed their savings and credit operations into MFIs. Over the past five years, the American NGO Volunteers in Overseas Cooperative Assistance (VOCA) has, with financial support from the United States Agency for International Development (USAID)**,** promoted the development of multi-purpose service cooperatives, RUSACCOs and cooperative marketing unions as politically and financially independent intermediaries. In addition, VOCA has strengthened the institutional capacity of the decentralized regional cooperatives' promotion bureaux, including the establishment of a USD 1.2 million credit guarantee scheme linking the cooperative unions with the Bank of Abyssinia. USAID plans to provide further support in setting up cooperative training colleges.

14. The United Nations Development Programme (UNDP) plans to support a limited microfinance programme, mainly for the capacity-building of MFIs within urban areas. The European Union plans to support NBE's supervision, insurance and international banking operations, in addition to contributing to microenterprise development. These investments will complement the programme, which presents both IFAD and development partners with a unique opportunity to harmonize diverse donor approaches, secure synergies and thereby avoid overlapping.

15. **IFAD's strategy in Ethiopia.** Available data suggest that with the notable exception of the *enset*-producing region of Oromiya, poverty is fairly evenly spread across most of the rural areas, where at least 85% of the population lives. There is therefore little or no rationale for prioritizing investment programmes solely on a regional basis. The Government's ADLI and IFAD's country strategies call for sector development programmes geared to promote rapid economic growth with equity across regions. Within the framework of sector development programmes, IFAD's strategic role rests in using its limited resources to leverage the direction of public policy and resources towards investment programmes with the greatest potential impact on household food security and incomes. This strategic niche calls for IFAD to play a more proactive role in the design and implementation of sector development programmes, with a view to influencing the shape of evolving public policies in favour of the rural poor.

16. The IFAD country strategy further calls for meaningful beneficiary participation in programme design, planning and implementation based on a clear knowledge and understanding of the pressing needs and priorities of poor rural households. The key to IFAD's strategy is to work in harmony with other development partners with a view to mobilizing the additional resources required to enhance impact and promote the development of essential rural and social infrastructure complementary to the sustained increase in agricultural production and productivity.

17. **Programme rationale.** Both the ADLI and IFAD country strategies recognize that the lack of access to reliable financial services for most rural households is a key constraint on increased production, productivity and incomes. It also greatly inhibits diversification of activities for income generation and the commercialization of smallholder agriculture. The commercial banking system has largely failed to respond to the needs of rural households except through government-guaranteed input supply loans under NAEIP. It has become increasingly evident that the input supply loan scheme is neither an appropriate institutional mechanism nor a sustainable operation. The Government therefore plans to withdraw from the scheme, to be replaced by financially sustainable rural intermediaries. To that end, it has put in place a sound policy and legal framework conducive to the establishment and operation of viable MFIs. During the past four years, the 19 MFIs licensed as share companies by the NBE have demonstrated their potential for expanding outreach and mobilizing savings. However, in spite of rapid growth, the industry has reached only about 5% of rural households. Inadequate loan funds and weak institutional capacity have been the main constraints on expanded outreach. The programme will build on this positive experience to expand outreach concomitant with operational and financial sustainability.

18. A limited number of case studies in the Amhara and Tigrai regions suggest that access to credit by rural households on a regular basis is critical to sustained poverty reduction as it permits the households to build up their asset base by unlocking untapped opportunities for income diversification and generation. In particular, poor rural households have been able to expand the area under cultivation and retrieve farmland contracted out under inefficient sharecropping arrangements.Women in particular have reportedly been able to take up diverse income-generating activities that would otherwise have been out of reach owing to their lack of working capital. The studies also suggest that access to financial services and the resultant increase in incomes enable the rural poor to cope better with external shocks and to gain access to the essential services that are critical for sustained poverty reduction.

19. The Government has also put in place a sound legal and policy framework conducive to the establishment of financially and politically independent RUSACCOs, with a view to expanding outreach in the delivery of financial services to poor rural households. The comparatively successful history of politically independent urban financial cooperatives, combined with the widespread nature of *iqubs* and *iddirs* as informal, community-based rotating savings and credit associations, provide a credible rationale for the promotion of RUSACCOs complementary to MFIs. A diversified rural financial system will contribute to faster growth in outreach to rural households and ensure a more comprehensive response to households' needs by promoting a competitive environment conducive to stability and efficiency.

PART II – THE PROGRAMME

A. Programme Area and Target Group

20. In line with the IFAD country strategy, the programme has been designed as a sector-wide investment that addresses some of the key institutional and policy issues critical for the development of a vibrant and sustainable microfinance industry. The high incidence and fairly even distribution of poverty throughout rural Ethiopia suggests that there is little justification for targeting programme activities on a regional basis. However, the four densely populated rural regions of Amhara, Oromia, Southern and Tigrai, which account for more than 80% of the total population and are characterized by the highest incidence and greatest severity of poverty, will account for the greatest share of programme activities. They also represent the greatest potential market for financial services within the agricultural and non-farm sectors. The programme will also promote the delivery of financial services to the access-deficit rural regions of Afar, Ben-Shangul Gumuz, Gambela and Somali, based on the outcome of ongoing baseline surveys geared towards obtaining a better knowledge and understanding of the needs and priorities of rural households in these regions, including pastoralists.

21. The programme target group comprises rural households living below the national poverty line, defined as the level of income necessary to maintain the minimum daily requirement of 2 200 calories recommended by the World Health Organization. With a yearly per capita income of less than USD 110, the majority of the target group lives far below the internationally recognized absolute poverty threshold of USD 1 per day. Most of these rural households have a limited asset base, including landholdings of less than 1 ha on average. They also lack access to basic health, education and drinking water facilities. About 20% of the target group are *de jure* woman-headed households. The high dependency ratio of about 48% at the household level further exacerbates the degree of poverty among the target group. The average loan size per household within the target group is projected to increase from approximately USD 100 to USD 250 over the seven-year programme implementation period.

B. Objectives and Scope

22. The programme aims at alleviating rural poverty through a sustained increase in agricultural production, productivity and family incomes. Its primary objectives are to enhance outreach and financial deepening by MFIs through institutional development and through the provision of equity and credit funds; develop a community banking framework by promoting the establishment of grass-roots, people-owned and -managed rural financial cooperatives; promote linkages between the rural financial network and the Ethiopian banking system; and improve the regulation and supervision of MFIs, RUSACCOs and unions, including their self-regulatory processes.

23. The programme's design seeks to encourage best practices based on sound and prudential norms in the development of rural financial systems. It will *inter alia* promote: savings mobilization with a view to securing the long-term financial sustainability of MFIs and RUSACCOs; efficient management in order to keep operating costs to an optimal level and thereby enhance operational sustainability; appropriate pricing policies for savings and loan products, including market interest rates that cover all financial, operating and loan loss costs; outreach concomitant with an improvement in the quality of portfolio and services; and adherence to prudential standards, such as capital adequacy, liquidity, asset classification and loan loss provisioning.

24. While having a social orientation, MFIs also are equally committed to sound financial management and long-term financial and operational sustainability. However, without charging prohibitive lending interest rates, MFIs can see that operating costs are absorbed in full only when business grows to a minimum level. Typically, an MFI may take about four years to break even when its lending rates are largely in tune with market rates. A new branch takes about three years to break even. While most costs will be eventually absorbed by internal income generation, there will be expansion costs that truly relate to beneficiary mobilization and that are in the nature of capital costs. Donor experiences recognize the need for grant support for institutional development within a limited timeframe. In light of the poverty reduction focus of MFIs and RUSACCOs, programme design includes limited grant support for institutional development.

25. The programme design also provides for liquidity support to MFIs through equity participation, with a view to strengthening their capital base and helping them leverage additional resources from the domestic banking system. The credit line is therefore priced at the prevalent domestic cost of capital, currently 8%, with a view to encouraging savings mobilization. The credit line will be linked to performance criteria, including capital adequacy and the financing of at least 50% of the loan portfolio from internally generated resources (equity plus savings). In addition, in order to promote the linkages among the MFIs and commercial banks, programme design recognizes the importance of a sound regulatory framework and supervisory oversight, both of which contribute to the development of a vibrant, efficient and stable microfinance industry by strengthening confidence among depositors.

C. Components

26. The programme comprises four main components: institutional development within the microfinance and cooperative sub-sectors; improved regulation and supervision of MFIs by strengthening the institutional capacity of the NBE and the Association of Ethiopian Microfinance Institutions (AEMFI); equity and credit funds for MFIs and RUSACCOs; and programme coordination and management.

27. The main thrust of the **institutional development** component is to strengthen the capacity of MFIs to effectively and efficiently expand outreach to about 1.5 million poor rural households over the next seven years, concomitant with improved quality of both service and loan portfolio. To that end, the programme will upgrade staff skills by supporting MFIs to implement a human resource development plan responsive to the needs of the industry. Using the results of a comprehensive staff training needs assessment, the programme will internalize staff training from field-level officers, branch and senior management to board members. In addition to structured skills improvements, the programme will help MFIs develop and upgrade their financial accounting, information and management systems, with a view to effectively monitor the performance and quality of their loan portfolios.

28. The programme will also empower beneficiary households by internalizing their training as an integral part of the operational functions of field-level sub-branch staff, so as to build up the households' confidence and reinforce a culture of credit discipline. Client training will include annual exchange visits by about 14 000 centre and group leaders, which will enable them to share experience on best practices. The training will also support business skills development for about 40 000 women clients of MFIs over the programme period. In addition, comprehensive baseline surveys and studies will be conducted as the basis for formulating and internalizing participatory strategies, the diversification of financial products, beneficiary mobilization, empowerment and gender mainstreaming. The programme will encourage MFIs to diversify ownership by offering shares to their clients with a view to enhancing accountability, transparency and governance.

29. Within the cooperatives sub-sector, the programme will promote the establishment of about 3 375 RUSACCOs and their 78 unions, accounting for about 235 000 members as community-based, independent financial intermediaries. To that end, the programme will support client education and training, in addition to strengthening the institutional capacity of the federal and regional cooperatives promotion bureaux (FCPBs and RCPBs). At least 15% of all newly recruited staff in the RCPBs will be women, as a way of improving the responsiveness of the cooperatives to the needs of woman-headed households. Furthermore, at least 335 RUSACCOs will be established exclusively for about 50 250 women. As most of the newly recruited staff will be recent graduates, the programme will support their intensive induction training.

30. **Improved regulation and supervision of MFIs**. MFIs must continue aggressively to mobilize savings and access financial markets in order to augment their limited resources for expanded outreach and their own long-term financial sustainability. A sound regulatory and supervisory framework contributes to a dynamic, vibrant and efficient microfinance industry. It also strengthens the confidence of depositors and provides an environment conducive to MFI linkages with the financial markets. Currently, there are inadequacies in the regulatory and supervisory oversight of the NBE. The programme will strengthen the regulatory and supervisory framework through a judicious combination of legal and self-regulatory processes in light of the special characteristics of the industry. It will strengthen also the NBE's Microfinance Supervision Division (MFSD) through staff training, the formulation of regulation and supervision procedures and instruction manuals, and the development of a sound external audit framework that complements the bank's supervision function. It will also support self-regulatory processes by strengthening the institutional capacity of AEMFI to develop benchmarks and monitor performance indicators based on best practices.

31. **Equity and credit funds**. Rural households need credit for working capital and for investment in a range of on-, off- and non-farm activities. In Ethiopia, there is potentially huge demand for credit from about 10 million rural households. The performance record of MFIs suggests that aggregate outreach might easily be expanded to 3-4 million rural households within the next few decades, provided the necessary institutional framework can be developed. Based on a careful assessment of their real potential for growth and for expanded outreach concomitant with savings mobilization and operational and financial sustainability, the net liquidity gap for MFIs during the programme period is estimated to be at least USD 100 million. In line with the IFAD policy on rural finance, the programme will provide USD 59.5 million to bridge this liquidity gap through equity support (USD 8 million) and credit funds (USD 51.5 million), including USD 20 million from the domestic banking system. With tacit support from the Government and improved balance sheets, MFIs would be able to secure additional domestic banking support to further close the liquidity gap. In addition, the programme will provide credit funds equivalent to USD 6.8 million to the RUSACCOs against a net liquidity gap of at least USD 10 million. Qualification for programme support will be linked to performance criteria, including savings mobilization, a sound medium-term institutional development plan approved by the Programme Management Committee, adequate financial and operational sustainability, loan recovery rates of at least 95%, a capital adequacy ratio of 20%, and the annual audit of accounts. The proposed line of credit and equity will enable the MFIs and RUSACCOs to expand outreach by 1 million households to about 1.5 million rural households by programme year (PY) 7.

32. **Programme coordination and management**. The programme will support the establishment of a programme coordination and management unit (PCMU) within the Development Bank of Ethiopia (DBE), with responsibility for coordinating programme activities, monitoring performance, including impact assessments, and managing the line of credit and equity, in addition to coordinating institutional development within the microfinance industry. The PCMU will be headed by a national programme manager, who will report directly to the Chief Executive of the DBE.

D. Costs and Financing

33. Programme costs, including physical and price contingencies, are estimated at ETB 771 million, equivalent to USD 88.7 million. Institutional development costs account for 19% of base costs. Equity and credit funds represent 78% of base costs. IFAD will contribute USD 25.7 million, or 29%, towards the cost of the programme, mainly for institutional development, equity and credit funds. The African Development Bank (AfDB) has agreed in principle to cofinance the programme, at least by matching the IFAD contribution. However, as a clear indication of its commitment to the rural poverty reduction initiatives proposed under the programme, the Government has requested the AfDB to increase its cofinancing to USD 37.5 million in order to narrow the liquidity gap and thereby expand outreach to more rural households. The DBE and the commercial banking system have also agreed to contribute at least USD 20.2 million for equity and the line of credit. The direct government contribution amounts to USD 4.5 million, including taxes foregone.

34. In principle, a number of bilateral donors, namely, the Department for International Development (DFID) (United Kingdom), USAID and Irish Aid have agreed to complement the programme through grant cofinancing in the course of implementation, while the European Union and UNDP see potential scope for collaboration and coordination. All agree that the programme presents a unique opportunity to enhance synergy and harmonize diverse donor approaches with a view to efficient resource use and coherent national strategies and policies. The programme cost summary and financing plan are presented in Tables 1 and 2, respectively.

TABLE 1: SUMMARY PROGRAMME COSTS[a]
(USD ’000)

	Local	Foreign	Total	% Foreign Exchange	% Total Base Costs
A. Institutional development					
Microfinance institutions	6 233.0	2 448.7	8 681.7	28	10
Federal and regional cooperatives promotion bureaux	3 846.4	1 900.3	5 746.7	33	7
Rural savings and credit cooperatives	1 690.8	250.1	1 940.9	13	2
Subtotal: Institutional development	11 770.1	4 599.2	16 369.3	28	19
B. Improved regulation and supervision of MFIs					
National Bank of Ethiopia	141.3	911.6	1 052.8	87	1
Association of Ethiopian Microfinance Institutions	232.4	74.5	306.9	24	-
Subtotal: Improved regulation and supervision of MFIs	373.7	986.1	1 359.8	73	2
C. Equity and credit funds					
1. Equity for MFIs	8 000.0	-	8 000.0	-	9
2. Credit					
MFIs	51 500.0	-	51 500.0	-	60
RUSACCOs	6 800.0	-	6 800.0	-	8
Subtotal: Credit	58 300.0	-	58 300.0	-	68
Subtotal: Equity and credit funds	66 300.0	-	66 300.0	-	78
D. Programme coordination and management	555.3	581.4	1 136.7	51	1
Total baseline costs	78 999.1	6 166.7	85 165.8	7.0	100
Physical contingencies	1 195.7	509.7	1 705.4	30.0	2
Price contingencies	1 359.0	497.7	1 856.8	27.0	2
Total programme costs	81 553.8	7 174.1	88 727.9	8.0	104

a Discrepancies in totals are due to rounding up of figures.

TABLE 2: FINANCING PLAN[a]
(USD ’000)

	IFAD		ADB		DBE/Comm. Banks		Government		Taxes: MFIs		Taxes: Government		Total			Local	Duties and
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	For. Exch.	(Excl. Taxes)	Taxes
A. Institutional development																	
Microfinance institutions	3 814.7	37.0	5 722.0	55.5	-	-	-	-	780.8	7.6	-0.0	-0.0	10 317.5	11.6	2 842.1	6 694.6	780.8
Federal and regional cooperatives promotion bureaux	1 180.2	17.2	1 726.7	25.2	-	-	2 792.1	41.6	-	-	1 089.9	16.1	6 788.9	7.7	2 194.6	3 504.4	1 089.9
Rural savings and credit cooperatives	857.4	35.8	1 286.1	53.6	-	-	-	-	-	-	253.8	10.6	2 397.4	2.7	309.1	1 834.5	253.8
Subtotal Institutional development	5 852.3	29.9	8 734.8	44.6	-	-	2 792.1	14.6	780.8	4.0	1 343.6	6.9	19 503.7	22.0	5 345.8	12 033.5	2 124.4
B. Improved regulation and supervision of MFIs																	
National Bank of Ethiopia	455.4	37.2	668.8	54.7	-	-	-	-	-	-	98.5	8.1	1 222.7	1.4	1 061.1	63.1	98.5
Association of Ethiopian Microfinance Institutions	122.6	33.8	176.8	48.8	-	-	-	-	63.2	17.4	-0.0	-0.0	362.7	0.4	86.9	212.6	63.2
Subtotal Improved regulation and supervision of MFIs	578.0	36.5	845.6	53.3	-	-	-	-	63.2	4.0	98.5	6.2	1 585.3	1.8	1 148.0	275.6	161.7
C. Equity and credit funds																	
1. Equity for MFIs	2 000.0	25.0	2 000.0	25.0	4 000.0	50.0	-	-	-	-	-	-	8 000.0	9.0	-	8 000.0	-
2. Credit																	
MFIs	13 500.0	26.2	22 000.0	42.7	16 000.0	31.1	-	-	-	-	-	-	51 500.0	58.0	-	51 500.0	-
RUSACCOs	3 400.0	50.0	3 400.0	50.0	-	-	-	-	-	-	-	-	6 800.0	7.7	-	6 800.0	-
Subtotal Credit	16 900.0	29.0	25 400.0	43.6	16 000.0	27.4	-	-	-	-	-	-	58 300.0	65.7	-	58 300.0	-
Subtotal Equity and credit funds	18 900.0	28.5	27 400.0	41.3	20 000.0	30.2	-	-	-	-	-	-	66 300.0	74.7	-	66 300.0	-
D. Programme coordination and management	356.7	26.6	520.8	38.8	235.5	17.6	-	-	-	-	225.9	16.9	1 338.9	1.5	680.3	432.7	225.9
Total disbursement	25 687.1	28.9	37 501.2	42.2	20 235.5	22.8	2 792.1	3.1	844.0	1.0	1 668.0	1.9	88 727.9	100.0	7 174.1	79 041.8	2 512.0

[a] Discrepancies in totals are due to rounding up of figures.

E. Procurement, Disbursement, Accounts and Audit

35. **Procurement** of goods and services to be financed out of the proceeds of the IFAD loan will be carried out in accordance with IFAD's procurement guidelines. Each approved annual work plan and budget (AWP/B) will include a detailed procurement plan and schedule. International competitive bidding procedures will be followed in the award of each contract for the supply of goods estimated to cost USD 250 000 or more.[2] Local competitive bidding procedures will apply to the award of each contract estimated to cost less than USD 250 000. The terms of reference, qualifications, and the terms and conditions of service in respect to all technical assistance will be subject to prior review in accordance with the guidelines of the cooperating institution.

36. **Disbursements**. Proceeds from the IFAD loan will be disbursed over a period of eight years. In order to ensure ready availability of the funds required to finance IFAD's share of eligible expenditures, which is critical for timely programme implementation, a Special Account in United States dollars will be opened with NBE in the name of the programme. The account will be used to meet the liquidity requirements for FCPB, RCPS, NBE, MFIs, AEMFI, PCMU, equity and credit lines. Upon effectiveness of the IFAD loan agreement, an initial deposit of USD 2 million in the aggregate, equivalent to IFAD's share of estimated programme expenditure for six months, will be withdrawn from the loan account and paid in advance into the Special Account. The Special Account will be replenished on a regular basis in line with the disbursement procedures of the cooperating institutions and the provisions of the loan agreement.

37. Applications for withdrawal of funds from the IFAD loan account will be prepared and submitted by the PCMU in accordance with the disbursement procedures of the cooperating institution. Disbursements will normally be made against full supporting documentation. However, certified statements of expenditures (SOEs) may be used for withdrawal applications in accordance with the procedures of the cooperating institution. Supporting documents in respect of SOEs will be maintained in a central location by each implementing agency for examination in the course of the annual audit of programme accounts and by a visiting supervision mission.

38. **Accounts and audit.** Each programme implementation agency has accounting responsibility and will maintain separate accounts in respect of programme expenditures. NBE, DBE, AEMFI, commercial banks and MFIs are legally subject to external audit. With programme support to improve financial accounting and management systems, it will be possible for them to compile their financial statements in a timely manner in readiness for the external audit that should be completed within six months of the close of the financial year. Similarly, planned programme support means that the accounts of the FCPB and RCPBs will be maintained and compiled in readiness for audit by the Ethiopian Audit Services Corporation. The accounts of cooperative unions and RUSACCOs will be audited by RCPBs. The PCMU will forward annual audited accounts to IFAD and its cooperating institution no later than six months after the close of the financial year. The audit report will include separate opinions on the use of the Special Account facility and certified SOEs.

F. Organization and Management

39. The key programme implementation agencies will be the MFIs, the DBE, the AEMFI, the NBE, the FCPB, the RCPBs, and the RUSACCOs and their unions. To ensure improved coordination, the Government will establish a National Rural and Microfinance Policy Steering Committee under the chairmanship of the Vice-Governor. NBE will coordinate, review and approve emerging policy issues with a view to promoting the effective delivery of efficient financial services to the rural poor.

[2] World Bank, Country Procurement Assessment Report for Ethiopia, August 1998.

40. In addition, the DBE will establish a programme management committee to guide the PCMU in operational aspects of the programme, under the chairmanship of the chief executive officer of the DBE and with appropriate representation from all key stakeholders. The DBE will establish a PCMU with responsibility for formulating procedures for on-lending credit to MFIs and unions/RUSACCOs; developing and implementing data and information systems for monitoring end use of programme credit and equity funds; liaising and coordinating with commercial banks for mobilization of domestic resources; reviewing institutional development plans of MFIs, monitoring their performance and performing the appropriate follow-up; coordinating the institutional development of MFIs in consultation with AEMFI; contracting service providers; coordinating with NBE, the FCPB and RCPBs in ensuring timely programme implementation; maintaining close coordination with cofinanciers; and coordinating the preparation of AWP/Bs in a participatory process.

G. Economic Justification

41. With agriculture remaining the backbone of Ethiopia's economy, the provision of financial services is expected to have a substantial impact in activating the largely under-utilized productive potential in the rural areas. Financial analysis of a typical cross-section of investments in on-, off- and non-farm enterprises shows significantly high returns on investments in crop production, draught animal power, livestock fattening, bee-keeping, tailoring and petty trading. Programme support includes at least 100 baseline surveys at the sub-branch level, geared to generate critical benchmark data for impact monitoring and assessment of, *inter alia*, the income effects of investments on beneficiary households.

H. Risks

42. Agricultural markets in Ethiopia are largely underdeveloped, leading among other things to significant price fluctuations. Market risks adversely influence the profitability of smallholder agriculture in years of surplus production, although the returns on investments over a three-to-five-year cycle are usually positive. MFIs encourage their clients to invest only in viable and profitable activities. They also plan, as a strategy of risk management, to encourage investments by a household in multiple activities through a combination of crop, off-farm and non-farm enterprises linked to opportunities in the markets. As one of the training modules for MFI staff at the sub-branch level, the programme will support rural enterprise profitability analysis and client education in screening potential opportunities. Implicitly, the high loan-recovery rates experienced by MFIs can be a proxy indicator of good risk management in MFI lending. In order to minimize risks and enhance the profitability of smallholder agriculture, the Government has continued to undertake complementary investments in rural infrastructure development, agricultural research, development of an agricultural market information system, rehabilitation and development of farmer-owned and -managed small-scale irrigation schemes, etc. The possibility of a 'credit culture' risk resulting from political interference is minimal, with the determination towards a liberalized market economy buttressed by the devolution of powers and authority to decentralized regional governments. However, the programme will support client sensitization and awareness-building in order to inculcate a strong sense of credit discipline and culture, which will reduce the potentially negative impact of political interference.

I. Environmental Impact

43. Overall, the programme's environmental impact will be neutral-to-positive on account of the rapid uptake and adoption of improved crop and livestock production technologies as a result of enhanced access by poor rural households to reliable financial services.

J. Innovative Features

44. The proposed programme is consistent with the IFAD country strategy for Ethiopia. Within that strategic framework, the programme will establish links between rural financial intermediaries and the

commercial banking sector, with a view to redirecting more domestic savings to meet the liquidity gap in the rural sector. An important feature of the programme, therefore, will be the mobilization of credit funds from the domestic banking sector. Access to the line of credit by MFIs and RUSACCOs will be directly linked to savings mobilization, with a view to promoting long-term financial sustainability and ensuring continued access to financial services by the rural poor beyond the programme implementation period. Another important feature is the establishment of a 'revolving fund', which will be used to support the expansion of rural financial intermediation beyond the programme implementation period, particularly in access-deficit areas. To broaden the base of rural financial systems and provide choice to rural households, the programme will promote, through baseline surveys and market research, the development of innovative financial products that are more responsive to the needs and priorities of such households. The programme will also provide a unique opportunity for continued policy dialogue with stakeholders, with a view to addressing emerging policy issues in rural finance.

PART III – LEGAL INSTRUMENTS AND AUTHORITY

45. A loan agreement between the Federal Democratic Republic of Ethiopia and IFAD constitutes the legal instrument for extending the proposed loan to the borrower. A summary of the important supplementary assurances included in the negotiated loan agreement is attached as an annex.

46. The Federal Democratic Republic of Ethiopia is empowered under its laws to borrow from IFAD.

47. I am satisfied that the proposed loan will comply with the Agreement Establishing IFAD.

PART IV – RECOMMENDATION

48. I recommend that the Executive Board approve the proposed loan in terms of the following resolution:

> RESOLVED: that the Fund shall make a loan to the Federal Democratic Republic of Ethiopia in various currencies in an amount equivalent to twenty million one hundred and fifty thousand Special Drawing Rights (SDR 20 150 000) to mature on and prior to 1 December 2041 and to bear a service charge of three fourths of one per cent (0.75%) per annum, and to be upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board in this Report and Recommendation of the President.

Lennart Båge
President

ANNEX

SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES INCLUDED IN THE NEGOTIATED LOAN AGREEMENT

(Loan negotiations concluded on 21 November 2001)

1. The Government of the Federal Democratic Republic of Ethiopia (the Government) and DBE will enter into a lead subsidiary agreement relating to the latter's responsibilities as lead programme agency. The Government will submit the lead subsidiary agreement to IFAD for its comments and approval before signature.

2. In addition to its responsibilities as lead programme agency, DBE shall carry out the equity and credit funds component of the programme, both directly and through participating commercial banks (PCBs) and rural financial institutions (RFIs) comprising MFIs, RUSACCOs and unions of RUSACCOs). For this purpose, the Government will make available to DBE a part of the proceeds of the IFAD loan, on terms and conditions set forth in the loan agreement. DBE will enter into a subsidiary agreement with each PCB and RFI eligible to participate under the programme.

3. (a) Each application by the Government for withdrawal from the IFAD loan will be deemed to be a request to withdraw funds from the IFAD loan account and AfDB's credit, and the funds to be withdrawn pursuant to such application will be apportioned by the lead programme agency, as closely as practicable in the circumstances, between the IFAD loan and the AfDB credit in the ratio of 2:3, or such ratio as will be agreed between IFAD and AfDB.

(b) Notwithstanding the generality of the foregoing and without prejudice to IFAD's remedies under the loan agreement, withdrawals may be made exclusively from IFAD's loan account until the AfDB credit is declared effective, after which adjustments will be made against future withdrawal applications to restore the cost-sharing ratio referred to in (a) above.

4. DBE will establish and maintain a loan risk fund in which it will deposit the difference between its lending rate for credits made to RFIs and its cost of borrowing from the Government, plus its approved retained margin under the terms of the subsidiary loan agreement. DBE will use the loan risk fund to meet up to 50% of the actual loan losses incurred by PCBs under the credit component.

5. DBE will establish and maintain a revolving fund in which all net revenues from credits extended to programme beneficiaries financed (directly or indirectly) by the loan will be deposited. DBE will use the revolving fund to fund further credits to the target group in accordance with the loan agreement, at least until such date as will be specified in the relevant PCB subsidiary agreement or RFI subsidiary agreement or, if no date is so specified, until all loan service payments have been made in full. For purposes of this paragraph, the term "net revenues" means all repayments of principal and all payments of interest, *less* reasonable operating and other costs.

6. The Government will ensure that FCPB and participating RCPBs recruit incremental staff necessary for the promotion and establishment of RUSACCOs and unions of RUSACCOs, in accordance with the AWP/Bs.

7. The Government will ensure that the lead programme agency has sufficient capital to meet its obligations under the programme and, in case of shortfall, undertakes to provide the necessary capital to maintain the lead programme agency's prescribed debt-equity ratio.

8. By or before 31 December 2002, the programme coordination unit will establish the monitoring and evaluation (M&E) system for the programme.

9. NBE will establish and staff, to the satisfaction of IFAD, the microfinance supervision division within its organization by or before 31 December 2002.

10. On or by 30 June 2003, the lead programme agency will establish and prepare operating procedures for both the loan risk fund and the revolving fund referred to in paragraphs 4 and 5, above, to the satisfaction of IFAD.

11. At least 15% of the staff members to be recruited by RCPBs under the federal and regional cooperative promotion bureaux sub-component of the institutional development component will be female.

12. Each MFI will prepare and submit to the lead programme agency quarterly performance and progress reports on, *inter alia*, the implementation of their respective institutional and business development plans.

13. By or before 30 June 2002, the Government will issue any necessary directives or regulations exempting MFIs from tax on their income under Proclamation No. 40/1996, and provide IFAD with satisfactory proof of such exemption.

14. The lead programme agency and all programme parties will insure key programme personnel against health and accident risks, to the extent consistent with sound commercial practice.

15. In order to strengthen the long-term institutional capacity for financial and accounting management within the financial subsector of the national economy, the Government undertakes to permit internationally recognized reputable accounting firms to operate in its territory.

16. The programme will target female clients of MFIs in the promotion of their micro-enterprise business development skills. Moreover, since 15-20% of rural households are *de jure* female-headed, the programme will benefit these women in overcoming the single most important constraint faced by them: lack of access to working capital.

17. By or before 30 June 2003, NBE will review and prescribe capital adequacy and liquidity standards, income recognition and loan loss provisioning norms for MFIs, consistent with its prudential guidelines.

18. By or before 30 June 2003, NBE's manual for on and off-site supervision of MFIs will be prepared and submitted to IFAD, through the lead programme agency, for its review and comments.

19. By or before 30 June 2003, participating RCPBs will formulate and promulgate any necessary regulations under Proclamation No. 147/98 related to cooperative by-laws with respect to the business conduct of RUSACCOs and unions of RUSACCOs, and will submit them to IFAD for its review and comments.

20. The Government and IFAD (on behalf of the Government) will endeavour to mobilize grant funds to assist in financing the programme on terms and conditions to be set forth in any eventual agreement(s) between the Government and donor(s). In no event will IFAD's actions in this regard be construed as IFAD acting as the Government's agent for the purpose of assisting in mobilizing such grant financing. Should the Government, or IFAD on the Government's behalf, be unable to secure such grant financing, it is expressly agreed and understood that IFAD's contribution towards the financing of the programme will not exceed the amount set forth in the loan agreement, and that such lack of additional financing will not be construed to be a default of IFAD under the loan agreement.

21. The following are specified as additional events of suspension of the right of the Government to request withdrawals from the loan:

(a) The right of the Government to withdraw the proceeds of the AfDB credit has been suspended, cancelled or terminated, in whole or in part, or the AfDB credit has become due and payable prior to the agreed maturity thereof; or any event has occurred which, with notice or the passage of time, could result in any of the foregoing.

(b) Any competent authority has taken any action for the dissolution of the lead programme agency or the suspension of its operations, or any action or proceeding has been commenced for the distribution of any assets of the lead programme agency among its creditors.

22. The following are specified as conditions of disbursement of funds from the loan:

(a) the first AWP/B shall have been submitted to and approved by IFAD;

(b) no withdrawals will be made in respect of expenditures under the equity and credit funds component to any individual PCB or RFI until the lead programme agency and the PCB or RFI have entered into a PCB subsidiary agreement or RFI subsidiary agreement, as the case may be; the signature and performance thereof by the lead programme agency and such PCB or RFI have been duly authorized or ratified by all necessary corporate, administrative and governmental action; and all conditions precedent to the effectiveness thereof shall have been fulfilled; and

(c) no withdrawals will be made in respect of expenditures under the federal and regional cooperative bureaux sub-component of the institutional development component:

(i) until FCPB has established both the FCPB programme coordination committee and the FCPB programme management and coordination unit, to the satisfaction of IFAD; and

(ii) to any individual RCPB until the RCPB concerned has established its RCPB programme management and coordination unit.

23. The following are specified as conditions precedent to the effectiveness of the loan agreement:

(a) the PCMU has been duly established under terms of reference approved by IFAD, and a National Programme Manager, Financial Management Specialist and M&E Officer, all with qualifications and experience to the satisfaction of IFAD, have been duly appointed by the lead programme agency;

(b) the programme management committee, with terms of reference approved by IFAD, has been duly established;

(c) the National Rural Finance and Microfinance Policy Steering Committee, with terms of reference approved by IFAD, has been duly established;

(d) the Government has duly opened the Special Account;

(e) the loan agreement has been duly signed, and the signature and performance thereof by the Government have been duly authorized and ratified by all necessary administrative and governmental action;

(f) the lead subsidiary agreement has been approved by IFAD in draft; a copy of the signed lead subsidiary agreement, substantially in the form so approved and certified as true and complete by a competent officer of the Government, has been delivered to IFAD; the signature and performance thereof by the Government and the lead programme agency have been duly authorized or ratified by all necessary corporate, administrative and governmental action; and all conditions precedent to the effectiveness of the lead subsidiary agreement (other than the effectiveness of the loan documents) have been fulfilled; and

(g) a favourable legal opinion, issued by the head of the legal department of the Ministry of Finance and Economic Development of the Government or other legal counsel approved by IFAD, in form and substance acceptable to IFAD, has been delivered by the Government to IFAD.

COUNTRY DATA

ETHIOPIA

Land area (km^2 thousand) 1997 1/	1 000	**GNI per capita (USD) 1999 4/**	100
Total population (million) 1999 4/	62.8	**Average annual real rate of growth of GNP per capita, 1990-98 2/**	2.6
Population density (people per km^2) 1998 1/	61	**Average annual rate of inflation, 1990-98 2/**	8.0
Local currency	Ethiopian Birr (ETB)	**Exchange rate: USD 1 =**	ETB 8.5

Social Indicators		**Economic Indicators**	
Population (average annual population growth rate) 1980-98 1/	2.7	GDP (USD million) 1999 4/	6 439
Crude birth rate (per 1 000 people) 1998 1/	45	Average annual rate of growth of GDP 1/	
Crude death rate (per 1 000 people) 1998 1/	20	1980-90	1.1 a/
Infant mortality rate (per 1 000 live births) 1998 1/	107	1990-98	4.8
Life expectancy at birth (years) 1998 1/	43		
		Sectorial distribution of GDP, 1998 1/	
Number of rural poor (million) (approximate) 1/	n.a.	Percentage agriculture	50
Poor as percentage of total rural population 1/	n.a.	Percentage industry	7
Total labour force (million) 1998 1/	26.3	Percentage manufacturing	n.a.
Female labour force as percentage of total, 1998 1/	41	Percentage services	44
Education		Consumption, 1998 1/	
Primary school gross enrolment (percentage of relevant age group) 1997 1/	43 a/	General government consumption (as of GDP)	14
Adult literacy rate (percentage age 15 and above) 1998 3/	36	Private consumption (as percentage of GDP)	79
		Gross domestic savings (as percentage of GDP)	6
Nutrition			
Daily calorie supply per capita, 1997 3/	1 858	**Balance of Payments (USD million)**	
Prevalence of child malnutrition (height for age; percentage of children under 5) 1992-98 1/	64	Merchandise exports, 1998 1/	568
Prevalence of child malnutrition (weight for age; percentage of children under 5) 1992-98 1/	48	Merchandise imports, 1998 1/	1 042
		Balance of merchandise trade	-474
Health			
Health expenditure, total (as percentage of GDP) 1990-98 1/	4.1	Current account balances (USD million)	
Physicians (per 1 000 people) 1990-98 1/	0.03	before official transfers, 1998 1/	-869
Percentage population without access to safe water 1990-98 3/	75	after official transfers, 1998 1/	-520
Percentage population without access to health services 1981-93 3/	45	Foreign direct investment, 1998 1/	4
Percentage population without access to sanitation 1990-98 3/	81		
		Government Finance	
Agriculture and Food		Overall budget surplus/deficit (including grants) (as percentage of GDP) 1997 1/	n.a.
Food imports as percentage of total merchandise imports 1998 1/	n.a.	Total expenditure (percentage of GDP) 1997 1/	n.a.
Fertilizer consumption (hundreds of grams per hectare of arable land) 1995-97 1/	150	Total external debt (USD million) 1998 1/	10 352
Food production index (1989-91 = 100) 1996-98 1/	123.7	Present value of debt (as percentage of GNP) 1998 1/	135
		Total debt service (percentage of exports of goods and services) 1998 1/	11.3
Land Use			
Arable land as percentage of land area, 1997 1/	9.9	Nominal lending rate of banks, 1998 1/	10.5
Forest area (km^2 thousand) 1995 1/	136	Nominal deposit rate of banks, 1998 1/	6.0
Forest area as percentage of total land area, 1995 1/	13.6		
Irrigated land as percentage of cropland, 1995-97 1/	1.8		

n.a. not available.
a/ Data are for years or periods other than those specified.
1/ World Bank, *World Development Report*, 2000
2/ World Bank, *Atlas*, 2000
3/ UNDP, *Human Development Report*, 2000
4/ World Bank, *World Development Indicators database*, 2001

PREVIOUS IFAD LOANS AND GRANTS TO ETHIOPIA

Project Number	Loan/Grant Acronym	Currency	Approved Amount	Percentage Disbursed	Loan/Grant Status	Project Status	Board Approval	Cooperating Institutions
40	L-I--40-ET	SDR	13 900 000	98	Closed	Closed	07 May 1980	World Bank: IDA
131	L-I--131-ET	SDR	10 450 000	100	Closed	Closed	12 September 1983	World Bank: IDA
168	L-I--168-ET	SDR	13 050 000	98	Closed	Closed	02 April 1985	UNOPS
205	L-I--205-ET	SDR	4 500 000	99	Closed	Closed	09 September 1987	World Bank: IDA
342	L-S--37-ET	SDR	5 050 000	37	Effective	Ongoing	02 December 1993	UNOPS
342	L-I--342-ET	SDR	7 550 000	51	Effective	Ongoing	02 December 1993	UNOPS
437	L-S--3-ET	SDR	9 300 000	47	Closed	Closed	03 December 1986	World Bank: IDA
515	L-I--421-ET	SDR	4 600 000	46	Effective	Closed	11 September 1996	World Bank: IDA
1011	L-I--438-ET	SDR	15 650 000	23	Effective	Ongoing	05 December 1996	UNOPS
1082	L-I--480-ET	SDR	13 650 000	6	Effective	Ongoing	10 September 1998	World Bank: IDA

APPENDIX III

DYNAMIC LOGICAL FRAMEWORK

Narrative Summary	Key Performance Indicators	Means of Verification	Important Assumptions/Risks
Strategic Goal Rural poverty alleviation through a sustained increase in income and assets of poor rural households, resulting from increased agricultural production and productivity, in addition to off-farm and non-farm income-generating activities	• **Income indicators** - Rural per capita income and household expenditure increased - Rural poverty incidence and severity reduced • **Production indicators** - Output levels of agricultural and other products (including total output and marketable surplus) increased • **Enterprise indicators** - Microenterprises in rural areas increased • **Gender empowerment** - Range of options for income-generating activities for women increased • **Social capital indicators** - Capacity and trust among poor rural households to organize themselves into self-help, self-reliant and sustainable grass-roots organizations for mutual benefit and support increased	• National income statistics • Poverty assessment surveys • Programme impact assessment and evaluation studies • Programme monitoring reports	• Political and civil stability is maintained • Macroeconomic stability is maintained • Government commitment to the development of equitable growth in rural areas, and in particular the development of essential and complementary social and rural infrastructure, continue • Appropriate risk management strategies are adopted to sustain the long-term profitability of smallholder agriculture, including the development of agricultural markets • There is successful market liberalization, supported by appropriate policy and legal framework conducive to the growth of a vibrant rural microenterprise sector
Programme Development Objectives Enhanced delivery of efficient and sustained demand-driven financial services responsive to the needs of the rural poor, including smallholder farmers and women, through diversified rural financial systems	• **Institutional indicators** - Number of rural branches/sub-branches of MFIs increased - Number of operating field staff of MFIs, savings and credit officers/field workers, disaggregated by gender, increased - Number of RUSACCOs established and operational - Number of networks of RUSACCOs, namely, unions, established and operational. Range of financial products to rural households increased	• Annual financial statements of MFIs/ RUSACCOs • Programme monitoring reports • MFI statistics published by AEMFI	• Stable financial sector policies are made that are conducive to the growth of sustainable microfinance institutions • The management and regulation of MFIs and RUSACCOs is neither co-opted by special interests nor compromised by government interference
	• **Outreach indicators** - Number of rural household clients of MFIs and RUSACCOs - Outstanding loan portfolio of participating MFIs, disaggregated by number of clients, gender, activity, size of loan, investment/working capital finance Annual growth rate: - outstanding loan portfolio of RUSACCOs, disaggregated by number of borrowing clients, gender, activity, size of loan, and investment/working capital finance Annual growth rate: - savings mobilization by MFIs: outstanding savings amount disaggregated by number of accounts, product type, client group (borrower clients, non-borrower clients) and average savings per individual client - annual growth rate - savings mobilization by RUSACCOs: outstanding savings amount disaggregated by number of accounts, product type, client group (borrower clients, non-borrower clients) and average savings per individual client - annual growth rate. • **Range and type** of other lines of products (other than loan and savings products) and services	• Cooperative statistics published by the FCPB and RCPBs • Supervision mission reports • Programme impact assessment and evaluation reports	• Donors are committed to a common approach in the development of sustainable and efficient MFIs and RUSACCOs • MFIs and RUSACCOs cover their operational/ financial costs and maintain financial and institutional sustainability over time

Narrative Summary	Key Performance Indicators	Means of Verification	Important Assumptions/Risks
Programme Outputs **A. Institutional Development** **(i) Microfinance institutions** (a) Beneficiary mobilization and empowerment	• **Beneficiary representation** in the ownership of MFIs and policy-making structures of MFIs • Number of clients, by gender, trained in group dynamics, motivation, awareness-building, screening of opportunities and building of new skills • Increase in the proportion of women clients • Increase in the proportion of poorest of the poor clients	• Progress reports from MFIs • Participatory impact assessment survey reports • Supervision mission reports	• There is a commitment from MFIs to improve client empowerment and build links/ partnerships with NGOs for greater beneficiary mobilization and empowerment
(b) MFIs emerge as strong and efficient financial intermediaries in terms of capable, skilled and motivated human resource organization and systems, financial management, customer service and institutional sustainability	• A training strategy and implementation plan is prepared, following training needs analysis, and then made operational • Training programmes for all categories of MFI staff (junior, middle and senior management staff and board members), including modules appropriate to their functions, knowledge and skill gaps, are planned and made operational	• Performance reports of MFIs • Progress reports prepared by PCMU • NBE supervision documents • Ratings by AEMFI based on agreed criteria • Supervision mission reports	• Grant support successfully mobilized for capacity-building of MFIs, particularly for technical assistance • MFIs make commitment to adjust the lending rate for operational and financial sustainability
	• MFIs prepare medium-term strategic corporate plans, covering institutional and business development, and institute satisfactory systems of annual performance planning and budgets and performance reviews • Accounting systems are improved, and satisfactory management information systems (MIS) are established to help management decisions, planning, controls and loan tracking • Satisfactory internal controls are put in place • External audit of MFIs is completed within six months of the close of the financial year • MFIs comply with guidelines and prudential standards prescribed by NBE • Performance criteria, efficiency ratios and loan portfolio quality conform to the best practices and benchmarks agreed upon by the MFI industry for self-regulation		
(ii) The FCPB and RCPBs are Strengthened	• An international cooperative training expert is seconded to FCPB • Programme management and coordination units are established in FCPB/RCPBs • Additional promotion officers (savings and credit) are recruited during the programme period, with due representation by women • Promotion officers and key associated staff of bureaux received training	• Progress reports of cooperative promotion bureaux • Progress reports prepared by PCMU • Supervision mission reports	

Narrative Summary	Key Performance Indicators	Means of Verification	Important Assumptions/Risks
(iii) Rural Savings and Credit Cooperatives (RUSACCOs)	• 3 375 RUSACCOs are established by the end of PY 7, with an outreach to 235 000 rural households • 78 unions are established by the end of PY 7 • Training programmes for key staff of unions and committee members of RUSACCOs/unions are organized as planned • Members of RUSACCOs received training in orientation, awareness-building, motivation and institutional cultural dynamics	• Progress reports of cooperative promotion bureaux • Progress reports prepared by PCMU • Ratings of RUSACCOs and unions by auditors as per agreed-upon criteria • Supervision mission reports	• The Government and regional governments are committed to the development of independent RUSACCOs • Rural households remain highly motivated to organize themselves into RUSACCOs for their mutual benefit and for financial services • Civil Services Boards of the Government and regional governments recruit incremental staff as required
B. Improved Regulation and Supervision of MFIs (i) The capacity of the NBE is strengthened to effectively regulate, supervise and foster the growth of an efficient and vibrant microfinance industry (ii) AEMFI is strengthened to promote and secure effective self-regulation among MFIs	• A fully operational Microfinance Supervision Division (MFSD), with adequate staff, is established • A manual for supervision and regulation of MFIs is developed for the use of MFSD • Training is provided and exchange visits made for the staff of the MFSD • Capital adequacy and liquidity management of MFIs are reviewed by NBE, and appropriate standards are prescribed • The prescribed periodicity of on-site supervisory visits, off-site returns and follow-up mechanisms is adhered to • Clearly defined performance criteria and benchmarks are established by AEMFI, jointly with its members. These benchmarks include capital adequacy; ownership pattern and ability to enhance capital for growth or compliance with prescribed capital adequacy ratio; governance; operating cost as percentage of average outstanding portfolio; lending rates; loan portfolio quality; financial products and terms; savings mobilization; a focus on women, and particularly woman-headed households; and client support, including a focus on mobilization of the poorest of the poor. Training activities for MFI staff include well-developed modules on 'best practices' and principles of banking supervision and regulation to promote the process of self-regulation • Appropriate institutional mechanisms, to review performance against best practices and agreed-upon benchmarks, are instituted and strategies are evolved by AEMFI for dialogue, with a view to initiating actions	• Supervision mission reports • Supervision mission reports • Progress and annual reports of MFIs Annual report of AEMFI	• The Government is committed to implementing the regulatory framework in a manner that will promote competition, efficiency and sustainability of the rural financial system • The management of MFIs has a strong commitment to sound and efficient financial systems development for providing financial services to poor rural households and will not be influenced by NGO orientation of the welfare and relief services approach to poor

Narrative Summary	Key Performance Indicators	Means of Verification	Important Assumptions/Risks
C. Credit and Equity Funds **(i) Microfinance institutions** • Credit funds equivalent to USD 51.5 million, including USD 16 million from the domestic banking system, are provided to MFIs under the programme to bridge the liquidity gap for outreach expansion based on agreed-uponperformance criteria • Links are established between MFIs and the commercial banks • DBE and the commercial banks invest USD 8 million, including USD 4 million in matching funds from the domestic banking system, in the equity of MFIs • MFIs able to fill the balance liquidity gap from additional support from domestic banking system or additional lines of credit	• MFIs' outreach to poor rural households expanded from a current estimated 500 000 to 1.4 million by PY 7, an increase of nearly 900 000 households • Annual loan disbursements of MFIs increased from an estimated USD 69 million during the year preceding PY 1 to USD 358 million by PY 7 • The outstanding loan portfolio increased from USD 45 million to USD 228 million • The savings mobilized from clients and non-clients increased from USD 19 million to USD 106 million by PY 7 • Number of commercial banks that have invested in the equity of MFIs • Number of commercial banks providing credit lines to MFIs	• Progress reports from MFIs • Key statistics of MFIs published by AEMFI • Progress reports of PCMU • Supervision mission reports	• The commercial banking system has a strong commitment to rural development and is interested in building linkages with retail financial intermediaries as a business opportunity to transfer part of the excess liquidity to rural areas, based on acceptable performance criteria of MFIs
(ii) RUSACCOs • Programme credit line of equivalent to USD 6.8 million to supplement their resources for outreach expansion • RUSACCOs are able to leverage additional funds from the commercial banking system based on performance criteria	• RUSACCOs reach an estimated 235 000 poor rural households through credit services in addition to providing access to savings • The estimated outstanding savings and loan portfolio of RUSACCOs amounts to USD 25.7 million and USD 39 million, respectively, by the end of PY7	• Progress reports from cooperative promotion bureaux • Key statistics of cooperative sub-sector published by the FCPB and RCPBs • Progress reports of PCMU • Supervision mission reports	• The management of RUSACCOs is adequately motivated and oriented to observe sound financial management and prudential practices • Effective governance structures exist
D. Programme Coordination and Management • A PCMU, with appropriate terms of reference and adequate staff, is established at the DBE	• The PCMU comprises: a programme manager, not below the rank of a head of the department in DBE, with a good track record and experience in the implementation of international lines of credit; a financial controller with sufficient seniority, a good track record and exposure to rural finance; and a monitoring and evaluation (M&E) officer with sufficient seniority, a good track record and experience in institutional MIS and M&E • Operating guidelines and procedures (which are in conformity with programme appraisal and loan documents) produced for management of credit line and coordination of other components • A national rural finance policy steering committee, with agreed terms of reference is established by NBE, with authority to address emerging policy issues in the rural financial sub-sector and to coordinate the implementation of the programme • A programme management committee is established, to guide the implementation of the programme, the coordination of training programmes and the choice of service providers, with agreed terms of reference	• Reports from the Government and DBE • Supervision mission reports	• There is no governmental or political interference in PCMU/DBE in the implementation of the programme that would dilute programme criteria

Narrative Summary	Key Performance Indicators	Means of Verification	Important Assumptions/Risks
Programme components/activities **A. Institutional Development** **(i) Microfinance institutions**	Programme costs/inputs: USD 10.317 million	• PCMU progress reports • Supervision mission reports	Contracting of consultants and service providers of training is provided in a timely manner
(ii) The FCPB and RCPBs **(iii) Establishment of RUSACCOs**	USD 6.789 million USD 2.397 million	• PCMU progress reports • Supervision mission reports	• The Government and regional governments make budgetallocations for counterpart funding and continued commitment
B. Improved Regulation and Supervision (a) NBE: training, logistic support and enhanced mobility (b) AEMFI: capacity-building for self-regulation	 USD 1.223 million USD 0.363 million	• PCMU progress reports • Supervision mission reports • PCMU progress reports • Supervision mission reports	
C. Credit and Equity Funds **(i) MFIs:** Equity Support Credit Fund **(ii) RUSACCOs Credit Fund**	 USD 8 million USD 51.5 million USD 6.8 million	• PCMU progress reports • Supervision mission reports	• DBE is able to secure national counterpart funding from the banking system
D. Programme Coordination and Management	USD 1 339 million	• PCMU progress reports • Supervision mission reports	

COST AND FINANCING

Table 1: Expenditure Accounts by Components - Base Costs (USD ’000)

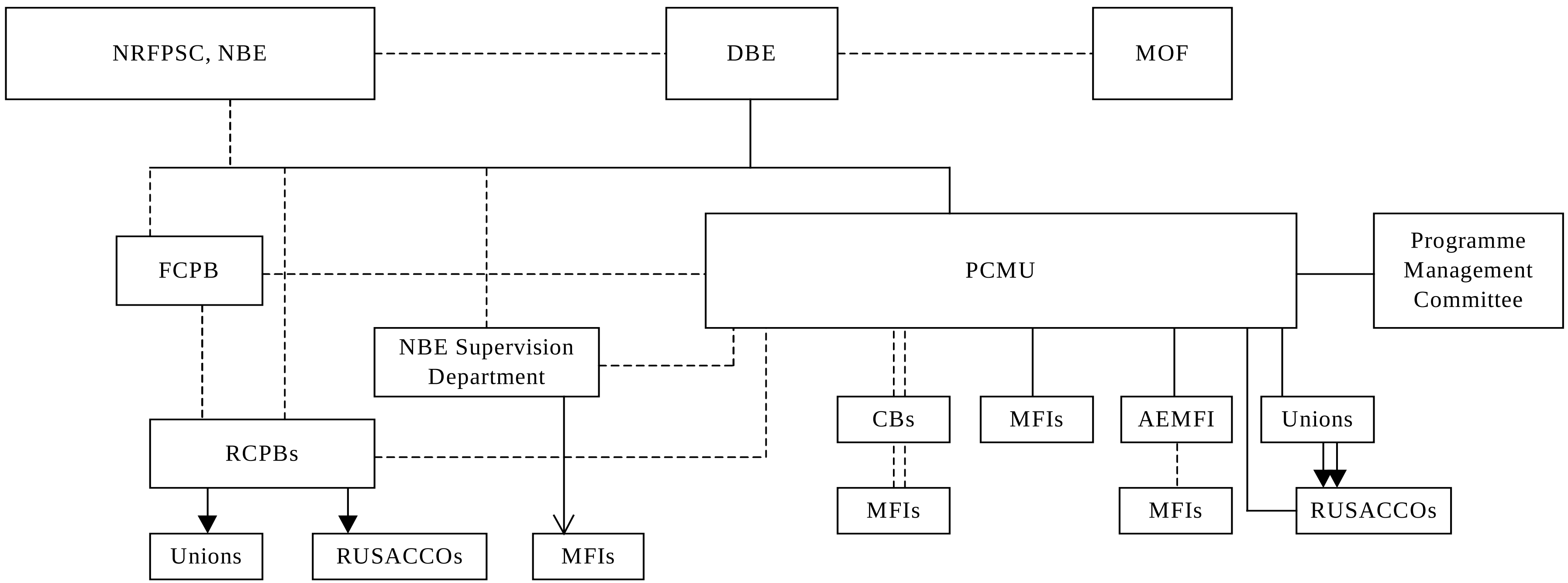
	Institutional Development			Improved Regulation and Supervision		Equity and Credit Funds					Physical Contingencies	
	Microfinance Institutions	Federal and Regional Cooperatives Promotion Bureaux	Rural Savings and Credit Cooperatives	National (Central) Bank of Ethiopia	Association of Ethiopian Microfinance Institutions (AEMFI)	Equity for MFIs	Credit: MFIs	Credit: RUSACCOs	Programme Coordination and Management	Total	%	Amount
I. Investment Costs												
A. Equipment and goods	482.4	184.5	973.7	15.3	7.6	-	-	-	57.6	1 721.2	10.0	172.1
B. Vehicles	1 689.4	854.4	151.4	150.6	75.3	-	-	-	150.6	3 071.7	10.0	307.2
C. Technical assistance	469.1	564.0	-	153.8	168.0	-	-	-	198.0	1 552.9	2.7	42.7
D. Training												
Staff training	4 463.1	706.5	78.5	733.2	56.0	-	-	-	101.0	6 138.3	10.0	613.8
Beneficiary training	1 282.5	-	737.3	-	-	-	-	-	-	2 019.7	10.0	202.0
Subtotal Training	5 745.6	706.5	815.8	733.2	56.0	-	-	-	101.0	8 158.0	10.0	815.8
E. Studies	295.3	96.0	-	-	-	-	-	-	222.2	613.5	10.0	61.3
F. Credit	-	-	-	-	-	-	51 500.0	6 800.0	-	58 300.0	-	-
G. Equity	-	-	-	-	-	8 000.0	-	-	-	8 000.0	-	-
Total Investment Costs	8 681.7	2 405.4	1 940.9	1 052.8	306.9	8 000.0	51 500.0	6 800.0	694.4	81 382.2	1.7	1 395.6
II. Recurrent Costs												
A. Salaries and allowances	-	2 619.4	-	-	-	-	-	-	125.6	2 745.0	10.0	274.5
B. Operation and maintenance	-	721.9	-	-	-	-	-	-	158.1	880.0	10.0	88.0
C. Other operating costs	-	-	-	-	-	-	-	-	123.5	123.5	10.0	12.4
Total Recurrent Costs	-	3 341.3	-	-	-	-	-	-	407.3	3 748.6	10.0	374.9
Total base costs	8 681.7	5 746.7	1 940.9	1 052.8	306.9	8 000.0	51 500.0	6 800.0	1 136.7	85 165.8	2.1	1 774.0
Physical contingencies	826.4	455.2	194.1	90.3	30.7	-	-	-	108.7	1 705.4	-	-
Price contingencies	809.4	587.0	262.4	79.5	25.1	-	-	-	93.4	1 856.8	8.4	156.6
Total programme costs	10 317.5	6 788.9	2 397.4	1 222.7	362.7	8 000.0	51 500.0	6 800.0	1 338.9	88 727.9	2.1	1 862.0
Taxes	780.8	1 089.9	253.8	98.5	63.2	-	-	-	225.9	2 512.0	8.8	220.4
Foreign exchange	2 842.1	2 194.6	309.1	1 061.1	86.9	-	-	-	680.3	7 174.1	7.7	550.1

Table 2: Disbursement Accounts by Financiers
(USD '000)

Disbursement Accounts by Financiers	IFAD	AfDB	DBE/CBs	Government	Taxes		Total
					MFIs	Government	
	Amount	Amount	Amount	Amount	Amount	Amount	Amount
A. Equipment and goods	693.8	1 040.7	-	-	93.9	247.1	2 075.6
B. Vehicles	892.5	1 259.4	-	-	736.2	694.9	3 582.9
C. Technical assistance	473.5	710.3	-	-	0.0	0.0	1 183.8
D. Training							
Staff training	3 151.9	4 727.8	-	-	14.0	-0.0	7 893.6
Beneficiary training	983.3	1 475.0	-	-	0.0	-0.0	2 458.3
Subtotal Training	4 135.2	6 202.8	-	-	14.0	-0.0	10 351.9
E. Studies	293.5	440.3	-	-	0.0	0.0	733.8
F. Credit and equity							
Credit	16 900.0	25 400.0	16 000.0	-	-	-	58 300.0
Equity	2 000.0	2 000.0	4 000.0	-	-	-	8 000.0
Subtotal Credit and equity	18 900.0	27 400.0	20 000.0	-	-	-	66 300.0
G. Salaries and allowances	-	-	118.1	2 792.1	-	375.0	3 285.2
H. Operation and maintenance	298.5	447.8	-	-	-	319.9	1 066.2
I. Other operating costs	-	-	117.4	-	-	31.2	148.7
Total	25 687.1	37 501.2	20 235.5	2 792.1	844.0	1 668.0	88 727.9

APPENDIX V

ORGANIZATIONAL STRUCTURE



Line of Control: Credit/equity funds and institutional development of MFIs

Line of Coordination

Institutional Development, Supervision and regulation

Financial intermediation

Financial intermediation, support functions and self-regulation

Supervision and Regulation

Legend:

MOF:	Ministry of Finance
NRFPSC:	National Rural Finance Policy Steering Committee
NBE:	National Bank of Ethiopia
PCMU:	Programme Coordination and Management Unit
DBE:	Development Bank of Ethiopia
FCPB:	Federal Promotion Coopeative Bureau
RCPBs:	Regional Coopeative Promotion Bureaux
CBs:	Commercial Bank
MFIs:	Microfinance Institutions
AEMFI:	The Association of Ethiopian MFIs
RUSACCOs:	Rural Savings and Credit Cooperatives
Union:	Union of RUSACCOs