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Enabling poor rural people
to overcome poverty

Federal Democratic Republic of Ethiopia

Country strategic opportunities programme

Executive Board — Ninety-fifth Session
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For: **Review**

Note to Executive Board Directors

This document is submitted for review by the Executive Board.

To make the best use of time available at Executive Board sessions, Directors are invited to contact the following focal point with any technical questions about this document before the session:

John Gicharu

Country Programme Manager
telephone: +39 06 5459 2373
e-mail: j.gicharu@ifad.org

Queries regarding the dispatch of documentation for this session should be addressed to:

Deirdre McGrenra

Governing Bodies Officer
telephone: +39 06 5459 2374
e-mail: d.mcgrenra@ifad.org

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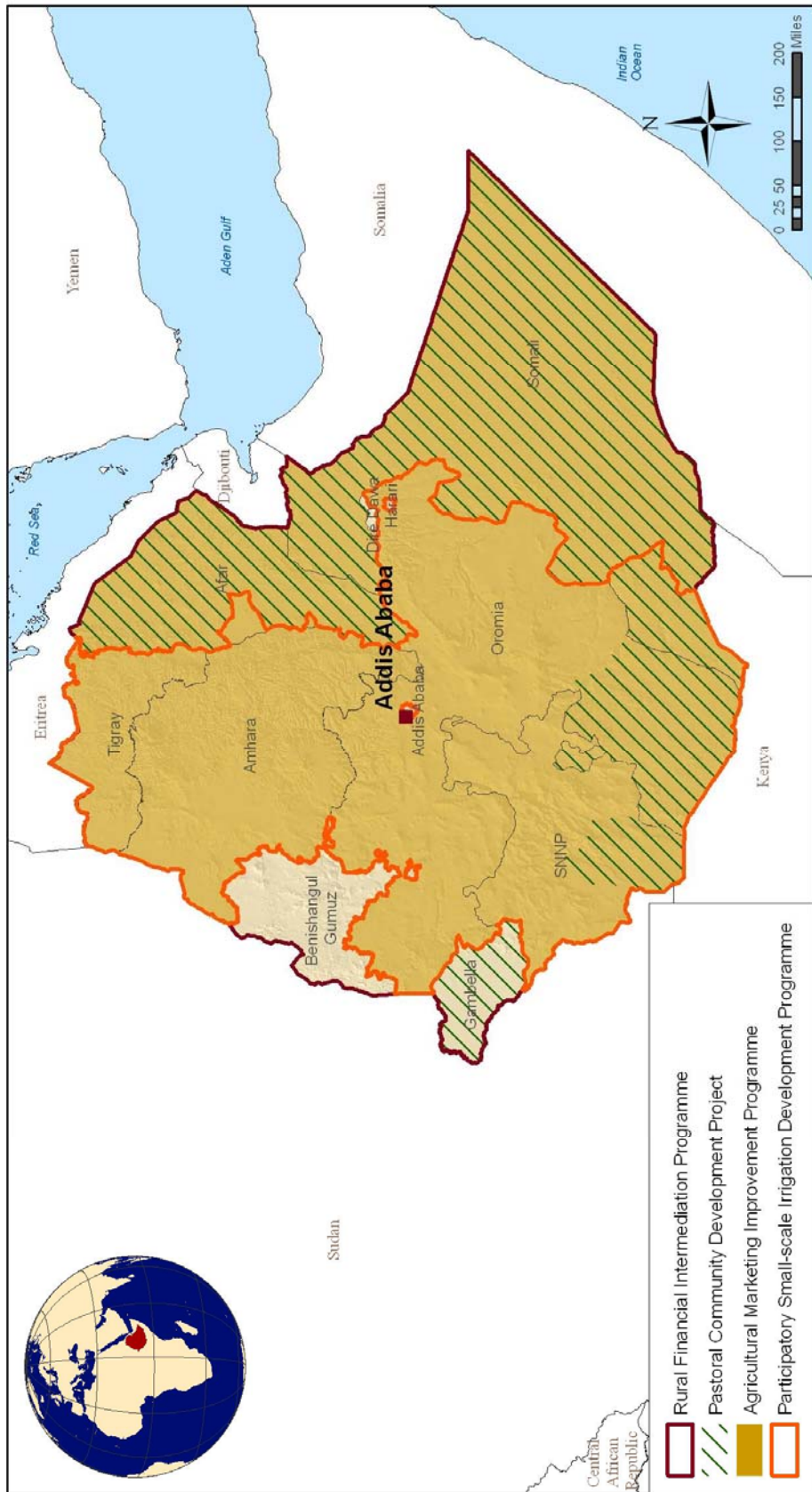
Key file 4: Target group identification, priority issues and potential response

Abbreviations and acronyms

ACP	Agreement at Completion Point
AfDB	African Development Bank
COSOP	country strategic opportunities programme
CPE	Country Programme Evaluation
CPMT	Country Programme Management Team
CSA	Central Statistical Authority
DAG	Development Assistance Group
DSF	Debt Sustainability Framework
FY	fiscal year
GEF	Global Environment Facility
IDA	International Development Association
M&E	monitoring and evaluation
MDG	Millennium Development Goal
MoARD	Ministry of Agriculture and Rural Development
MoFED	Ministry of Finance and Economic Development
PASDEP	Plan for Accelerated and Sustainable Development to End Poverty
PASIDP	Participatory Small-scale Irrigation Development Programme
PBAS	performance-based allocation system
PCDP	Pastoral Community Development Project
PRSP	Poverty Reduction Strategy Paper
RUFIP	Rural Financial Intermediation Programme
RUSACCO	rural savings and credit cooperative
UNCT	United Nations Country Team

Map of IFAD operations in the country

Ethiopia IFAD Operations in the country



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.

IFAD
Map compiled by IFAD

Summary of country strategy

1. This country strategic opportunities programme (COSOP) is based on Ethiopia's second-generation poverty reduction strategy paper, the IFAD Strategic Framework 2007-2010, the country programme evaluation (2008), and an assessment by IFAD of the country's recent macroeconomic, agricultural sector performance and trends in rural poverty.
2. In accordance with the consensus emerging from the consultation process, the COSOP focuses on three strategic objectives pertinent to areas where IFAD has established a lead position in Ethiopia. Specifically, the COSOP is aimed at enhancing access by rural poor people to: (a) natural resources (land and water); (b) improved agricultural production technologies and support services; and (c) financial services.
3. During its seven years of implementation, the COSOP will be updated every two years to ensure synergy with emerging corporate and government priorities and strategies, in particular the country's third Poverty Reduction Strategy Paper and the IFAD performance-based allocation system. The IFAD country programme will continue to support rural poverty reduction through investments in (a) small-scale irrigation development; (b) agricultural marketing; (c) rural finance; (d) pastoral community development; (e) community-based integrated natural resources management; and (f) sustainable agricultural development.
4. Pastoral community development is one important area where IFAD has successfully collaborated with local stakeholders and development partners to improve the livelihoods and resilience of the most neglected and vulnerable rural households in the country. The second phase of the Pastoral Community Development Project (PCDP II) will further scale up the delivery of basic support services, improve pastoral livelihoods, strengthen community-based organizations and promote risk management. Overall, the project will expand outreach from about 250,000 to 600,000 poor pastoral households, or 25-30 per cent of the total pastoral population.
5. Another important area where IFAD has developed a lead position is in rural finance. The second phase of the Rural Financial Intermediation Programme will build on successes achieved under the IFAD-initiated first phase in scaling up and expanding outreach in the delivery of financial services to an additional one million poor rural households. The programme has enabled microfinance institutions and rural savings and credit cooperative societies to increase their client base from about 700,000 to nearly 2 million in five years. It has therefore demonstrated the potential of rural finance for helping a large number of poor people – especially women, accounting for at least 30 per cent of beneficiary households – to overcome poverty in a sustainable manner.
6. One of the most serious impediments to sustainable poverty reduction in rural Ethiopia is the strong nexus between land degradation, low agricultural productivity and rural poverty. The lack of improved agricultural production technologies and land use planning has combined with deforestation, perceived land tenure insecurity, soil erosion, overgrazing, drought and population pressure to contribute to severe environmental deterioration. To break this vicious cycle, there is an urgent need to integrate sustainable agricultural and land management practices into farming systems. As a member of the national platform for sustainable land management, IFAD is well placed to collaborate with the Government and development partners in the design and implementation of the multidonor-funded Sustainable Agriculture and Land Management Programme, which is based on successful experiences in Ethiopia and other parts of the world. In addition to the development of a national land use policy, the programme will support the

implementation of community-owned land use plans covering about 15-20 per cent of the country's districts.

7. Some of the key challenges to the successful implementation of the COSOP are: limited institutional capacity within the decentralized administration; weak monitoring and evaluation systems, which may not adequately respond to the results management framework; and lack of stakeholder ownership of the knowledge management and communication strategy.

Democratic Republic of Ethiopia

Country strategic opportunities programme

I. Introduction

1. Over the past three decades, a total of 13 rural poverty reduction projects and programmes in Ethiopia, with an estimated overall cost of US\$588 million, have been supported by IFAD through a contribution of US\$210 million in grants and loans on highly concessional terms. IFAD has also provided debt relief to Ethiopia amounting to US\$28 million under the Debt Initiative for Heavily Indebted Poor Countries (HIPC).
2. The first IFAD country strategic opportunities paper for Ethiopia was formulated in November 1999. It was jointly reviewed and agreed with the Government in October 2000. The Executive Board's approval of the Participatory Small-scale Irrigation Development Programme (PASIDP) – which became effective in March 2008 – marked the successful implementation of the first country strategic opportunities paper.
3. This country strategic opportunities programme (COSOP) builds on Ethiopia's second-generation poverty reduction strategy paper (PRSP) for 2005-2010, commonly known as the Plan for Accelerated and Sustainable Development to End Poverty;¹ the IFAD Strategic Framework 2007-2010; the IFAD country programme evaluation (CPE) for Ethiopia (2008); and an assessment by IFAD² of the country's recent macroeconomic and agricultural sector performance, and trends in rural poverty. The COSOP also complements the rural poverty initiatives of other development partners.
4. In addition to the national round-table workshop for the CPE,³ which was held in Addis Ababa from 26 to 27 June 2008, the consultation process for the COSOP included the in-country stakeholders' clinic organized in Addis Ababa from 18 to 20 August 2008.⁴ The consensus emerging from these consultations has been taken into account in preparing the COSOP. The IFAD Country Office, which was established under the Field Presence Pilot Programme, played a critical role that contributed to the success of the workshop and the stakeholders' clinic.

II. Country context

A. Economic, agricultural and rural poverty context

Country economic background

5. When the current Government came to power in 1991, it inherited a weak command economy characterized by fiscal and current account deficits amounting to 8.7 per cent and 6.9 per cent of GDP respectively, in addition to an external debt burden equivalent to 33 per cent of GDP. It therefore embarked on far-reaching reforms to achieve broad-based economic growth in a stable market economy. Price controls and fertilizer subsidies were removed and the exchange rate between the Ethiopian birr and United States dollar was devalued by 250 per cent. The financial sector was also opened up to competition from the domestic private sector. Currently, the financial sector includes a fairly robust microfinance industry with a nascent network of operationally sustainable rural savings and credit cooperatives (RUSACCOs) and their unions.

¹ Ministry of Finance and Economic Development, September 2006.

² Ethiopia: Recent Macroeconomic, Agricultural Sector Performance and Trends in Rural Poverty, August 2008.

³ Appendix IV, CPE agreement at completion point.

⁴ Appendix I, COSOP Consultation Process.

6. Judicial and civil service reforms were also made to remove further impediments to the successful implementation of pro-poor strategies, policies and investment programmes. Equally, regulations were put into place to encourage both domestic and foreign investments, particularly in agriculture and agroprocessing, horticulture (including cut flowers), leather and leather products. These reforms were underpinned by increased pro-poor public spending in agriculture, education, health, water, roads and telecommunications. During the first PRSP period through FY 2004/05, pro-poor expenditure increased to 57 per cent of the annual government budget. Partly in response to these reforms and investments, the economy has registered rapid growth rates averaging 11.6 per cent per annum over the past five years through FY 2007/08, placing Ethiopia among the top performing economies in sub-Saharan Africa. These rates also exceed the economic growth rate of 7 per cent per year required to achieve the Millennium Development Goals (MDGs).
7. The two main challenges that could seriously derail the drive towards attaining the MDGs are the current high inflation rate, estimated by the Central Statistical Authority (CSA) at 18.4 per cent in 2007/08, and increasingly frequent droughts. Historically, Ethiopia has experienced low inflation rates. According to the CSA, food inflation was 23.6 per cent in 2007/08. Rural households that are net producers of food have benefited from rising prices to some extent. However, most rural households are either net buyers of food or rely on food aid to meet their food security gaps. Rural households tend to spend more of their income on food and the recent increase in food prices has meant that poor rural and urban households are finding it more difficult to secure adequate food supplies, particularly as food prices increase faster than the prices of non-food items. In addition to high food prices, the price of fertilizer has more than doubled over the past year. Such high prices are likely to reduce the application of fertilizers with potentially adverse effects on future food production and on agricultural and economic growth.

Agriculture and rural poverty

8. The agricultural sector greatly influences the rate of economic growth in Ethiopia: about 11.7 million smallholder farmers account for approximately 95 per cent of agricultural GDP and 85 per cent of the population. With a total area of about 1.13 million km² and about 51.3 million hectares of arable land, Ethiopia has tremendous potential for agricultural development. However, only about 10.6 million hectares of land are currently being cultivated, just over 20 per cent of the total arable area. CSA data (2006/07) shows that nearly 55 per cent of all smallholder farmers operate on one hectare or less. The agricultural sector accounts for roughly 47 per cent of GDP, 90 per cent of exports, and 85 per cent of employment. It is also the primary source of income for more than 85 per cent of the country's population, estimated at 80 million people. Cereals dominate Ethiopian agriculture, accounting for about 70 per cent of agricultural GDP. Over the past decade, cereal production has more than doubled – to nearly 15 million tons – mainly as a result of the expansion of the cropped area to more marginal lands. This has led to severe land degradation. Livestock production accounts for about 15 per cent of GDP and draught animal power is critical for all farming systems.
9. Annually, more than 10 per cent of the Government's budget is spent on agriculture. To enhance the delivery of improved production technologies and support services, the Government has, with strong support from development partners, embarked on (a) expanding coverage of the national agricultural research system into hitherto access-deficit, arid and semi-arid areas; (b) training and deploying at least three development (extension) agents to each *kebele* (village); (c) establishing farmer training centres in all 18,000 *kebeles*; and (d) strengthening research-extension-farmer linkages to improve technology generation, transfer, utilization and feedback.

10. Ethiopian agriculture is dominated by a subsistence, low input-low output, rainfed farming system. The use of chemical fertilizer and improved seeds is quite limited. Overall, the growth rate of agricultural GDP has hardly kept pace with the population growth rate of about 2.6 per cent. Cereal yields have stagnated at 1.15 tons per hectare. Low agricultural productivity can be attributed to limited access by smallholder farmers to financial services, improved production technologies, irrigation and agricultural markets; and more importantly, to poor land management practices that have led to severe land degradation. Ethiopia has one of the highest rates of soil nutrient depletion in sub-Saharan Africa. Annual soil erosion ranges from 16 to 300 tons per hectare each year. Nearly 20 per cent of all households use dung cakes as a source of fuel for cooking. Estimates suggest that the annual phosphorus and nitrogen loss nationwide from the use of dung for fuel is equivalent to the total amount of commercial fertilizer applied annually.⁵ Land degradation is further exacerbated by overgrazing, deforestation, population pressure, perceived land tenure insecurity, and lack of land use planning.
11. There are also major fluctuations in agricultural and economic growth rates due to the increased incidence and severity of drought, which devastates more vulnerable rural households living in the pastoral areas of the lowlands and the high-density, food-insecure districts of the highlands. Drought-induced famines are further exacerbated by limited coping mechanisms and inadequate contingency planning for drought mitigation. Ethiopia has an irrigable potential of about 4.3 million hectares, however, only 5.8 per cent of this potential is currently being utilized. The Government plans to bring an additional 487,000 hectares under irrigation by 2010.
12. Ethiopia is one of the poorest countries in the world, with an annual per capita income of US\$170. The United Nations Development Programme's Human Development Report for 2007-2008 ranked Ethiopia 169th out of 177 countries on the Human Development Index. Life expectancy at birth is only 48 years. Infant and maternal mortality and child malnutrition rates are among the highest in the world. While access to education has increased in recent years, the overall adult literacy rate is low even by sub-Saharan African standards. Only about 30 per cent of the population have access to clean drinking water and about 80 per cent have no access to improved sanitation. About 47 per cent of children under the age of five are underweight and over 12 million people are currently chronically or transiently food-insecure. HIV/AIDS constitutes a major threat to sustained economic growth, with about 6 per cent of adults estimated to be HIV-positive. Combined with malaria, the pandemic poses a serious challenge to achieving the MDGs.⁶
13. Roughly 44 per cent of the population live below the national poverty line. However, there are marked differences between rural and urban areas.⁷ Most rural households live on a daily per capita income of less than US\$0.50. Generally, rural households have less access to most essential services. According to the latest Poverty Assessment (2005), overall progress in reducing poverty since 1992 falls short of what is required to meet MDG1 by 2015 as a result of high variability in agricultural GDP and rapid population growth.⁸ Most rural households are finding it increasingly difficult to survive without recourse to seasonal or permanent urban migration in search of wage employment.
14. The relatively even distribution of rural poverty in Ethiopia is evident in a Gini coefficient of 0.26. Consumption inequality remains low although there are sizeable populations in pastoral areas that are more vulnerable to drought-induced famines. There are also large intra-zonal disparities related to access to arable land, education, and the sex and age composition of households. About a third of rural households farm less than 0.5 hectare which, under rainfed agriculture, is

⁵ Second Poverty Reduction Support Operation, Programme Document, November, 2004, World Bank.

⁶ Country Status Report on Health and Poverty: July 2005, World Bank.

⁷ Ethiopia: Recent Macroeconomic, Agricultural Sector Performance and Trends in Rural Poverty, August 2008.

⁸ IDA, Interim Country Assistance Strategy for Ethiopia (2006).

inadequate to produce enough food to meet the intake requirements of the average household. Most agricultural production is used to meet household consumption needs and for a very large number of households there is a prolonged hunger season during the pre-harvest period. When there are marketable surpluses, smallholder farmers are often constrained by lack of access to markets. In all farming systems, livestock provides the single most important sign and status of wealth and there is a strong correlation between lack of livestock ownership and poverty, particularly among woman-headed households.

15. According to Ethiopia's constitution, land ownership⁹ is vested with the state. Rural households are given usufruct rights, which are inherited, but selling or mortgaging land is prohibited. Women do not have direct access to land despite an inheritance law that states that men and women should have equal access; the exception is widowed/woman-headed households. Over the past decades, land pressure has increased and the average holding has declined from 0.5 ha per person in the 1960s to only 0.08 ha at present. There is a general perception among farmers of insecurity regarding tenure of their land, which tends to discourage investments in land improvements and soil conservation measures. However, recent reforms have introduced land title certificates and longer-term land leases, and there are plans to develop a cadastre.
16. While the constitution guarantees gender equality and supports affirmative action, gender disparities significantly impede women's empowerment. On average, women have fewer years of schooling and heavier workloads than men. They perform about 70 per cent of farm work but tend to be excluded from control and inheritance of property. Women also suffer disproportionately from environmental degradation as they have to walk longer distances to collect water and firewood. The lack of draught animal power tends to intensify their vulnerability. They also shoulder a greater burden of rural poverty because of their vulnerable socio-economic position. The incidence of poverty in woman-headed households is also higher.

B. Policy, strategy and institutional context

National institutional context

17. Ethiopia is a federation of nine regional state governments and two chartered cities. The key government institutions consist of line ministries and bureaux at the federal and regional levels respectively. Line ministries are largely responsible for coordinating the design and implementation of public strategies and policies at all levels. The regional bureaux are further decentralized to *woreda* (district) and *kebele* levels. The latter is the lowest level of government administration. In some regions, administrative zones have been established to better coordinate socio-economic development in a number of districts. At the federal level, the Ministry of Finance and Economic Development (MoFED) has overall responsibility for the development and implementation of economic policies and strategies. In addition to budgetary and fiscal management, MoFED is responsible for financial accounting and reporting, including the management of public statistics through the CSA and its regional affiliates. The Ministry of Agriculture and Rural Development (MoARD) has overall responsibility for the design and implementation of market-oriented agricultural and rural development policies, strategies and plans in the public sector, including the management of agricultural research and extension services, natural resources, and input and output marketing. Additionally, the Ministry of Federal Affairs coordinates and promotes the development of pastoral areas.
18. At the regional level, the Bureau of Finance and Economic Development and Bureau of Agriculture and Rural Development are the key counterparts of MoFED and MoARD respectively. The Bureau of Finance and Economic Development has a decentralized institutional structure that extends down to the district level. The

⁹ Tenure security and land-related Investment: Evidence from Ethiopia, Policy Research Working paper, March 2003, World Bank.

decentralized institutional structure of the Bureau of Agriculture and Rural Development reaches down to the village level, where there are at least three development agents working with farmers from the farmer training centre. Each regional environmental protection land administration and use authority is charged with creating a conducive environment for sustainable land management, and ensuring that the management, administration and use of rural land follow established laws and regulations. It plays an important role in land use planning, land administration, registration and certification. Their structure is decentralized to the *kebele* level where the authority works with community-based organizations particularly in land surveying, mapping and conflict resolution. In addition to community-based organizations and NGOs, other key partners include Consultative Group on International Agricultural Research (CGIAR) centres, the Environmental Protection Agency, the Institute for Biodiversity Conservation, the National (central) Bank of Ethiopia, domestic commercial banks, microfinance institutions, and RUSACCOs and their unions.

National rural poverty reduction strategy

19. Since 1991, the Government has been implementing its long-term strategy of Agricultural Development-Led Industrialization that sees agriculture as the “engine of growth”. Its main thrust has been to (a) improve agricultural extension services; (b) promote better use of land and water resources; (c) enhance access to reliable financial services; (d) improve access to domestic and export markets; and (e) provide rural infrastructure. The country’s first PRSP commonly known as the Sustainable Development and Poverty Reduction Programme was successfully implemented over three years through the government’s fiscal years 2004/05 with strong support from development partners. The programme consolidated the gains realized under the Agricultural Development-Led Industrialization strategy and promoted (a) civil service and judicial reforms, (b) capacity-building and good governance, and (c) decentralization and empowerment.
20. The main objectives of the second PRSP (2005/06-2009/10), namely, the Plan for Accelerated and Sustained Development to End Poverty (PASDEP) are to: (a) improve implementation capacity; (b) promote accelerated and sustained economic growth; (c) manage population growth; (d) empower women; (e) strengthen infrastructure; (f) develop human resources; (g) manage risk and volatility; and (h) create employment opportunities. In the agricultural sector, PASDEP calls for: (i) market-based agricultural development; (ii) increased private-sector investment; (iii) specialized support services for differentiated agroecological zones; (iv) improved rural-urban linkages; and (v) special efforts for pastoral development. These objectives are underpinned by investments to improve rural infrastructure, enhance access to financial services, promote irrigation development, ensure land tenure security, and improve the performance of agricultural markets. PASDEP also recognizes the importance and urgent need to better manage the natural resource base and protect the environment.

Harmonization and alignment

21. The main instrument for donor harmonization and alignment in Ethiopia is the Development Assistance Group (DAG), which is supported by a secretariat in MoFED. Further donor harmonization is reinforced through such African Union-led regional initiatives as the New Partnership for Africa’s Development and the Comprehensive Africa Agriculture Development Programme. The IFAD Country Office has also contributed to better engagement with the Government and development partners through its membership in the (a) United Nations Country Team (UNCT), (b) National Platform for Sustainable Land Management, (c) Sector Working Group on Rural Economic Development and Food Security of DAG, and (d) National Steering Committee on Irrigation Development. IFAD’s country assistance has also become more pronounced within the United Nations Development Assistance Framework and supervision missions have increasingly

been carried out jointly with other development partners, principally the African Development Bank (AfDB) and World Bank. Furthermore, implementation arrangements for the IFAD country programme in Ethiopia are well embedded into national institutional structures, policies and procedures, rather than in ephemeral ad hoc project implementation units.

III. Lessons from IFAD's experience in the country

A. Past results, impact and performance

22. The CPE (2008) has reaffirmed that the 1999 COSOP had clear objectives in terms of portfolio development, especially with regard to priority areas for subsector investments. The COSOP was also highly relevant and the objectives of individual post-COSOP projects and programmes were well defined. However, it did not have clearly measurable objectives that would have facilitated an assessment of the contribution made by IFAD to the country's rural poverty reduction efforts during the COSOP period, and this was exacerbated by weak monitoring and evaluation systems. Overall, the CPE concluded that post-COSOP operations in the areas of rural finance, pastoral community development and small-scale irrigation were highly relevant and that the results of most projects in Ethiopia have generally been satisfactory. Equally important, post-COSOP operations have good prospects for sustainability, well above global averages (Annual Report on Results and Impact of IFAD Operations evaluated in 2007). This can be attributed to the relatively strong government commitment to agricultural development and pro-poor spending, and the fact that the arrangements for programme implementation are well embedded into the decentralized institutional structures or permanent national organizations.
23. On the other hand, the CPE found that there are weak linkages between research, extension services and farmers; and that there is a need to strengthen public-private sector partnerships in agricultural marketing. Moreover, IFAD-financed projects and programmes have been designed and implemented with limited linkages among each other. Implementation capacity varies across regions and districts and the quality and capacity for implementation have adversely been affected by frequent institutional restructuring and staff changes. The CPE also found that inadequate resources have thus far been devoted to non-lending activities such as knowledge management, policy dialogue and partnerships. While there have been notable improvements since the IFAD Country Office was established in 2005, IFAD should innovatively use grant funds under the Debt Sustainability Framework (DSF) to strengthen linkages within the country programme; close evident institutional capacity gaps, particularly in monitoring and evaluation; and improve its knowledge management and communication strategy.

B. Lessons learned

24. The first important lesson learned is that in determining the direction of future rural poverty reduction initiatives, priority should be given to areas where IFAD has developed a lead position in Ethiopia, mainly in small-scale irrigation development, rural finance and pastoral community development. Second, concerted efforts must be made from now on to develop and strengthen linkages between different interventions in order to enhance overall performance of the country programme, the sustainability of related investments and their impact on rural poverty. Third, in order to improve knowledge management, there is scope for using supplementary or grant funds under the DSF to carry out baseline surveys, impact assessments, and symposiums on thematic issues. These activities may be contracted to independent third parties.
25. Fourth, the role of civil society groups and the private sector in the design and implementation of the IFAD country programme, which has thus far been limited, should receive greater attention in future. Fifth, in seeking cofinancing arrangements with bilateral and multilateral partners, complex and diverse

operational procedures (governing procurement) must be minimized in order not to impede timely programme implementation. Ideally, one set of procedures should prevail. Lastly, the decision by IFAD to directly supervise its country programme in Ethiopia is a welcome development. However, the IFAD Country Office should be given adequate budgetary and human resources in order to carry out this responsibility effectively.

IV. IFAD country strategic framework

A. IFAD's comparative advantage at the country level

26. The general consensus emerging from the consultation process for the COSOP is that IFAD should prioritize its future interventions in Ethiopia in areas where it has developed a lead position, i.e. in small-scale irrigation development, rural finance and pastoral community development. In small-scale irrigation development, the main agenda is to scale up, refine and consolidate participatory approaches in order to enhance sustainability, effectively address water use efficiency, and ensure soil and water conservation. By building on experiences and lessons learned over the past two decades and the vulnerability analysis and mapping conducted by the World Food Programme (WFP), the Participatory Small-scale Irrigation Development Programme is helping about 65,000 vulnerable rural households living in high-density, drought-prone and food-insecure districts of the highlands to develop small-scale irrigation schemes covering an area of some 20,000 hectares.
27. Under the IFAD-initiated Rural Financial Intermediation Programme (RUFIP), impressive results have been achieved over the past five years in expanding outreach in the delivery of financial services by operationally sustainable microfinance institutions (MFIs) and RUSACCOs, with the clientele growing from about 700,000 to nearly 2 million poor rural households. The programme has demonstrated the potential of rural finance in enabling a large number of poor people to overcome poverty. Women account for about 30 per cent and 50 per cent of beneficiaries of MFIs and RUSACCOs respectively. However, much remains to be done, particularly in improving management information systems and expanding outreach to access-deficit and pastoral areas.
28. The Pastoral Community Development Project (PCDP), which is cofinanced with the International Development Association (IDA), has successfully spearheaded a community demand-driven development process that has contributed to: (i) growth and income stability; (ii) enhanced access to basic social services; (iii) improved social capital and more effective community-level institutions; and (iv) reduced vulnerability to external shocks. Over the past five years of implementation, the project has reached out to about 250,000 pastoral and agropastoral households and empowered them to manage better their own development. Given the importance of pastoral development in reducing rural poverty among the most neglected and vulnerable rural households in Ethiopia, the Government has requested IFAD to cofinance the second phase of the PCDP within the framework of the current performance-based allocation system (PBAS) cycle.
29. In order to establish and strengthen smallholder engagement with market value chains in Ethiopia, the Agricultural Marketing Improvement Programme has introduced a number of important initiatives during its second year of implementation, including the development of a participatory, commodity-based planning process driven by the identified needs and priorities of key stakeholders in each targeted district. Through this process, more than 50 commodity-based marketing plans have been prepared and implemented following a bottom-up approach, with each plan being owned by beneficiaries and local government from the outset. Already, some farmers' marketing groups have reported increased benefits from better farm gate prices after either being linked directly with buyers or being provided with improved post-harvest storage facilities. Other initiatives include decentralization of coffee liquoring to growing regions, promotion of a

warehouse receipt (inventory credit) system, and the development of a marketing information service linked to the Ethiopian Commodity Exchange and potential linkages with the WFP Purchase-for-Progress (P4P) initiative.

30. As an implementing agency of the Global Environment Facility (GEF), over the past two years IFAD has provided leadership in the participatory design of the proposed Community-Based Integrated Natural Resources Management Project with a view to conserving, protecting and rehabilitating the watersheds of the Lake Tana Basin, which is the source of the Blue Nile. The project has been designed within the framework of the National Sustainable Land Management Platform and the GEF's Strategic Investment Programme for Sub-Saharan Africa. Its objectives are to (a) increase household incomes and food security through the adoption of sustainable agricultural and land management practices; and (b) improve ecosystem integrity, generating global environmental benefits including potentially positive effects on climate change.

B. Strategic objectives

31. In accordance with the consensus reached during the consultation process, the COSOP focuses on three strategic objectives pertinent to areas where IFAD has established a lead position in Ethiopia. Specifically, the COSOP is aimed at enhancing access by poor rural households to: (a) natural resources (land and water); (b) improved agricultural production technologies and support services; and (c) a broad range of financial services. Increasing opportunities for off-farm income generation – particularly for the ever growing number of landless youth – cuts across the entire IFAD country programme.
32. In support of PASDEP, the second phase of the PCDP will redress the plight of the more vulnerable pastoral communities that have historically been neglected by the development agenda. Accounting for about 12-15 per cent of the country's population, pastoralists live in remote and marginalized areas characterized by poor social and economic infrastructure, and lack of support services. PCDP II will build on experiences and lessons learned over the past five years under the first phase to continue improving pastoral livelihoods and the asset base through enhanced access to land and water, financial services, and off-farm employment opportunities. PCDP II will also enhance access to support services, strengthen community-based institutions and organizations, and promote risk management. The project will scale up the community-driven development approach to expand outreach from the baseline of about 250,000 to 600,000 pastoral and agropastoral households, representing about 25-30 per cent of the total pastoral population.
33. IFAD has also developed a lead position in rural finance. Over the past five years of implementation, the IFAD-led RUFIP has enabled MFIs and RUSACCOs to expand outreach in the delivery of reliable financial services to an additional one million poor rural households. The programme has also successfully linked MFIs with the banking sector. The overall financial self-sufficiency and operational self-sufficiency of MFIs have improved remarkably during the period. By building on these successes, the second phase of RUFIP will expand outreach to an additional one million poor rural households in Ethiopia and thereby contribute directly to sustainable poverty reduction.
34. One of the major impediments to sustainable poverty reduction in rural Ethiopia is the strong nexus between severe land degradation, low agricultural productivity and rural poverty. In order to break this vicious cycle, there is an urgent need to integrate sustainable agricultural and land management practices into farming systems. This is clearly a challenge of monumental proportions in the Ethiopian context and must be addressed through a concerted and programmatic approach. As a member of the National Platform for Sustainable Land Management, IFAD is well placed to collaborate with the Government and development partners in the design and implementation of the multidonor-funded Sustainable Agriculture and

Land Management Programme that will scale up successful experiences gained in Ethiopia and other parts of the world. Programme activities will include the development of a national land use policy and implementation of community-owned land use plans for about 15-20 per cent of the country's districts.

C. Opportunities for innovation

35. The establishment of mobile support and outreach teams, and the adoption of a community-driven development (CDD) approach have demonstrated that poor pastoralists can effectively plan and implement microprojects that contribute to improved livelihoods and better access to support services. The CDD process has also been instrumental in promoting participatory and culturally sensitive approaches that have enhanced pastoral community empowerment. Increasingly, pastoral communities are confidently taking local development into their own hands by demanding support from the Government. Further sensitization, iterative training and backstopping will be scaled up under PCDP II.
36. RUFIP has proved to be highly relevant to Ethiopia's rural poverty reduction strategies and development efforts. Improved access to rural finance is recognized within PASDEP as one of the tools to be used in reducing poverty. RUFIP has also contributed to changing the mindset within the rural finance industry and its demonstration effects have encouraged domestic commercial banks to provide loanable funds to MFIs. Some of the MFIs have been rated highly by accredited agencies. Recent impact assessments suggest strong improvements in household incomes, consumption, economic diversification, food security and asset building among the clients of MFIs. RUFIP is a learning process that has created the institutional basis, motivation and rationale for scaling up and gradually expanding outreach into access-deficit and pastoral areas.
37. In Ethiopia, there has been little or no success in the adoption of sustainable agricultural and land management practices by the majority of smallholder farmers. Within the framework of PASDEP, the Government has clearly recognized the strong connection between land degradation and rural poverty. It has therefore, established a national sustainable land management platform within the framework of the TerrAfrica alliance and GEF Strategic Investment Programme for Sub-Saharan Africa. IFAD has had successful experiences outside Ethiopia with participatory land and natural resource management targeted specifically at poor rural households. A critical review of these experiences – especially under the IFAD-grant-supported: (a) Programme on Rewards for, Use of and Shared Investment in Pro-poor Environmental Services, and (b) Programme for Green Water Credits – will make an important contribution to improving programme design at entry by demonstrating best practices that can be piloted and scaled up in Ethiopia.

D. Targeting strategy

38. Rural households in Ethiopia live on a daily per capita income of US\$0.50. With a Gini coefficient of 0.26, poverty and food insecurity levels are generally high and evenly spread across much of rural Ethiopia. There is, on average, much less differentiation among the rural poor than in many other countries. The need for targeting whole communities was recognized and endorsed by stakeholders during the consultation process for the COSOP. Hence, the IFAD target group consists of smallholder farmers, agropastoralists, pastoralists, and landless rural households.
39. During programme design and implementation, special attention will be paid to ensure that the needs and priorities of more vulnerable groups such as woman-headed households and landless youth are articulated and taken into account. Additionally, special efforts will continue to be made, in support of PASDEP, to redress the plight of agropastoral and pastoral communities living in the lowlands. Investments in small-scale irrigation development will also be used as an instrument for targeting vulnerable poor rural households living in high-density, drought-prone and food-insecure districts of the highlands.

40. Furthermore, women's empowerment will be promoted through awareness-raising and training and through activities to support women in establishing their own savings and credit cooperatives/groups, marketing associations, and farmers' research and extension groups. Increased representation by women will also be encouraged and ensured through their appointment or election to *kabele*- and *woreda*-level institutions – such as land administration and land use committees, watershed management committees, water users' associations, community grazing associations – and as field-level staff. To the extent possible, at least 25 per cent of beneficiaries of the country programme will continue to be woman-headed households.

E. Policy linkages

41. The COSOP will be reviewed in 2010 in order to ensure synergy with Ethiopia's third PRSP. The review will therefore present IFAD with an added opportunity for policy dialogue with the Government and development partners on emerging priorities and strategies in agricultural and rural development. The recent phenomenon of negative interest rates and their potentially adverse effects on the long-term financial sustainability of MFIs presents IFAD and development partners (IDA and AfDB) with a major challenge that could seriously jeopardize or reverse recent successes realized under RUFIP. This issue will be followed up by the forthcoming joint supervision mission with both the Government and the International Monetary Fund (IMF). Another related and equally important issue is the need to establish a national apex institution that that will (a) efficiently mobilize and wholesale domestic and external lines of credit to rural financial institutions in a manner that does not distort the markets, (b) establish linkages with the insurance sector and promote micro-insurance services for poor rural households, (c) support the development of sustainable rural financial institutions and (d) supervise the performance of such institutions. These issues will also be addressed within the framework of implementation support missions for RUFIP I and the design of RUFIP II.
42. The monumental challenges posed by environmental and land degradation in Ethiopia will require serious policy dialogue on: (i) the participatory design, development and implementation of a national land use policy (including for pastoral areas); (ii) the development and implementation of community-owned land use plans; (iii) perceived land insecurity, demarcation and the issuance of first- and second-level certificates; (iv) rural household energy policies and strategies; (v) the growing number of landless youth (women and men); and (vi) development of contingency planning to help poor rural households cope with external shocks. These issues will be addressed jointly with the Government and development partners in the course of preparing for the third PRSP, and design and implementation of the proposed Sustainable Agriculture and Land Management Programme.

V. Programme management

A. COSOP management

43. The COSOP will be updated every two years to ensure synergy with emerging corporate and government priorities and strategies, in particular Ethiopia's third PRSP, which is due by 2010. The COSOP's performance will be reviewed annually during the IFAD country forum attended by the Country Programme Management Team (CPMT), key government representatives, NGOs, development partners and civil society organizations. The country forum, which started in 2007, will henceforth be organized under the leadership of the country programme manager (CPM) to be outposted to the country office in 2009. The recommendations of this annual review will feed into the annual COSOP progress report, consistent with its results management framework.

44. In addition to the IFAD country forum, members of the CPMT will be encouraged and supported to participate in IFAD-led implementation support missions within the country programme in order to promote functional and institutional linkages within the country programme. Other institutional linkages will be developed and strengthened during the COSOP period, including experience-sharing visits by both staff and beneficiaries. Functional linkages will also be promoted in order to improve overall performance of the country programme and its long-term sustainability. For instance, because investments in irrigated agriculture are relatively more expensive, the CPMT will organize members of a water users' group or association into a rural savings and credit group, an agricultural marketing association, and a farmers' research and extension group to enable them simultaneously to gain better access to financial services, agricultural markets, and improved technologies, with a view to increasing returns from irrigated farming.
45. Implementation capacity varies according to region and *woreda*. The structural bottlenecks that adversely affect timely implementation will be critically examined during the annual review workshops and recommendations made to strengthen institutional capacity, including the prudent use of grants under the DSF to close evident gaps by recruiting qualified personnel on term contracts from the labour market. At the same time, programme supervision will increasingly become a continuous process carried out directly by the IFAD country office. Additional resources will therefore be provided to the country office starting from FY 2009 onwards.

B. Country programme management

46. According to the CPE, one of the key factors that has contributed to the sustainability of the IFAD country programme in Ethiopia is the fact that its implementation arrangements are well embedded into the decentralized public administration or national institutional framework. The country programme is aligned with the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action, and therefore depends on the management information system (MIS) within the public sector to respond to its results management framework. In general, the MIS can be relied on to report adequately on financial and physical progress of public investments in agricultural and rural development. It is, however, ill equipped to provide data on outreach and impact of related investments on household incomes, food security, environment, etc. Experience shows that it is not easy to restructure existing systems and institutional arrangements within the public administration to accommodate the specific monitoring and evaluation requirements of a typical IFAD-financed programme.
47. The design and implementation of an M&E system that can effectively respond to the results management framework will be one of the major challenges to be addressed during the first year of the COSOP by IFAD, in collaboration with MoFED, the CSA and development partners. This will entail undertaking a comprehensive assessment of the strengths and weaknesses of the existing MIS and building on this to design and implement the required M&E system. The IFAD country programme will be used to test the efficacy of such a system before its scaling up.
48. In the interim, concerted efforts are well under way to improve the M&E systems of the country programme, including planned baseline surveys (under the Agricultural Marketing Improvement Programme and PASIDP), and impact assessments (under RUFIP and PCDDP). A major challenge that still remains concerns the inability of implementing agencies to attract and retain qualified staff in M&E at the current remuneration package in the public sector. IFAD will innovatively use grant funds under the DSF to assist the Government in closing evident institutional capacity gaps, including recruitment of qualified personnel on contract directly from the labour market.

C. Partnerships

49. The major partners for the design and implementation of PCDP II include community-based organizations at the *kabele* level, which will be sensitized and iteratively trained to take control of their own local development; facilitating local and international NGOs (SOS Sahel UK); and reputable civil society organizations (the Association of Ethiopian Microfinance Institutions (AEMFI) and the Pastoralist Forum Ethiopia), the *woreda* administrations, regional and federal governments, and the Ministry of Federal Affairs. The IDA will act as cofinancier and cooperating institution (mainly for the purpose of ensuring efficient loan administration). The Ministry of Federal Affairs will also coordinate programme planning, implementation, reporting, etc.
50. In addition to potential cofinanciers such as the AfDB, Irish Aid and the IDA, the key players in the delivery of rural financial services include 30 MFIs licensed by the National Bank of Ethiopia; RUSACCOs and their unions; the Ministry of Finance and Economic Development; the federal and regional cooperative agencies; domestic commercial banks, the National Bank of Ethiopia with responsibility for regulation and supervision and AEMFI with its strong credentials in advocacy, knowledge sharing and management. It is envisaged that the Sustainable Agriculture and Land Management Programme will attract bilateral and multilateral support within the framework of the National Sustainable Land Management Platform.

D. Knowledge management and communication

51. Another point of agreement arising from the consultation process is the importance and need for a knowledge management and communication strategy geared to improving learning and sharing, promoting successful stories and best practices, and increasing the visibility of the IFAD country programme. The strategy will inform the Government and development partners that (a) IFAD is keen to improve aid effectiveness and (b) the country programme includes successful poverty reduction initiatives worth scaling up. The annual workplan and budget of each country operation will henceforth include knowledge management activities and budget lines to support timely reporting, stakeholder participation in knowledge-sharing symposiums and field visits, and preparation of case studies and publications. IFAD will also support short-term technical assistance to strengthen the basic communication skills of the CPMT and facilitate the design and implementation of the communication strategy.

E. PBAS financing framework

52. Ethiopia is eligible for financing on the basis of a 50 per cent grant and 50 per cent loan on highly concessional terms. Its share of resources under the PBAS is likely to increase owing to its (a) large rural population, (b) low per capita income, (c) strong government commitment to pro-poor investments, and (d) better than average performance of the country programme. Ethiopia's annual allocation amounts to about US\$30 million or US\$210 million over the COSOP period.

Table 1
PBAS calculation for COSOP year 1

	<i>Indicators</i>	<i>COSOP year 1</i>
	Rural sector scores	
A (i)	Policy and legal framework for rural organizations	4.0
A (ii)	Dialogue between government and rural organizations	4.0
B (i)	Access to land	3.2
B (ii)	Access to water for agriculture	4.0
B (iii)	Access to agricultural research and extension services	4.0
C (i)	Enabling conditions for rural financial services development	4.8
C (ii)	Investment climate for rural business	4.0
C (iii)	Access to agricultural input and produce markets	4.0
D (i)	Access to education in rural areas	3.7
D (ii)	Representation	4.0
E (i)	Allocation and management of public resources for rural development	5.3
E (ii)	Accountability, transparency and corruption in rural areas	4.2
	Sum of combined scores	49.2
	Average of combined scores	4.1
	Projects-at-risk (PAR) rating (2007)	6
	IDA Resource Allocation Index (2006)	3.39
	Country score (2007)	18 984
	Annual country allocation (United States dollars 2009)	31 428 925

Table 2
Relationship between performance indicators and country score

<i>Financing scenario</i>	<i>PAR rating (+/- 1)</i>	<i>Rural sector performance score (+/- 0.3)</i>	<i>Percentage change in PBAS country score from base scenario</i>
Hypothetical low case	5	3.80	-20%
Base case	6	4.10	0%
Hypothetical high case	6	4.40	6%

F. Risks and risk management

53. There are at least four major risks that could jeopardize the successful implementation of the COSOP. First, failure to strengthen the implementation capacity of the decentralized administration will slow down the pace of planned investments and achievement of the MDGs. In mitigation, the Government is committed to maintaining or increasing the share of the annual budget allocated to agriculture and rural development. IFAD would also utilize grant funds under the DSF to close evident institutional capacity gaps, particularly in programme planning, management, and M&E. Second, failure to contain or manage effectively the current high inflation rate could erode the long-term financial sustainability of rural financial institutions, with adverse effects on rural poverty reduction. In mitigation, consultations are well under way between the Government and development partners (including the IMF) to find practical solutions to this macroeconomic problem. MFIs are also taking corrective measures to improve their efficiencies and adjust lending rates so as to maintain operational sustainability.
54. Third, external shocks, particularly droughts, which tend to occur every three years may further weaken the resilience of more vulnerable poor rural households including pastoralists. The COSOP seeks to mitigate the impact of drought through

its support to irrigation development, sustainable agriculture and land management. Planned activities under IFAD cofinanced projects such as the PCDP include risk management components that can be activated in the event of external shocks. Another key feature of the COSOP is the gradual shift of IFAD resource use towards support for off-farm income generation, particularly under RUFIP, the Agricultural Marketing Improvement Programme (AMIP), and PCDP, which will further contribute to building coping mechanisms. Last, political instability, including border conflicts, remains a possible threat to achieving the MDGs. The COSOP will rely on interventions by the broader international community for these types of political risks. In coordination with other development partners, IFAD will also seek to adjust its support in a manner that helps the country to address such risks in future.

COSOP consultation process

1. In accordance with the development plan of the COSOP dated 30 April 2008, its preparation process entailed three phases. The first phase was the Country Programme Evaluation (CPE) which assessed the performance and impact of the IFAD country strategy and operations in Ethiopia. The findings and recommendations of the CPE, which were discussed and largely endorsed at the national roundtable workshop held in Addis Ababa from 26 to 27 June 2008, have been taken into account in the design of the COSOP.
2. The second phase entailed a comprehensive assessment of Ethiopia's recent macroeconomic, agricultural sector performance and trends in rural poverty, which was carried out by three national experts under the leadership of IFAD. The findings of both the CPE and that assessment provided background material for the COSOP design mission which visited Ethiopia in August 2008, including the in-country clinic that was held in Addis Ababa from 18 to 19 August 2008, followed by consultations with development partners on 20th August 2008. A list of participants at the clinic (including high level government representatives) and subsequent consultations is presented in Appendix I, Annex 1 hereof.
3. The third phase was the actual preparation of the COSOP under the leadership of the CPM. Mr. Frits Ohler, Senior Agricultural Officer, FAO Investment Centre participated in the design mission and initially contributed to the preparation of the COSOP. The COSOP has also taken into account the feedback received during its peer review.
4. The COSOP will be formally reviewed and agreed with Government prior to its consideration by the Executive Board. It will also be shared with national stakeholders and development partners.

Ethiopia
COSOP Consultative Clinic
List of Participants

No.	Participant	Institution	Title
1.	Wondeirad Mandefro	MoARD	Extension Department Coordinator
2.	Mathewos Hunde	MoARD	Food Security Department Coordinator
3.	Keberu Belayneh	MoARD	Senior Expert
4.	Daniel Danano	MoARD	Senior Expert and Secretariat for SLM
5.	Alemayehu Tadesse	MoARD	Senior Expert
6.	Tigist Redda	EIAR	Capacity Building Programme National Coordinator
7.	Solomon Messele	MoARD	Senior Expert
8.	Dejene Abesha	MoARD	National Programme Coordinator for PASIDP
9.	Seleshi Getahun	MoARD	Natural Resources Sector Coordinator
10.	Tigist Tesfaye	AEMFI	Senior Programme Officer
11.	Ashenafi Getahun	MoWR	A/ Department Head, Planning and Project Design
12.	John Gicharu	IFAD	Country Programme Manager
13.	Abebe Zerihun	IFAD	Country Officer
15.	Frits Ohler	FAO	Senior Agricultural Officer
16.	Bedru Dedgeba	FCPA	Deputy Director General
17.	Assefa Tewodrs	MoFA	National Programme Coordinator for PCDP
18.	Mesfin Arega	MoFA	Pastoral Risk Management Senior Officer
19.	Berhanu Adnew	EEA	Senior Researcher
20.	Teklewoine Assefa	AEMFI	Board Chair
21.	Beyene Sebeko	MoARD	Senior Expert
22.	Fikru Gezahegne	NBE	Research Officer
23.	Hailu Regassa	EIAR	A/ Director for Soil and Water Conservation Research
24.	Abuhay Takele	EIAR	A/ Director for Pastoral and Agro Pastoral Research
25.	Cheikh M. Sourang	IFAD	Senior Programme Manager
26.	Abonesh Tesfaye	A-Z Consult	Consultant, Natural Resources Management
27.	Gifawosen Tessema	MoFA	Team Leader
28.	Chane Gebeyehu	MoFA	Team Leader
29.	Haile Abera	MoFA	Senior Expert
30.	Daniel Assefa	DECSI MFI	Operations Manager
31.	Teshome Atnafie	MoWR	Department Head for Irrigation and Drainage Study and Design
32.	Berhanu Kidanu	FCPA	National Programme Coordinator for RUSACCS
33.	Bahiru Haile	DBE	National Programme Coordinator for RUFIP
34.	Berhanu W/michael	MoARD	Food Security Programme Coordinator
35.	Mulneh Alemu	NBE	Micro Finance Supervision Department Manager
36.	Amdessa Teshome	A-Z Consult	Senior Macro Economist
List of Participants at the Consultation Donor's Group			
37.	Josph Oji	UNDP	UN Country Team Coordination Specialist
38.	Alessandra Tisot	UNDP	Country Director
39.	Christine Musisi	UNDP	Deputy Country Director for Programme
40.	Hans Docter	Netherlands Embassy	1 st Secretary
41.	Alan Ducan	ILRI	Livestock Scientist
42.	Retta Gudissa	Italian Embassy	Economist- Private sector and Rural Development
43.	Lakech Micheal	World Bank	Senior Agricultural Economist
44.	Berhanu Adnew	EEA	Senior Researcher
45.	Amdissa Teshome	A-Z Consult	Macro Economist
46.	John Gicharu	IFAD	Country Programme Manager
47.	Chiekh Sourang	IFAD	Senior Programme Manager
48.	Aklilu Dogisso	Send a Cow	Country Director
49.	Tezera Getahun	Pastoral Forum Ethiopia	Executive Director
50.	Girma Hailu	UNDP	MDG Support Country Advisor
51.	Mitselal Abreha	UNDP	Monitoring and Evaluation Officer
52.	Abebe Zerihun	IFAD	Country Officer

Country economic background

COUNTRY DATA

Ethiopia

Land area (km2 thousand) 2006 1/	1 000	GNI per capita (USD) 2006 1/	170
Total population (million) 2006 1/	77.15	GDP per capita growth (annual %) 2006 1/	6
Population density (people per km2) 2006 1/	77	Inflation, consumer prices (annual %) 2006 1/	14
Local currency Ethiopian Birr (ETB)		Exchange rate:	USD 1 = ETB 9.670
Social Indicators		Economic Indicators	
Population (average annual population growth rate) 2000-2006 1/	2.7	GDP (USD million) 2006 1/	13 315
Crude birth rate (per thousand people) 2006 1/	39	GDP growth (annual %) 1/	
Crude death rate (per thousand people) 2006 1/	13	2000	5.9
Infant mortality rate (per thousand live births) 2006 1/	77	2006	9.0
Life expectancy at birth (years) 2006 1/	52	Sectoral distribution of GDP 2006 1/	
Number of rural poor (million) (estimate) 1/	n/a	% agriculture	47
Poor as % of total rural population 1/	n/a	% industry	14
Total labour force (million) 2006 1/	34.43	% manufacturing	5
Female labour force as % of total 2006 1/	45	% services	39
Education		Consumption 2006 1/	
School enrolment, primary (% gross) 2006 1/	83	General government final consumption expenditure (as % of GDP)	12
Adult illiteracy rate (% age 15 and above) 2006 1/	64 a/	Household final consumption expenditure, etc. (as % of GDP)	94
Nutrition		Gross domestic savings (as % of GDP)	-6
Daily calorie supply per capita	n/a	Balance of Payments (USD million)	
Malnutrition prevalence, height for age (% of children under 5) 2006 2/	51	Merchandise exports 2006 1/	1 014
Malnutrition prevalence, weight for age (% of children under 5) 2006 2/	38	Merchandise imports 2006 1/	4 594
Health		Balance of merchandise trade	-3 580
Health expenditure, total (as % of GDP) 2006 1/	5 a/	Current account balances (USD million)	
Physicians (per thousand people)	0 a/	before official transfers 2006 1/	-3 083
Population using improved water sources (%) 2004 2/	22	after official transfers 2006 1/	-1 786
Population with access to essential drugs (%) 2/	n/a	Foreign direct investment, net 2006 1/	545
Population using adequate sanitation facilities (%) 2004 2/	13	Government Finance	
Agriculture and Food		Cash surplus/deficit (as % of GDP) 2006 1/	n/a
Food imports (% of merchandise imports) 2006 1/	21 a/	Total expenditure (% of GDP) 2006 1/	n/a
Fertilizer consumption (hundreds of grams per ha of arable land) 2006 1/	26 a/	Total external debt (USD million) 2006 1/	2 326
Food production index (1999-01=100) 2006 1/	134 a/	Present value of debt (as % of GNI) 2006 1/	8
Cereal yield (kg per ha) 2006 1/	1 589	Total debt service (% of GNI) 2006 1/	1
Land Use		Lending interest rate (%) 2006 1/	7
Arable land as % of land area 2006 1/	13 a/	Deposit interest rate (%) 2006 1/	4
Forest area as % of total land area 2006 1/	13 a/		
Irrigated land as % of cropland 2006 1/	2 a/		

a/ Data are for years or periods other than those specified.

1/ World Bank, *World Development Indicators* database CD ROM 2008

2/ UNDP, *Human Development Report*, 2007/2008

COSOP results management framework

Country Strategy Alignment	Key Results for COSOP			Institutional and Policy Objectives
Plan for Accelerated and Sustainable Development to End Poverty (PASDEP)	Strategic Objectives (SO)	Outcome Indicators ¹ Related to the SOs	Milestone Indicators Progress Towards SOs	Policy Dialogue Agenda
<p>Goal: Attain MDGs by 2015</p> <p>Objective: Accelerated, sustained, and people-centred economic development achieved</p>				
<p>Strategies in agricultural development:</p> <p>(a) Promote market based agricultural development (irrigation, rural finance, farm-to-market roads, export promotion, improve land tenure security, and enhanced access to markets);</p> <p>(b) Increase private sector investments;</p> <p>(c) Provide specialized support services for differentiated agro-ecologies;</p> <p>(d) Improve rural-urban linkages;</p> <p>(e) Special effort for pastoral areas.</p> <p>(f) Improve access to financial services;</p> <p>(g) Improve the effectiveness and efficiency of agricultural markets for both inputs and outputs; and</p> <p>(h) Promote agricultural exports</p>	<p>SO1 – Enhanced access by poor rural households to natural resources (land & water);</p>	<ul style="list-style-type: none"> • Income and wellbeing of about 600 000 rural households living in 57 pastoral and agro-pastoral districts improved • 65 000 households in drought prone, high density and food insecure districts have increased incomes from 20 000 ha of irrigated land with land tenure security • 1.75 million 1st level land certificates issued to smallholder farmers • 1.75 million smallholder farmers adopt sustainable agriculture and land management practices • 500 000 ha of land brought under SLM 	<ul style="list-style-type: none"> • No. of viable micro-projects approved and completed by FY • No. of pastoral households with access to basic social services by FY • No. of pastoral community members trained by FY, sex disaggregated • No. of contingency plans for natural disasters prepared by FY • No. of irrigation schemes constructed and WUAS formed by FY • xx% of watersheds and xx ha in PASIDP programme area treated by FY • No. of land certificates issued by FY • No. of farmers adopting sustainable agricultural and land management practices by FY • No. of hectares brought under SLM by FY 	<ul style="list-style-type: none"> • Implementation capacity of the decentralized administration especially at <i>woreda</i> and kabele levels strengthened • Land tenure security improved • Contingency planning at district, zonal, regional and federal levels developed and harmonized • An effective M&E system implemented in the context of harmonization and alignment • The role for NGOs and civil society groups enhanced

¹ To be firmed up during programme design.

Country Strategy Alignment	Key Results for COSOP			Institutional and Policy Objectives
Plan for Accelerated and Sustainable Development to End Poverty (PASDEP)	Strategic Objectives (SO)	Outcome Indicators ¹ Related to the SOs	Milestone Indicators Progress Towards SOs	Policy Dialogue Agenda
	<p>SO2 – Improved production technologies and support services effectively delivered to poor rural households</p>	<ul style="list-style-type: none"> • Incomes and food security for about 500 000 rural households increased due to better engagement in marketing chains • Warehouse receipt system established and operational • Coffee liquoring decentralized to growing regions • xx% increase in traded volumes of agricultural products • An agricultural market information service established and operational • 436 farmer research groups established and operational 	<ul style="list-style-type: none"> • xx% increase in yields of key crops measured annually • No. of persons trained in various aspects of agricultural marketing by FY • Volume of surplus farm produce stored in certified warehouses by FY • No. of coffee liquoring centres established by FY • No. of regional agricultural marketing advisory forums operational • No. of farmer research groups established by FY 	<ul style="list-style-type: none"> • Implementation capacity of the decentralized administration especially at <i>woreda</i> and kabele levels strengthened • An effective M&E system implemented in the context of harmonization and alignment • The role for NGOs and civil society groups enhanced
	<p>SO3 – Reliable financial services made available to poor rural households</p>	<ul style="list-style-type: none"> • An additional 1 million rural households access financial services as clients and members of MFIs and RUSACCOs, respectively • 35% increase in number of operationally and financially sustainable MFIs and RUSACCOs • Transparent and appropriate regulations in place and enforced 	<ul style="list-style-type: none"> • xx% increase in clients of MFIs and members of RUSACCOs by FY • xx% increase in outstanding loan portfolio and savings mobilized by FY • xx% increase in loan able funds sourced from commercial banks by FY • xx% increase in operational and financial self sufficiency ratios among RFIs by FY • Civil society organizations for rural financial institutions established and operational • MFI Supervision Department of the NBE capacitated 	<ul style="list-style-type: none"> • Implementation capacity strengthened • The capital base of rural financial institutions (RFIs) safeguarded • National apex organization to support RFIs established • An effective M&E system implemented in the context of harmonization and alignment • The role for NGOs and civil society groups enhanced

CPE agreement at completion point

A. Background

1. In 2007/2008, IFAD's Office of Evaluation (OE) conducted a Country Programme Evaluation (CPE) in Ethiopia. The main objectives of the CPE were to: (i) assess the performance and impact of IFAD's strategy and operations in Ethiopia; and (ii) develop a series of findings and recommendations that would serve as building blocks for the preparation of the new IFAD results-based country strategy and opportunities programme (COSOP) for Ethiopia. The COSOP would be formulated by the Eastern and Southern Africa Division (PF) of IFAD in close collaboration with the Government of Ethiopia.

2. This ACP includes the key findings and recommendations contained in the CPE. It also benefits from the main discussion points that emerged at the CPE national roundtable workshop, organized in Addis Ababa on 26-27 June 2008. This ACP captures the understanding between the IFAD and the Government of Ethiopia on the core CPE findings, and their commitment to adopt and implement the evaluation recommendations contained in this document within specified timeframes.

B. The Main CPE Findings

3. First of all, it is important to recognise that this section contains only the salient findings from the CPE. For a more exhaustive overview of the findings, readers are encouraged to refer to the evaluation report.

4. The CPE noted that the 1999 Ethiopia COSOP had clear objectives in terms of portfolio development, especially with regard to the priority areas for sub-sector investments. However, in accordance with the COSOP design format at the time, it did not have clearly measurable objectives that would have facilitated an assessment of the contribution made by IFAD operations to the country's broader rural poverty reduction efforts. Nonetheless, the objectives of individual projects and programmes were well defined, albeit with weak monitoring and evaluation systems.

5. Overall, the CPE found that post-COSOP operations funded by IFAD in the areas of rural finance, pastoral community development and small-scale irrigation were highly relevant. The results of most of the projects financed by IFAD in Ethiopia are generally satisfactory. In fact, the performance of the project portfolio is better than IFAD global averages - as reported in the 2007 Annual Report on the Results and Impact of IFAD Operations - especially in the areas of relevance, effectiveness, sustainability, innovations promotion, and overall project achievement.

6. While the CPE agrees with the need to support the development of a national agricultural research system (NARS), it is important to strengthen linkages between the NARS, extension services and farmers as end users. Likewise, the design of the recent agricultural marketing project is broadly consistent with IFAD's private sector and partnership development strategy. However, while recognising that the marketing project has only been effective for just over two years, the CPE noted that the project needs to explore opportunities for greater public-private sector partnerships.

7. The CPE also found that IFAD-assisted activities have been designed and implemented with limited linkages among each other. Linkages with regional grant-funded initiatives have also been limited, even though this is likely to change given the recent evolution in IFAD's grant policy and priorities. The CPE recognises that in 2007, IFAD established the Country Programme Forum in Ethiopia, which will serve as a framework for exchanging information and cross-fertilise experiences across IFAD-

financed projects and programmes in the country. This should contribute to building synergies and better co-ordination in the country programme.

8. The CPE found that implementation capacity varies between the different regions and districts. Moreover, the quality and capacity for implementation may also change abruptly and significantly with the transfer of staff. These are issues that need to be considered in moving forward by innovatively using grants to strengthen institutional capacity, especially given the deeper attention by the country to promoting decentralized administration, design and implementation, and monitoring and evaluation.

9. The CPE found good prospects for sustainability of benefits. In fact, in recent years, more than 10 per cent of the government budget has been allocated for agriculture and food security. Another positive element is that IFAD-financed project management units are well embedded within the decentralized government structure or in permanent national organizations. However, there are some sustainability concerns particularly in rural development and microfinance. MFIs in Ethiopia have excellent portfolio quality and good operational efficiencies. However, the returns on assets and equity are both negative, primarily because of negative real interest rates due to recent inflation. The issue of double-digit inflation is a recent phenomenon, which is currently being addressed by the Government and development partners.

10. The CPE found that inadequate resources have thus far been devoted to non-lending activities, namely knowledge management, policy dialogue and partnerships. The recently established country presence of IFAD in Ethiopia has contributed, among other issues, to better donor harmonization, dialogue amongst projects and key partners at different levels, and communication. However, the effectiveness of IFAD's current country presence model in Ethiopia is affected by the limited resources and decision-making authority.

11. IFAD's main contributions to policy dialogue are project specific. According to the CPE, the move by IFAD to itself take the lead in directly supervising and providing implementation support to its operations in the country is appropriate.

C. Recommendations

Recommendation 1: Where to Focus

12. **Targeting and synergy between interventions.** According to the new COSOP guidelines and IFAD's Targeting Policy, COSOPs need to include a targeting strategy. There should be scope for focusing on food deficit *woredas*, which are nowadays better mapped thanks to the available data and supporting dynamic economic changes in the rural economy with trickle-down effects. The new COSOP should identify measures to link different interventions (for example how to link rural finance with small-scale irrigation and agricultural marketing) and ensure better synergy between programmes.

13. **Sectoral Focus.** For the next some 10 years, IFAD should prioritise areas where it has developed a lead position, such as in small-scale irrigation and rural finance, where the achievements are satisfactory and promising. However, a second phase of the Rural Finance Intermediation Programme (RUFIP) will depend on the results of a dedicated interim evaluation by OE in 2009, and in particular on progress with respect to addressing the current problem of negative interest rates. While jointly initiated with the World Bank, support for pastoral community development has been a success for which continued IFAD involvement seems justified, perhaps promoting synergies with rural finance in the way it worked in phase one of the operation.

- Within small-scale irrigation it is a matter of scaling-up, refining and consolidating participatory approaches to improve sustainability, and

effectively addressing water use management, and soil and watershed conservation.

- Within rural finance, much remains to be done in automating the manual systems and introducing proper, real time, management information systems. Furthermore, support is needed for developing services in pastoral and other access deficit areas. RUFIP has already spent most of the budget. In order not to lose important momentum, the Government has mobilized additional resources from the banking sector (approximately US\$120 million) to continue support for MFI on-lending operations until the second phase becomes operational in 2010.
- As the evaluation ratings for the PCDP are mostly highly satisfactory or satisfactory, and in order to ensure continuity of activities and benefits, Government and the World Bank have concluded a financial package for phase two of the project. Given the positive results of this project and the importance of pastoral development in reducing rural poverty in Ethiopia, the Government has requested IFAD to jointly cofinance the second phase of the project within the framework of the current PBAS cycle which ends on 31 December 2009.

14. Currently, IFAD is participating with GEF in the design of sustainable land use and management project around Lake Tana, which, if approved, will open a new strategic focus area for IFAD. Though there is no doubt that natural resource degradation is an area that warrants attention, the strategy for dealing with the problem needs to be carefully developed. First of all, the factors that in the first place caused the felling of trees and overexploitation of steep slopes need to be identified and proper solutions found, otherwise the project may fail to benefit poor households. In densely populated mountain countries, the poorest are often both victims of and contributors to natural resource degradation (they have to use common lands and forests for firewood collection, grazing their livestock). Strict protection, without providing alternatives, may even make them worse off.

Recommendation 2: Tools to Promote Innovations

15. **Using Grants in a Smart Way for Knowledge Management and Pilot Testing.** IFAD could innovatively use supplementary grant funds for preparatory studies, baseline surveys and impact studies, which could be contracted to independent third parties.

16. **Policy Dialogue.** Project design and implementation offers IFAD the best opportunities for influencing systems and approaches. However, project financing alone may not be sufficient for policy dialogue. Supplementary activities such as specific studies and symposia on thematic issues may be required and objectives, instruments and resources (staff time, particularly for the country office staff, and financial resources) have to be allocated. Finally, well targeted study tours to other countries that have passed through similar challenges as Ethiopia is facing, should be considered as an effective tool of policy dialogue.

Recommendation 3: Working with whom?

17. **Partnership** has involved many different public institutions in Ethiopia at the Federal level (at least four Ministries: Finance and Economic Development, Agriculture and Rural Development, Federal Affairs, and Water Management and, in addition, EARI Development Bank of Ethiopia) as well as at the regional and sub-regional (*woreda*) level. These partnerships should continue in the context of relevant future interventions. It is recommended to increase the focus on constructing partnerships between the public sector, civil society and the private sector at the regional and sub-regional level (as

tested in pastoral community development). The recently-created IFAD country forum is a good starting point.

18. Positive experiences have been gained in working civil society organizations in supporting grassroots organizations in pastoral areas. These experiences should be considered when supporting capacity development of grassroots organizations.

19. Private sector is a relatively new partner of IFAD, with some successful initial experiences in pastoral community development and agricultural marketing. Although AMIP is at its initial implementation stage, successful experiences at the local level should be encouraged in order to enhance public-private sector collaboration.

20. The current active portfolio has no cofinancing partnerships with bilateral donors. Even though aid modalities and priorities of bilateral donors have undergone major changes in the recent period, the CPE finds that IFAD should not stop seeking cooperation opportunities, as some bilaterals are active in sub-sectors supported by IFAD.

21. The financing and supervision arrangements for the support to rural finance have involved two co-financiers (IFAD and AfDB) and one cooperating institution (the World Bank). The complexity of diverse procurement procedures has not been conducive to smooth implementation and should be avoided unless one set of procedures and rules for procurement can be agreed.

Recommendation 4: Programme and Project Cycle Management

22. **Planning period for the strategy.** The ideal planning period for the new COSOP would appear to be three years, synchronized with the PBAS cycle and the Medium Term Expenditure Framework (MTEF). However, given IFAD's limited resources for strategy work and COSOP formulation, a 6-year planning period (covering two PBAS periods) is recommended, with a review at mid-term. As prescribed by the current COSOP guidelines, the COSOP should have a clearly specified implementation period and updated at mid term review.

23. **Implementation support and country office.** Starting with AMIP and PASIDP, more projects will henceforth be supervised directly by IFAD which requires adequate budget and human resources, currently not at the disposal of the Field Presence Office. Therefore, IFAD needs to implement a proper assessment of financial and human resources requirements and training needs for managing direct supervision, beginning with its field presence office whose resources deserve to be increased.

Proposed Timeframe to Implement the Recommendations

24. The recommendations in the ACP will be implemented in the context of ongoing operations, as well as during the design and implementation of the new results-based COSOP for Ethiopia.

Key Partners to Be Involved

25. The recommendations will be implemented by IFAD and the Government in collaboration with civil society organizations, community based organizations, the private sector and other development partners.

Signed by:

Mr. Mekonnen Manyazewal
State Minister
Ministry of Finance and Economic Development (Ethiopia)

_____ Date _____

Mr. Kevin Cleaver
Assistant President, Programme Management Department (IFAD)

_____ Date _____

Project pipeline during the COSOP period

A. Pastoral Community Development Project (PCDP) II

- (a) **Geographic Area and Target Group:** The primary target population of PCDP II are roughly 600,000 pastoral and agro-pastoral households living in drought-prone, arid and semi-arid lowlands of Ethiopia.
- (b) **Justification and Rationale:** Accounting for 12-15 per cent of the population, pastoralists live in remote and marginalized areas characterized by poor social and economic infrastructure. The plight of pastoral communities has been recognized within the framework of Ethiopia's 2nd generation PRSP and government has requested IFAD to join forces with other development partners in redressing the existing imbalance by building on the highly successful community-driven development (CDD) approach initiated under the ongoing PCDP.
- (c) **Key Project Objectives:** The objectives of PCDP II are to: (i) strengthen the resilience of pastoralists to external shocks; and (ii) improve their livelihoods in a manner that contributes to overall poverty reduction in Ethiopia.
- (d) **Ownership, Harmonization and Alignment:** According to PASDEP, "the problem of food security and agricultural growth in the pastoral areas is being conceived in terms of the development of the pastoral economy in its entirety." PCDP II will support this strategy by promoting an integrated and holistic approach that focuses on people. In accordance with the CDD process, project activities will be identified, prioritized and implemented under the leadership of beneficiary communities with support from the decentralized regional administrations.
- (e) **Components and Activities:** (i) Sustainable Livelihoods including a community investment fund (CIF), and rural livelihoods program (RLP); (ii) Pastoral Risk Management (PRM) including early warning and response (EWR), and disaster preparedness strategic investment program (DPSIP); (iii) Participatory Learning and Knowledge Management (PLKM) including participatory action learning (PAL), knowledge management and networking (KMN), and policy implementation studies; and (iv) Project Management and Coordination including participatory monitoring and evaluation.
- (f) **Costs and Financing:** About US\$ 133.3 million total costs over five years to be financed by IDA, IFAD, Government, and Pastoral Communities in line with the current PBAS cycle ending on 31 December 2009.
- (g) **Organization and Management:** PCDP II will be implemented by regional bureaux under the overall responsibility of MoFA in collaboration with NGOs and pastoral communities.
- (h) **Monitoring and Evaluation Indicators** include: (i) per cent of community members with access to basic social services; (ii) per cent of beneficiary households reporting improved livelihoods; (iii) per cent increase in income and household food security reported by beneficiaries; and (iv) reduced livestock loss and asset depletion reported by beneficiary households.
- (i) **Risks** include: (i) limited experience with participatory development approaches; (ii) limited institutional capacity and high staff turnover in remote areas; (iii) diminishing natural resources and increased conflicts; and (iv) weak cooperation between government bureaux and NGOs.
- (j) **Timing:** 2009/10.

B. Rural Financial Intermediation Programme II

- (a) **Programme Area and Target Group.** National with special attention to access deficit and pastoral areas. The target group consists of poor rural households living way below the internationally recognized absolute poverty threshold of a dollar a day.
- (b) **Justification and Rationale:** Lack of access to reliable financial services in rural Ethiopia is a major impediment to sustainable poverty reduction. The current fertilizer credit scheme guaranteed by regional governments is a short term, partial response to this lacuna, which is not sustainable. The IFAD initiated Rural Financial Intermediation Programme has achieved impressive results over the past five years in expanding outreach to nearly 2 million poor rural households and has demonstrated the potential for rural finance in enabling a large number of poor people to overcome poverty. In line with recommendations of the CPE, much remains to be done particularly in introducing proper management information systems and expanding outreach to access deficit and pastoral areas.
- (c) **Key Project Objectives:** to enhance outreach through institutional development; the provision of equity and credit funds; the development of grass-roots, people-owned and managed rural financial cooperatives and their unions; strengthen linkages between rural financial institutions and the banking system; and improved regulation and supervision.
- (d) **Ownership, Harmonization and Alignment:** The programme will establish and strengthen rural savings and credit groups or cooperatives through iterative training and its implementation will be carried out using national institutional arrangements, structures, systems and procedures.
- (e) **Components and Activities:** (i) institutions' development; (ii) improved regulation and supervision; (iii) provision of credit and risk funds; and (iv) coordination, knowledge management and communication.
- (f) **Costs and Financing.** US\$150-200 million over seven years with IFAD loan and grant not exceeding 33 per cent thereof.
- (g) **Organization and management.** Key programme implementation agencies include MFIs, DBE (or new apex institution), AEMFI, NBE, FCA, Regional Bureaux, RUSACCOs and their unions, and commercial banks.
- (h) **Monitoring and Evaluation Indicators:** (i) xx per cent increase in MFI clients and members of RUSACCOs disaggregated by gender; (ii) number of participating MFIs, RUSACCOs, commercial banks; (iii) xx per cent increase in branch and sub-branches; (iv) average loan size; (v) outstanding loan portfolio and savings mobilized; (vi) xx per cent increase in financial and operational self-sufficiency; (vii) xxx number of experience sharing visits and knowledge management symposia.
- (i) **Risks:** (i) high inflation rates; (ii) droughts; (iii) inadequate loan able funds; (iv) weak regulation and supervision; and (v) uncoordinated donor initiatives that distort the rural financial markets.
- (j) **Timing:** 2010/11.

C. Sustainable Agriculture and Land Management Programme

- (a) **Geographic Area and Target Group:** National with priority being given to food insecure, pastoral as well as high potential areas that may slip into food deficit owing to land degradation. The target group will be poor rural households living in these areas.
- (b) **Justification and Rationale:** Sustainable land management is an effective tool for increasing agricultural productivity, food security and rural poverty reduction. Improved carbon sequestration will also contribute to reduced greenhouse gas emissions with positive effects on climate change.
- (c) **Key Project Objectives:** (i) environmental sustainability and improved ecosystem integrity; and (ii) increased agricultural and land productivity.
- (d) **Ownership, Harmonization and Alignment:** the proposed programme is consistent PASDEP and the IFAD strategic framework. Planned activities will be identified, prioritized and implemented jointly with beneficiary households based on land use plans owned by local communities with support from the decentralized regional administrations.
- (e) **Components and Activities:** (i) improved support services; (ii) watershed treatment and management; (iii) land certification; (iii) local capacity building; and (iv) coordination, knowledge management and communication.
- (f) **Costs and Financing:** US\$150-200 million over seven years. Maximum IFAD support approximately 33 per cent thereof.
- (g) **Organization and Management.** Overall coordination of programme implementation under MoARD as chair of national SLM platform in collaboration with regional bureaux, NGOs and local communities.
- (h) **Monitoring and Evaluation Indicators:** (i) xxx number of farmers' research and extension groups operational; (ii) xxxx number of participating households; (iii) xxx number of hectares demarcated and land certificates issued; (iv) xxx number of land use plans developed and implemented; (v) xx per cent increase in agricultural productivity per hectare; (vi) xx per cent increase in food security and household incomes; (vii) xxx hectares of land rehabilitated.
- (i) **Risks:** (i) inadequate resources and implementation capacity; (ii) climate change; and (iii) weak communal ownership.
- (j) **Timing:** 2013/14.

Key file 1: Rural poverty and agricultural/rural sector issues

Priority areas	Affected group	Major issues	Actions needed
Land related issues	Rural HHs (pastoralist and sedentary)	<ul style="list-style-type: none"> Landlessness Tenure insecurity Fragmentation Land Policy and Administration (pastoral areas) Title and registration 	<ul style="list-style-type: none"> Work on economic diversification; e.g., off-farm activities, nonfarm activities Certification Formulation of pastoral land policy Intensive farming
Vulnerability to disasters	Rural HHs (pastoralist and sedentary)	<ul style="list-style-type: none"> Poor early warning system and response Limited attention to prevention and preparedness 	<ul style="list-style-type: none"> Strengthening customary institutions and local coping mechanisms Decentralization of response Empowering regions to establish their own warehouse system Working on preventive measures
Marketing	Smallholder producers and herders	<ul style="list-style-type: none"> Poor marketing infrastructure (information system, warehousing, transportation, etc) Taxation (livestock) 	<ul style="list-style-type: none"> Creating and/or strengthening (scaling up) marketing infrastructure Strengthening Farmer Organizations Establishing cross-border livestock marketing
Rural financing	Poor households particularly female headed households	<ul style="list-style-type: none"> limited access cultural and religious barrier limited capacity of MFIs 	<ul style="list-style-type: none"> enhance access in pastoral areas increase liquidity of MFIs in highland areas customizing credit system to local culture and religion
Natural resource management	Smallholders both highland and lowland	<ul style="list-style-type: none"> Land degradation Deforestation Siltation Flood Loss of biodiversity Encroaching plants 	<ul style="list-style-type: none"> Land rehabilitation Watershed management (Soil and water conservation)
Low agricultural/livestock productivity in the highlands	Small farmers	<ul style="list-style-type: none"> Low yield Low quality Limited extension service Low agricultural input supply 	<ul style="list-style-type: none"> Enhancing involvement of the private sector Strengthening farmers' organizations Strengthening farmers' training centres Strengthening small scale irrigation and water management
Pastoral development	Pastoralists and agro-pastoralists	<ul style="list-style-type: none"> Poor infrastructure and social services Animal feed, water, health, husbandry problems Low animal productivity 	<ul style="list-style-type: none"> Providing mobile social service Water and rangeland management Improved animal breeding Introduction of forage development
Social institutions	Rural households	<ul style="list-style-type: none"> Weak link with formal institutions Legal status 	<ul style="list-style-type: none"> Harmonizing informal and formal institutions Strengthening informal institutions

Key file 2: Organizations matrix (strengths, weaknesses, opportunities and threats [SWOT] analysis)

Institution	Strengths	Weaknesses	Opportunities/Threats
Ministry of Finance and Economic Development (MoFED)	<ul style="list-style-type: none"> • Knowledge and experience of IFAD procedures as the representative of the borrower • Experience with decentralized flow of funds • Good mechanism for monitoring and budget implementation 	<ul style="list-style-type: none"> • Inadequate financial management capacity at local levels • Highly centralized systems and procedures • Weak financial base 	<ul style="list-style-type: none"> • Decentralization will require human resource development, staff training and improvement of the MIS • Disagreement with donors on key fiscal and monetary policies can cause major dislocation of financial base
Ministry of Agriculture and Rural Development (MoARD)	<ul style="list-style-type: none"> • Some technical expertise and experience in many relevant technical areas • Experience with and support for decentralization • Experience with and knowledge of IFAD • Presence of organizational structure down to the grass-root level • Strategy for gender mainstreaming • Mandate for gender mainstreaming • Willing to support gender mainstreaming in all development programmes 	<ul style="list-style-type: none"> • Limited institutional capacity, particularly at local levels • High turnover of staff and frequent organizational restructuring • Weak linkages between research, extension and farmers • Poor logistics support for field operations • Lacks qualified sufficient staff to provide leadership in some key technical areas such as SLM, irrigation, gender mainstreaming, etc especially at the provincial and district levels • Limited management capacity at federal level 	<ul style="list-style-type: none"> • Deconcentration will provide scope for more effective entity if new ideas, modes of working and relationship with the provinces accepted • Decentralization will require human resource development, staff training and improvement in service delivery • Role in developing methodology for participatory rural development that involves the communities • National focus on Agriculture Led Industrialization (ADLI) policy • Gender issues receive prominence in PASDEP
Ministry of Federal Affairs (MoFA)	<ul style="list-style-type: none"> • Presence of organizational structure down to the regional level • Mandate to provide leadership in pastoral community development • Experience in coordination of the implementation of pastoral community development programme • Strategy for pastoral areas development • Committed to support community demand driven development approach 	<ul style="list-style-type: none"> • Lack of experience in implementation of variety of pastoral development projects • Project and incentive dependent • Limited institutional capacity at regional and local levels • Limited logistics support for field operations particularly at the regional and local levels • Lack strong incentive system that can help to attract and retain experienced and qualified staff 	<ul style="list-style-type: none"> • Implementation of pastoral community programmes will require human resource development, staff training and improvement in service delivery • Project and donor dependent • Frequent restructuring
Environmental Protection Authority (EPA)	<ul style="list-style-type: none"> • Experience in policy and strategy formulation • Linkages with environmental policy 	<ul style="list-style-type: none"> • Ineffective enforcement of existing environmental policies and legislations • Inadequate staff capacity and limited 	<ul style="list-style-type: none"> • Interest of international donor community to support environmental interventions, hence to strengthen

Institution	Strengths	Weaknesses	Opportunities/Threats
	<ul style="list-style-type: none"> processes at international level Experience and knowledge of GEF as GEF Focal point 	<ul style="list-style-type: none"> number of staff High turnover of staff 	<ul style="list-style-type: none"> EPA Weak linkage with regional environmental institutions Conflict between long-term environmental benefits and short-term economic needs of producers
Institute of Biodiversity Conservation (IBC)	<ul style="list-style-type: none"> Experience in policy and strategy formulation Experience in biological resource assessment Strong technical capacity 	<ul style="list-style-type: none"> Lack of organizational structure at regional and local levels Weak linkage with UNCBD bodies Weak link with sectoral institutions 	<ul style="list-style-type: none"> Interest of international donor community to support biodiversity conservation interventions Conflict between long-term biodiversity conservation and short-term economic needs of producers
Regional Government Bureaux	<ul style="list-style-type: none"> Local presence and knowledge Regional governments have a high level of autonomy 	<ul style="list-style-type: none"> Lack of equipment, transport, staff (sometimes) and budget, particularly allowances for field visits Limited management capacity 	<ul style="list-style-type: none"> Major role in support of the policies of decentralization BoARD responsibilities vary by region
Ethiopian Institute of Agricultural Research	<ul style="list-style-type: none"> Local knowledge and familiarity with critical issues and experience 	<ul style="list-style-type: none"> Lack of manpower and resources for continuing its activities and programmes 	<ul style="list-style-type: none"> Can be linked with all ongoing programmes supported by the donors
Development Bank of Ethiopia	<ul style="list-style-type: none"> Experience and knowledge of rural finance programme implementation Experience and knowledge of IFAD's rural finance policy 	<ul style="list-style-type: none"> High turnover of staff and frequent organizational restructuring Limited management capacity 	<ul style="list-style-type: none"> Frequent restructuring Limited autonomy and centralized management approach
National Bank of Ethiopia (NBE)	<ul style="list-style-type: none"> Mandate in developing rural finance policy Some experience in microfinance institutions supervision Established a dedicated unit for microfinance institutions supervision 	<ul style="list-style-type: none"> High turnover of staff Limited institutional capacity Lack strong incentive system that can help to attract and retain experienced and qualified staff 	<ul style="list-style-type: none"> Limited autonomy and centralized management Strong support from government
Association of Ethiopian Microfinance Institutions (AEMFI)	<ul style="list-style-type: none"> Credibility with regional and local MFIs Established strong national network of MFIs Dedicated to improve knowledge sharing and capacity building in the microfinance sector Knowledge and experience with rural finance Proactively involved in the implementation of IFAD supported RUFIP Knowledge and experience of IFAD rural finance policy 	<ul style="list-style-type: none"> Limited institutional capacity Lack branch network at regional and local levels Limited financial capacity Project and donor dependent 	<ul style="list-style-type: none"> Credibility with both federal and regional government as committed partner Potentially strong and reliable partner for possible future programmes in the field of rural microfinance

Institution	Strengths	Weaknesses	Opportunities/Threats
Federal Cooperative Promotion Agency (FCPA)	<ul style="list-style-type: none"> • Mandate in promoting RUSACCOS • Some experience in implementation of RUFIP • Experience with and support for decentralization • Experience with and knowledge of IFAD • Presence of organizational structure down to the grass-root level 	<ul style="list-style-type: none"> • Limited institutional capacity particularly at regional and local levels • Lack strong incentive system that can help to attract and retain experienced and qualified staff 	<ul style="list-style-type: none"> • Major role in the design and implementation of agricultural cooperative development policies • Strong government support
Microfinance Institutions	<ul style="list-style-type: none"> • Credibility with local communities and government • Experience with provision of microfinance services to large number of rural households • Developed wide branch networks and increased outreach in short time • Committed to provide financial services to poor rural households • Experience and knowledge of IFAD rural finance policies • Proactively participated in the implementation of IFAD supported RUFIP 	<ul style="list-style-type: none"> • Offering financial services to large number of rural households who do not have any other viable source of finance will require substantial investment in human resource development, staff training and improvement in service delivery • Limited institutional capacity and outreach • Limited source of finance • Lack efficient and automated MIS system 	<ul style="list-style-type: none"> • Wide opportunities for expansion of financial services to the rural areas • Opportunities for knowledge sharing and increased partnership
RUSSACCOS	<ul style="list-style-type: none"> • Ownership by beneficiaries • Experience and knowledge of establishing member based microfinance 	<ul style="list-style-type: none"> • Limited management capacity • Limited savings capacity • Lack skill and experience in preparation of business development plans • Lack manpower and resources to successfully carry out their responsibilities 	<ul style="list-style-type: none"> • Possibility of increased partnership
Local NGOs	<ul style="list-style-type: none"> • Established national and local presence and knowledge • Credibility with local communities • Experienced in capacity building • Empowerment and advocacy 	<ul style="list-style-type: none"> • Financially weak and donor dependent • Technically weak in agriculture, irrigation, SLM, etc. • Participation subject to clearance by federal/regional governments 	<ul style="list-style-type: none"> • Possibility of partnership in project interventions • Grant – funded and subsidized operations may create dependency

Key file 3: Complementary donor initiative/partnership potential

Donor/Agency	Nature of Project/Programme	Project/Programme Coverage	Status	Complementarity/Synergy Potential
IDA and other donors	Productive Safety Nets Programme II	National	Under implementation	Very strong, linkage to catchments protection and watershed development
MoARD	National SLM platform	National	Operational	Alignment, harmonization and knowledge management
IDA/World Bank	Anger, Megech, Ribb, Negeso, Angereb Irrigation Schemes Rural Capacity Building Project Ethiopian Rural Travel and Transport Project	Regional National In selected <i>woredas</i>	Design and feasibility studies Under implementation Likely to be expanded to cover more <i>woredas</i>	Moderate Strong, DA training Moderate
AfDB	Koga Irrigation and Shared Water Management Project Awash Flood Control and Genale-Dawa Basin Agriculture Support Services Project	Regional Regional National	Under implementation Design and feasibility studies Ongoing	Moderate Moderate Strong, particularly in M&E
GEF/UNDP	SLM Country Programme Support Project	National	Design	Alignment, harmonization and knowledge management
WFP	Purchase for Progress (P4P)	National	Ongoing	Linkage with small producer and traders under AMIP
USAID	Ethiopia Land Tenure and Administration Programme (ELTAP)	National	Ongoing	Alignment, harmonization and knowledge management in land administration
SIDA	SIDA Amhara Rural Development Project	Regional	Ongoing	Alignment, harmonization and knowledge management
GEF/WB	Ethiopia Country Programme for SLM	National	Design	Alignment, harmonization and knowledge management
MoWR/WB	Eastern Nile Watershed Management Project	Ethiopia, Sudan, Egypt	Design	Complementary in watershed development
UNDP	Local Capacity Building	National	Ongoing	Moderate
AFD	Small-scale Irrigation Development	Regional	Ongoing	Moderate

Key file 4: Target group identification, priority issues and potential response

Typology	Poverty Level and Causes	Coping Actions	Priority Needs	Support from Other Initiatives	COSOP Response
Poor farmers/pastoralists	<ul style="list-style-type: none"> • Few assets /destitute • No land or little • Limited access to credit • Few economically active household members • Vulnerable to natural disaster • Low literacy level 	<ul style="list-style-type: none"> • Mobility • Migration to rural areas to search temporary employment • Sells possessions • Depending on transfer/Public or private 	<ul style="list-style-type: none"> • Employment opportunities • Income generating schemes/Non/off farm activities • Skill Training • Asset protection schemes • Credit access 	<ul style="list-style-type: none"> • Regional government and NGO intervention like PSNP/cash /FFW Programmes 	<ul style="list-style-type: none"> • Strengthen MFIs • Introduce labour intensive agricultural production technologies • Promote small scale irrigation development • Strength existing customary EWS • Enhance mobile social services
Youth	<ul style="list-style-type: none"> • Landlessness • Unemployment 	<ul style="list-style-type: none"> • Dependence on /family income 	<ul style="list-style-type: none"> • Employment creation/Non farm • Skill training • Credit facilities 	<ul style="list-style-type: none"> • Regional government and NGO intervention like C/FFW Programmes 	<ul style="list-style-type: none"> • Organizing Youth groups • Provide credit facilities • Land tenure and administration
Women headed households	<ul style="list-style-type: none"> • Few assets • No land or little • Limited access to credit • Few economically active household members • Vulnerable to natural disaster • Low literacy level 	<ul style="list-style-type: none"> • Sells possessions • Depending on transfer/Public or private 	<ul style="list-style-type: none"> • Employment opportunities • Income generating schemes/Non/off farm activities • Skill Training • Asset protection schemes • Credit access 	<ul style="list-style-type: none"> • Regional government and NGO intervention like PSNP /FFW Programmes 	<ul style="list-style-type: none"> • Organize women group • Provide credit facilities • Facilitate income generation activities Especially for women • Provision of mobile social services /health education...