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IFAD

Enabling poor rural people to overcome poverty

President's report

Proposed loan and grant to the Federal Democratic Republic of Ethiopia for the

Rural Financial Intermediation Programme II

Note to Executive Board representatives

Focal points:

Technical questions:

Robson Mutandi
Country Programme Manager
Tel.: +251 91 1523950
e-mail: r.mutandi@ifad.org

John Gicharu
Country Programme Manager
Tel.: +39 338 681 9721
e-mail: j.gicharu@ifad.org

Dispatch of documentation:

Deirdre McGrenra
Governing Bodies Officer
Tel.: +39 06 5459 2374
e-mail: gb_office@ifad.org

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For: **Approval**

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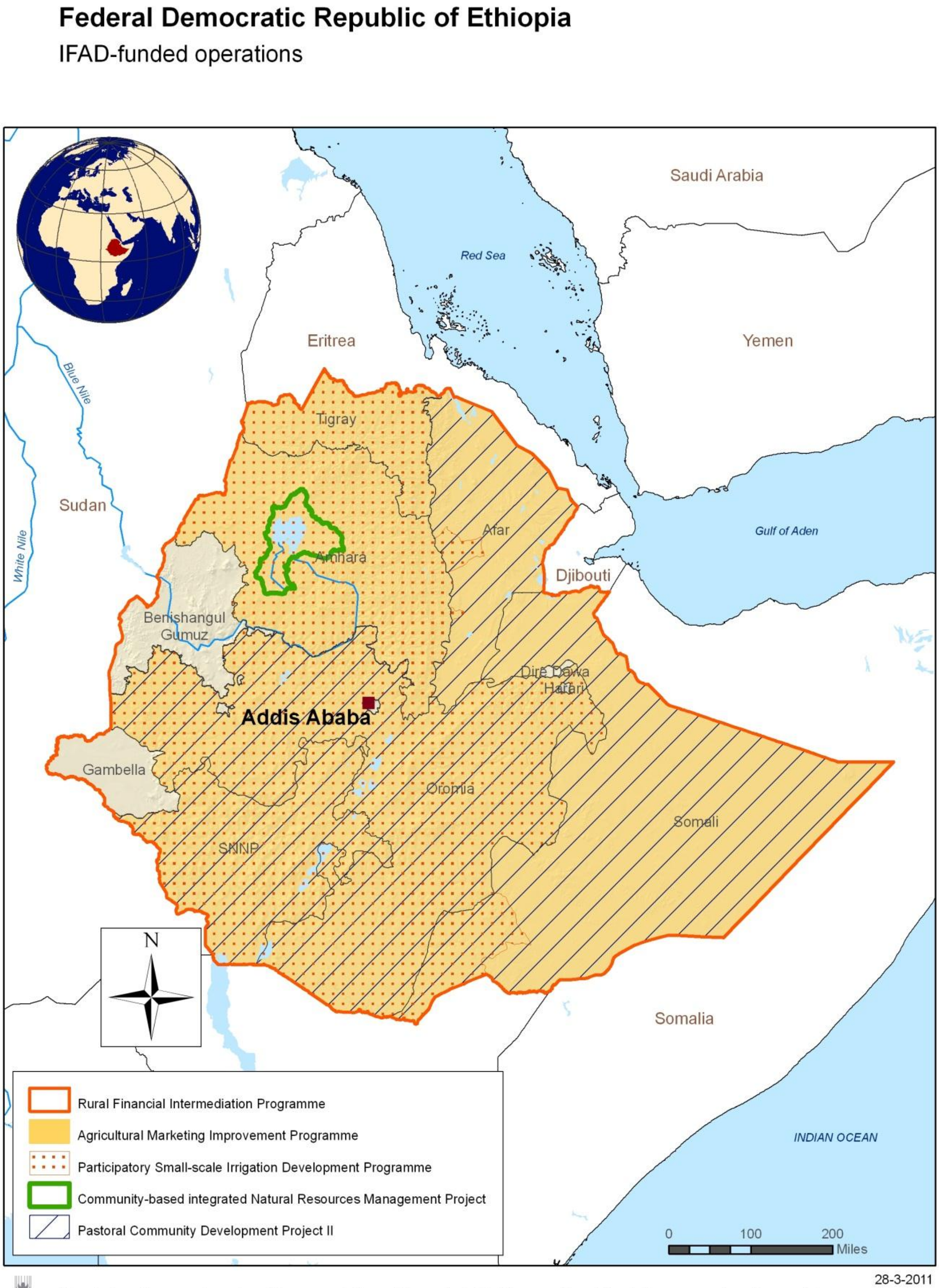
Abbreviations and acronyms

AEMFI	Association of Ethiopian Microfinance Institutions
DBE	Development Bank of Ethiopia
FCA	Federal Cooperative Agency
GTP	Growth Transformation Plan
MFI	microfinance institution
NBE	National Bank of Ethiopia
PRSP	poverty reduction strategy paper
RB-COSOP	results-based strategic opportunities programme
RUSACCO	rural savings and credit cooperative

Map of the programme area



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*

Federal Democratic Republic of Ethiopia

Rural Financial Intermediation Programme II

Financing summary

Initiating institution:	IFAD
Borrower:	Federal Democratic Republic of Ethiopia
Executing agency:	Ministry of Finance and Economic Development
Total programme cost:	US$248.0 million
Amount of IFAD loan:	SDR 31.3 million (equivalent to approximately US$50 million)
Amount of IFAD grant:	SDR 31.3 million (equivalent to approximately US$50 million)
Terms of IFAD loan:	40 years, including a grace period of 10 years, with a service charge of three fourths of one per cent (0.75 per cent) per annum
Cofinanciers:	Commercial banks; Development Bank of Ethiopia; Rural Financial Intermediation Programme (RUFIP) reflows; Microfinance institutions
Amount of cofinancing:	Commercial banks: US$77.5 million Development Bank of Ethiopia: US$33.6 million RUFIP: US$30.0 million Microfinance institutions: US$1.0 million
Contribution of borrower:	US$5.9 million
Appraising institution:	IFAD
Cooperating institution:	Directly supervised by IFAD

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed loan and grant financing to the Federal Democratic Republic of Ethiopia for the Rural Financial Intermediation Programme II, as contained in paragraph 37.

Proposed loan and grant to the Federal Democratic Republic of Ethiopia for the Rural Financial Intermediation Programme II

I. The programme

A. Main development opportunity addressed by the programme

1. Ethiopia's third-generation poverty reduction strategy paper (PRSP), the Growth and Transformation Plan (GTP), lays strong emphasis on: (i) sustaining agricultural growth underpinned by savings mobilization to increase domestic resources for investment; (ii) building an all-inclusive implementation capacity; (iii) unleashing the potential of Ethiopian women; and (iv) creating employment opportunities. Microfinance institutions (MFIs) and rural savings and credit cooperatives (RUSACCOs) are the only major sources of agricultural finance for smallholder farmers. MFIs and RUSACCOs also provide access to savings, thus tapping into the savings potential of rural households. The Rural Financial Intermediation Programme (RUFIP II) is thus fully aligned with the current five-year development plan of the Government and with the results-based strategic opportunities programme (RB-COSOP) (December 2008). It presents the rural finance industry with a useful catalyst to mobilize approximately Ethiopian Birr (ETB) 18.5 billion (US$1.1 billion equivalent) over the next seven years of programme implementation.

B. Proposed financing

Terms and conditions

2. It is proposed that IFAD provide a loan and a grant to the Federal Democratic Republic of Ethiopia, each amounting to SDR 31.3 million (together equivalent to approximately US$100 million), to help finance RUFIP II. The loan will be on highly concessional terms. The loan will have a term of 40 years, including a grace period of 10 years with a service charge of three fourths of one per cent (0.75 per cent) per annum.

Relationship to the IFAD performance-based allocation system (PBAS)

3. The allocation defined for the Federal Democratic Republic of Ethiopia under the PBAS is US$121,382,422 over the three-year allocation cycle. RUFIP II is part of the 2010-2012 pipeline, as outlined in the current COSOP.

Relationship to national medium-term expenditure framework criteria

4. The Government of Ethiopia's GTP for the period 2010-2015 builds on Ethiopia's second generation PRSP, the Plan for Accelerated and Sustained Development to End Poverty, which was successfully completed in the financial year 2009/10. The plan aims for Ethiopia to continue its strong economic growth of about 11 per cent per year, which has been achieved over the past seven years. The pillars of the GTP include: economic growth with equity; agriculture and rural areas to be a major source of this growth; and the promotion of women and empowerment of young people. The proposed RUFIP II will contribute directly to achieving these goals.

Relationship to national sector-wide approaches or other joint funding instruments

5. Ethiopia does not have a sector-wide approach mechanism for the rural finance sector. However, RUFIP II will provide the financial services to complement the

Agricultural Growth Programme. Synergy and mutual support will be developed between RUFIP II and the MFI activities conducted by bilateral donors and NGOs such as Kreditanstalt für Wiederaufbau (KfW), SNV Netherlands Development Organisation, Terrafina Microfinance and United States Agency for International Development. RUFIP II will work with the United Nations Development Programme, International Labour Organization and United Nations Capital Development Fund. The programme will also be conducted in close coordination with the Agricultural Transformation Agency funded by the Bill & Melinda Gates Foundation and the Financial Inclusion Programme conducted by the Ministry of Finance and Economic Development.

Country debt burden and absorptive capacity of the State

6. Ethiopia is one of the beneficiaries of debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative, which has brought down its ratio of external debt to gross domestic product (GDP) to single digits. The risk of external debt distress is expected to be low for the period up to 2030. Under the Debt Sustainability Framework, Ethiopia is considered a "yellow" country for 2011, making it eligible for 50 per cent grant financing.

Flow of funds

7. Proceeds of the IFAD loan will be disbursed over a period of seven years from the financial year 2011/12.

Supervision arrangements

8. The programme will be directly supervised by IFAD.

Exceptions to IFAD General Conditions for Agricultural Development Financing and operational policies

9. No exceptions are foreseen.

Governance

10. The following planned measures are intended to enhance the governance aspects of the IFAD financing: (i) all implementing agencies are subject to statutory external financial audit; (ii) the Development Bank of Ethiopia (DBE) and MFIs are also subject to the regulation and supervision of the National Bank of Ethiopia (NBE); and (iii) RUSACCOs and unions are under the regulatory and supervisory oversight of the Federal Cooperative Agency (FCA). A governance framework will be implemented to ensure transparency and accountability at the consumer level that is underpinned by improved standards of social performance management.

C. Target group and participation

Target group

11. In line with IFAD's Policy on Targeting, the target group mainly consists of rural households living on less than a dollar a day per capita. According to the baseline for Ethiopia's third-generation PRSP, 29 per cent of the population live below the national poverty line, with marked differences between rural and urban areas. Per capita income in rural areas is on average about 40 per cent lower than urban areas. The average GDP per capita at market prices in rural areas is currently around US$1 per day. Practically all rural households in Ethiopia live below the internationally recognized threshold of US$2 per day per capita.

Targeting approach

12. With a Gini coefficient of 0.26, income disparities among rural households are quite low and the vast majority of rural households can be considered poor in absolute terms. The overall design for both geographic and household targeting is driven by the need to develop rural financial institutions that are operationally sustainable and systems with a focused mission to increase access to poor households. Therefore, the programme is not confined to any geographic location. However, the programme has built-in features for the expansion of financial services to deficit regions,

particularly in the pastoral and agropastoral lowlands of the country, in line with recommendations of the country programme evaluation (2008) and the interim evaluation.

Participation

13. On average women-headed households, which account for about 23 per cent of all rural households, tend to be poorer than households headed by men, with women-headed households comprising 46 per cent of the lowest quintile. RUSACCOs are located only in rural areas and their membership profile mostly comprises poor households, which is evident from the average size of monthly compulsory saving products, average loan size, etc. The programme will require RUSACCOs to strive for a minimum of 50 per cent of their membership composed of women.

D. Development objectives

Key programme objectives

14. The overall development objective of the programme is to provide access to a range of financial services for an estimated 6.9 million rural households by 30 June 2019; this constitutes an increase of over 100 per cent from a baseline of about 3.3 million households as at 30 June 2012. This is achievable through support to a nationwide network of strong, vibrant and sustainable rural financial institutions geared towards engagement with the poor.

Policy and institutional objectives

15. The key policy and institutional objectives include: human resource capacity and IT support enhanced; ownership and governance improved; micro-insurance policy framework developed; targeting and client literacy improved; social performance standards improved; self-regulatory capacity improved; grievance redressing mechanisms implemented; effective linkages with commercial banks established; resource raising mechanisms established; micro-insurance policy and associated regulatory and supervisory framework implemented; and sustainable, dynamic and vibrant rural financial institutions capable of expanding outreach in depth and breadth in place.

IFAD policy and strategy alignment

16. The provision of a wide range of financial services is one of the objectives of both the RB-COSOP and the IFAD Strategic Framework (2011-2015). RUFIP II builds on recommendations of the country programme evaluation and interim evaluation to scale up pro-poor initiatives in which IFAD has successfully established a lead position in Ethiopia. Programme design is also clearly consistent with the IFAD Rural Finance Policy.

E. Harmonization and alignment

Alignment with national priorities

17. The current five-year GTP lays strong emphasis on: (i) sustaining the growth of agriculture and allied activities, including savings mobilization, to increase domestic resources for investment; (ii) building an all-inclusive implementation capacity; (iii) unleashing the potential of Ethiopian women. The plan emphasizes the need to scale up efforts to achieve the Millennium Development Goals. RUFIP II is fully aligned with this plan and will enhance savings mobilizations that are projected to grow by ETB 18 billion over the next seven years of programme implementation.

Harmonization with development partners

18. IFAD is signatory to the United Nations Development Assistance Framework. IFAD is a member of the donor harmonization and coordination group and of the United Nations country team and participates actively in all these forums. The Government of Ethiopia is collaborating with development partners in the rural finance sector to expand the outreach of financial services to the rural sector. RUFIP II is considered an important pillar in sustaining these efforts.

F. Components and expenditure categories

Main components

19. RUFIP II has four components: (i) institutional development in the microfinance and cooperative subsectors including knowledge management; (ii) improved regulation and supervision of MFIs; (iii) credit funds for MFIs and RUSACCOs; and (iv) programme coordination and management.

Expenditure categories

20. There are five expenditure categories under this programme: (i) goods, vehicles and equipment; (ii) local support services; (iii) technical assistance and studies; (iv) incremental credit; and (v) operating costs.

G. Management, implementation responsibilities and partnerships

Key implementing partners

21. The key implementing partners will be DBE, NBE, Association of Ethiopian Microfinance Institutions (AEMFI), MFIs, FCA, regional cooperative promotion bureaux (RCPBs), RUSACCOs and their unions.

Implementation responsibilities

22. The regulation and supervision of MFIs rests with NBE, the central bank of the country. NBE is also responsible for steering policy for microfinance and rural finance. The promotion, regulation and supervision of RUSACCOs is assigned to cooperative promotion bureaux at the federal and regional levels. The lead programme agency will be DBE. DBE is fully responsible for the disbursement and management of the "credit" component, which is the dominant component of the programme.

Role of technical assistance

23. Technical assistance will be available for the institutional development of MFIs and RUSACCOs and their improved regulation and supervision.

Status of key implementation agreements

24. The Government has undertaken to implement the programme as designed through AEMFI, DBE, FCA, MFIs, NBE, RCPBs, and RUSACCOs and their unions.

Key financing partners and amounts committed

25. The total programme cost is US$248 million over seven years. IFAD will provide 40 per cent of the total programme cost. The rest will come from the Government, commercial banks, DBE and MFIs.

H. Benefits and economic and financial justification

Main categories of benefits generated

26. The programme aims to support the continued growth of the rural financial sector. The outreach of the sector would be expanded: (i) through MFIs by about 3.2 million households; and (ii) through RUSACCOs and their unions by about 0.4 million households. The programme will increase the penetration of rural finance through savings and loans to close to 50 per cent of all rural households by 2019.

Economic and financial viability

27. A thorough financial and economic analysis of the programme was carried out. Overall returns on investments have been estimated and a sensitivity analysis carried out. Financial analysis of the programme support to MFIs indicates an overall return of 52 per cent and to the cooperatives sector 35 per cent. The sensitivity analysis indicates that the viability of the programme's investment is robust.

I. Knowledge management, innovation and scaling up

Knowledge management arrangements

28. A sustained and structured knowledge generation and management system is integrated into programme design and implementation. In the MFI sector, some of the outputs that will contribute to the learning curve include: (i) AEMFI's annual publication of MFI performance reviews; (ii) biannual comprehensive MFI sector review; and (iii) occasional research papers on topics of current relevance. Furthermore, the knowledge is also disseminated through the AEMFI website and the MIX market, to which MFIs report data.

Development innovations that the programme will promote

29. The important innovative features of the programme include on-lending terms designed in such a way that repayment of the IFAD loan by DBE to the Government of Ethiopia is a back–to-back arrangement that coincides with the IFAD loan maturity terms. The programme's revolving fund is thus available to the target group over a period of 40 years that matches the IFAD loan period.

Scaling-up approach

30. The primary focus of RUFIP II is the consolidation and scaling up of the successful interventions rolled out under the first phase of the programme (RUFIP).

J. Main risks

Main risks and mitigation measures

31. MFIs have satisfactorily managed their operational and financial risks over the last decade. Overall, portfolio at risk had constituted less than 3 per cent of their net portfolio as of 2009. RUSACCOs are member-based institutions with local operations and direct oversight over risks by the management committee members in particular and members in general.

Environmental classification

32. Pursuant to IFAD's environmental assessment procedures, the programme has been classified as a Category B operation in that it is not likely to have any significant negative environmental impact.

K. Sustainability

33. The systems and technology upgrading, business process improvements and a dynamic and proactive regulatory framework will contribute to the orderly growth and long-term stability of the MFI sector. In short, the rural financial system supported by the programme will be a perpetual system that will continue to provide access to rural poor households and is expected to achieve the goal of 100 per cent financial inclusion over the next two decades or so.

II. Legal instruments and authority

34. A programme financing agreement between the Federal Democratic Republic of Ethiopia and IFAD will constitute the legal instrument for extending the proposed financing to the borrower/recipient. A copy of the negotiated financing agreement is attached as an annex.

35. The Federal Democratic Republic of Ethiopia is empowered under its laws to receive financing from IFAD.

36. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Lending Policies and Criteria.

III. Recommendation

37. I recommend that the Executive Board approve the proposed financing in terms of the following resolution:

RESOLVED: that the Fund shall make a loan on highly concessional terms to the Federal Democratic Republic of Ethiopia in an amount equivalent to thirty-one million three hundred thousand special drawing rights (SDR 31,300,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

RESOLVED FURTHER: that the Fund shall provide a grant to the Federal Democratic Republic of Ethiopia in an amount equivalent to thirty-one million three hundred thousand special drawing rights (SDR 31,300,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze
President

Negotiated financing agreement: "Rural Financial Intermediation Programme II (RUFIP II)"

(Negotiations concluded on 24 August 2011)

Loan Number: _______________

Grant Number: _____________

Programme Title: Rural Financial Intermediation Programme II (the "the Programme")

the Federal Democratic Republic of Ethiopia (the "Borrower/Recipient")

and

the International Fund for Agricultural Development (the "Fund" or "IFAD")

(each a "Party" and both of them collectively the "Parties")

hereby agree as follows:

Section A

1. The following documents collectively form this Agreement: this document, the Programme Description and Implementation Arrangements (Schedule 1) and the Allocation Table (Schedule 2).

2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, as may be amended from time to time (the "General Conditions") are annexed to this Agreement, and all provisions thereof shall apply to this Agreement. For the purposes of this Agreement the terms defined in the General Conditions shall have the meanings set forth therein.

3. The Fund shall provide a Loan and a Grant to the Borrower/Recipient (the "Financing"), which the Borrower/Recipient shall use to implement the Programme in accordance with the terms and conditions of this Agreement.

Section B

1. A. The amount of the Loan is SDR 31 300 000.
   B. The amount of the Grant is SDR 31 300 000.

2. The Loan is granted on highly concessional terms.

3. The Loan Service Payment Currency shall be the US dollar.

4. The first day of the applicable Fiscal Year shall be 8 July.

5. Payments of principal and service charge shall be payable on each 1 March and 1 September.

6. The Borrower/Recipient shall provide counterpart financing for the Programme in the equivalent of USD 5.9 million.

Section C

1. The Lead Programme Agency shall be the Development Bank of Ethiopia (DBE).

2. The following are designated as additional Programme Parties: the National Bank of Ethiopia (NBE), the Federal Cooperative Agency (FCA), Regional Cooperative Promotion Bureau (RCPB), the Association of Ethiopian MFIs (AEMFI), participating MFIs, and participating Rural Saving and Credit Cooperatives (RUSACCOs) and their Unions.

3. The Programme Completion Date shall be the seventh anniversary of the date of entry into force of this Agreement.

Section D

The Financing shall be administered and the Programme supervised by IFAD.

Section E

1. This Agreement is subject to ratification by the Borrower/Recipient.

3. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Fund:

President
International Fund for Agricultural Development
Via Paolo di Dono 44
00142 Rome, Italy

For the Borrower/Recipient:

Minister of Finance and
Economic Development
P.O. Box 1905
Addis Ababa, Ethiopia

This Agreement, dated _________, has been prepared in the English language in six (6) original copies, three (3) for the Fund and three (3) for the Borrower/Recipient.

____
For the Fund

____
For the Borrower/Recipient

Schedule 1

Programme Description and Implementation Arrangements

I. Programme Description

1. *Target Population*. The Programme shall benefit at least 6.9 million rural households in the rural areas of Ethiopia targeting smallholder farmers, pastoralists, agro-pastoralists, artisanal fishermen, women, landless labourers and the youth in the rural areas of Ethiopia and synergies will be sought with IFAD's ongoing projects throughout the country. In that respect, the overall design for both geographic and household targeting is driven by the need to develop operationally sustainable rural financial institutions and systems with a focussed mission to increase access to poor households. Therefore, the Programme shall not be confined to any geographic location.

2. *Goal*. The goal of the Programme shall be to contribute to the reduction of poverty in rural Ethiopia.

3. *Objective*. The objective of the Programme shall be to provide access to a range of financial services for an estimated 6.9 million rural households in Ethiopia building on the accomplishments of the Rural Financial Intermediation Programme I (RUFIP I). The Programme shall achieve this through a nationwide network of Microfinance Institutions (MFIs) and 5 500 RUSACCOs and RUSACCO Unions. The Programme shall also support these Rural Financial Institutions to bridge their liquidity gap through a credit fund, and improve the policy environment including regulatory and supervisory architecture.

4. *Components*. The Programme shall consist of the following four components: (i) institutional development in the microfinance and cooperative sub sectors including knowledge management; (ii) improved regulation and supervision of MFIs; (iii) credit funds for MFIs and RUSACCOs; and (iv) Programme coordination and management.

4.1 *Component 1 Institutional Development of MFIs and Cooperative Subsector*. This component shall support: (a) Management Information System (MIS) improvement through technology up-grading; (b) human resource development through a range of appropriately structured training programmes covering management and operating staff across the sector; (c) improved mobility for outreach; and (d) research and knowledge management comprising studies on micro finance products, liability (financial instruments to raise resources) product study, financial literacy for clients and support to AEMFI, a key resource institution for the sector.

4.2 *Component 2 – Improved Regulation and Supervision of MFIs and RUSACCOs*. This component shall support (a) the development of technology based off-site supervision project; (b) reviewing and updating supervision manuals; (c) improving MFI statutory audit framework; (d) the design of financial literacy programme for MFI clients; (e) policy seminars; and (f) skill and knowledge development of staff of the MFI department of NBE through a series of well-designed and structured training inputs. The Programme will also finance technical assistance to the National Bank of Ethiopia for development of a policy framework covering: (a) establishment of a microfinance apex institution; (b) micro insurance including regulatory framework; (c) integration of MFIs into national payment and settlement system; (d) approach to branchless banking by MFIs; (e) need for and feasibility of access of MFIs to credit information centre; and (f) governance code of MFIs.

4.3 *Component 3 – Credit Funds for MFIs and RUSACCOs*. The credit funds will support the growth of the savings and loan portfolios of the MFIs and RUSACCOs.

II. Implementation Arrangements

38. The Programme shall be coordinated through the DBE. The DBE shall re-establish the Programme Management Committee (PMC) created for the RUFIP I with representation for all stakeholders and with enlarged terms of reference. In addition, the PMC shall establish a sub-committee comprised of the President of DBE; the Executive Director of AEMFI; the Director of Micro-finance Institutions Department of NBE, the RUFIP II Programme Director and the National Programme Coordinator in the FCA to deal with routine operational matters as and when necessary. The membership of the sub-committee may be changed from time to time by agreement of the Borrower/Recipient and the Fund.

39. The Programme Coordination and Management Unit (PCMU) of RUFIP I shall be reconstituted with well qualified and experienced staff as may be satisfactory to IFAD. Remuneration levels for PCMU staff shall be competitive with market rates. The Programme Director shall directly report to the President of DBE and shall be delegated financial and operational powers sufficient to provide operational autonomy for the PCMU, as well as logistic support as may be necessary. The PCMU shall more or less function like a special purpose vehicle under the overall direction of the PMC and the President of DBE.

3. Under the Programme, the policy direction of the National Rural and Micro-Finance Policy Steering Committee (NRMFPC) shall assume a greater dimension, and emerging new policy initiatives shall be addressed, such as: a policy decision on the establishment of national micro-finance apex institution, micro-insurance policy and regulatory framework for the micro-insurance sector, integration of MFIs into the National Payment system, product development for market access improvement of MFIs, improved regulation and supervision of the MFI sector, etc. The NRMFPC shall also provide an interface to IFAD for policy dialogue and consultative process. The NRMFPC shall be a key pillar of the management structure of the Programme, setting the tone for the overall development and direction of the micro-finance sector. The NRMFPC shall be reconstituted by the National Bank of Ethiopia, with expanded representation and terms of reference acceptable to IFAD. The NRMFPC shall be headed by the Vice-Governor, NBE, or such other senior official as may be agreed between the Borrower/Recipient and IFAD.

4. The FCA shall establish a Programme Coordination Implementation Committee, comprised of the head of the FCA (Chairman) and heads of RCPBs and the National Programme Coordinator, for effective management and implementation of Programme activities relating to financial co-operatives components. The main functions of the Programme Coordination Implementation Committee shall include: planning implementation strategies and promotion processes of rural financial cooperatives; processing of annual work plans and budgets for transmission to the PCMU; quarterly review of the implementation of various sub-components and performance of rural financial cooperatives; etc.

5. The FCA and RCPBs shall also establish Programme Management Units (PMUs) comprised of a coordinator, monitoring and evaluation officer and training coordinator with such support staff as may be necessary for satisfactory implementation of the Programme. The PMU staff shall be appointed with qualifications and experience satisfactory to the Fund. All staff shall be recruited through a competitive process with posts open to highly qualified candidates from the public and private sector. Remuneration levels for the staff of the PMUs shall be competitive with market rates. The PMUs shall primarily be responsible for overall implementation of the rural financial cooperative component under the direction of the PCMU and the PMC. The coordinator of the PMU established by the FCA shall work in close coordination with the Programme

Director and shall bring about necessary effective liaison between the PCMU and the various PMUs in the RCPBs.

Schedule 2

Allocation Table

1. *Allocation of Loan and Grant Proceeds.* The Table below sets forth the Categories of Eligible Expenditures to be financed by the Loan and the Grant and the allocation of the amounts of the Loan and the Grant to each Category and the percentages of expenditures for items to be financed in each Category:

Category	Loan Amount Allocated (expressed in SDR)	Grant Amount Allocated (expressed in SDR)	Percentage
I. Goods, equipment and vehicles	-	**4 020 000**	100% net of taxes
II. Local support services, including institutional grants	-	**3 070 000**	100% net of taxes
III. Technical assistance, training and studies	-	**4 960 000**	100% net of taxes
IV. Incremental credit	**28 170 000**	**16 120 000**	100% net of taxes
Unallocated	**3 130 000**	**3 130 000**	
TOTAL	**31 300 000**	**31 300 000**	

2. *Start-up Costs*. All withdrawals in respect of expenditures for start-up costs incurred before the satisfaction of the general conditions precedent to withdrawal shall be subject to prior approval by the Fund.

Key reference documents

Country reference documents

Growth and Transformation Plan 201/11-2014/15. MOFED

IFAD reference documents

Project design document (PDD) and key files
COSOP
Administrative Procedures on Environmental Assessment

Logical framework

Results Hierarchy	Indicators	Means of Verification	Assumptions/Risks
Goal			
The programme goal is to contribute to the reduction of poverty in rural Ethiopia	Reduction in chronic malnutrition amongst children under 5; Increase in ownership of assets among beneficiaries (data disaggregated by gender)	Baseline, MTR and Programme Completion surveys; CSA surveys/reports	Sustained domestic and regional political stability; Macro-economic stability
Development Objective			
Increased access to a range of financial services by rural households sustained	Increase in access to financial services from MFIs and RUSACCOs (and their unions) from a baseline of about 3.3 million in June 2012 to at least 6.9 million mainly poor rural households in Ethiopia by June 2019	MIX market; AEMFI annual report; progress reports; supervision reports, MTR, PCR; evaluation reports; impact assessments	Profitability of small holder agriculture is sustained Limited or no political interference in management of RFIs
Component 1: Institutional development in the microfinance and cooperative sector			
Outcomes 1.1: Increased number of operationally sustainable MFIs established and fully operational **Outcomes 1.2** Operationally sustainable community banking network of RUSACCOs (and their unions) established and fully operational	At least 30 operationally sustainable MFIs with 6.142 million clients in operation by 30 June 2019 27% annual growth in savings amongst MFIs. At least 5 500 operationally sustainable RUSACCOs (and their unions) in operation by 30 June 2019 with about 765,000 members (data disaggregated by gender)	AEMFI annual performance review report; progress reports; supervision reports, MTR, PCR; evaluation reports; impact assessments	Projected net profit margins are maintained Tax exemption on MFI profits maintained
Component 2: Improved regulation and supervision of MFIs and Rural Financial Cooperatives			
Outcome 2.1: Enhanced regulation and supervision capacity of NBE and FCPA in place.	▪ at least one off-and-on-site supervision for each MFI per year ▪ # of RUSACCOs and their unions audited per year against baseline ▪ # of literacy programmes implemented for MFI clients per year and positive client feedback on training programme	AEMFI annual performance review report; progress reports; supervision reports, MTR, PCR; evaluation reports; impact assessments	
Component 3: Increased/Improved rural finance outreach			
Outcome 3.1: Increased savings and loan portfolio growth for MFIs and RUSACCOs (and their unions)	▪ % increase in average annual growth rates of savings, capital, and loan portfolio against baseline (or volume of savings mobilised projected by year) ▪ % average annual increase in loan size	MIX market; AEMFI annual report; progress reports; supervision reports, MTR, PCR; evaluation reports; impact assessments	Commercial funding of MFIs is sustained