IFAD
Investing in rural people

The Federal Democratic Republic of Ethiopia

Rural Financial Intermediation Programme – Phase III (RUFIP III)

Design report

Post negotiation version

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Map of the project area

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Abbreviations and Acronyms

ACSI	Amhara Credit and Saving Institution
AEMFI	Association of Ethiopian Micro Finance Institutions
AfDB	African Development Bank
AGRA	Alliance for Green Revolution Africa
AIP	Agro-Industrial Park
AOS	Annual Outcome Survey
ATA	Agricultural Transformation Agency
AVCF	Agricultural Value Chain Financing
AWPB	Annual Work Programme and Budget
BADEA	Arab Bank for Economic Development in Africa
BCR	Benefit-Cost Ratio
CBE	Commerical Bank of Ethiopia
COSOP	Country Strategy and Opportunities Paper
DBE	Development Bank of Ethiopia
DBMS	Database Management System
DFID	Department for International Development
EFA	Economic and Financial Analysis
EFCMD	External Fund and Credit Management Directorate
EIA	Environmental Impact Assessment
EIB	European Investment Bank
EIC	Ethiopian Insurance Corporation
EIRR	Economic Internal Rate of Return
ERR	Economic Rate of Return
ESMF	Earth System Modeling Framework
ESMP	Environmental Social Management Plan
ETB	Ethiopian Birr
EU	European Union
FAIR	Fixed Asset Issue Registry
FAO	Food and Agriculture Organization of the United Nations
FAR	Fixed Assets Registry
FCA	Federal Cooperative Agency
FIRR	Financial Internal Rate of Return
FRR	Financial Rate of Return
GDP	Gross Domestic Product
GoE	Government of Ethiopia
GTP	Growth and Transformation Plan
HDI	Human Development Index
IA	Implementing Agency
ICB	International Competitive Bidding
IFAD	International Fund for Agricultural Development
IGA	Income Generating Activity
ILCUF	Irish Leauge for Credit Unions Federation
ILO	International Labour Organization
IPSAS	International Public Sector Accounting Standards
IRR	Internal Rate of Return
IT	Information Technology

KM	Knowledge Management
LLRP	Lowlands Livelihood Resilience Project
LOC	Line of Credit
M&E	Monitoring and Evaluation
MDG	Millennium Development Goal
MFI	Micro Finance Institution
MIS	Management Information System
MoFEC	Ministry of Finance and Economic Development
MS Excel	Microsoft Excel application
MTR	Mid-Term Review
NBE	National Bank of Ethiopia
NPV	Net Present Value
PAP	Pastoral and Agro-Pastoral
PaR	Portfolio at Risk
PASIDP	Participatory Small-scale Irrigation Development Project
PCDP	Pastoral Community Development Programme
PCMU	Project Coordinaiton and Management Unit
PCR	Project Completion Report
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management Assessment
PIM	Project Implementation Manual
PP	Procurement Plan
PPI	Poverty Probability Index
PPP	Purchasing Power Parity
PriME	M&E Training and Certification programme
PROSEAD	Promotion of Sustainable Ethiopian Agroindustrial Development
PSC	Project Steering Committee
PSNP	Productive Safety Nets Programme
RCPB	Regional Cooperative Promotion Bureau
RFI	Rural Financial Institution
RJOCS	The Rural Job Opportunity Creation Strategy
RUFIP	Rural Financial Intermediation Programme
RuSACCO	Rural Savings and Credit Cooperative
SDG	Sustainable Development Goal
SECAP	Social Environmental and Climate Assessment
SNNPR	Southern Nations, Nationalities, and Peoples' Region
SO	Strategic Objective
TA	Technical Assistance
TNA	Training Needs Assessment
TOC	Theory of Change
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organization
USD	United States Dollar
WA	Withdrawal Application
WFP	World Food Programme
WWB	Women’s World Banking
YS	Youth Start programme

Executive Summary

1. **Context:** Ethiopia had one of the highest poverty rates in the world in 2000[1] with 56% of the population living below US$1.25 per day Purchasing Power Parity (PPP), but by 2011, this percentage declined to a much lower level of 31%. Ethiopia successfully achieved six of the eight Millennium Development Goals (MDGs)[2], by halving the proportion of people below the poverty line and making advancements in education, reduction of hunger and malnutrition, control of chronic diseases, reducing child mortality, etc. While the pace of poverty reduction over the years is impressive, Ethiopia still has some way to go in poverty eradication.

2. The agriculture sector, which supports 80% of Ethiopia's population suffers from frequent droughts aggravated by climate change. Poverty remains higher in vulnerable, drought-prone regions. Prolonged droughts and floods due to unexpected excess rains are the most important factors for crop loss. The Pastoral and agro-pastoral (PAP) communities, living in the arid and semi-arid low-lands that account 12 to 14 percent of population lag behind in most of the social and economic indicators. Their livelihoods are highly vulnerable to multitude of shocks.

3. **Relevant national strategies, policies:** Ethiopia's main development objectives are poverty alleviation and eliminating dependence on food aid. The country's policy, strategy and development programmes are geared towards meeting these objectives. The government's second phase of its **Growth and Transformation Plan** (GTP II: sets a long-term goal for Ethiopia to become a middle-income country by 2025, with growth rates of at least 11.2% per year), as well as the **National Financial Inclusion Strategy** (five year strategy [2017 – 2022] to reach out to a vast majority of unbanked communities across the country) recognize the role of access to finance in contributing to rapid economic growth and poverty reduction.

Aspects relating to IFAD's mainstreaming priorities:

4. Multiple **Gender** inequalities compound an adverse environment for women farmers that results in productivity losses and negative effects on the household and nutrition. The gender imbalances should be dealt with make the household and national economy more productive.

5. **Youth** are largely unemployed, underemployed, underpaid and are among the working poor. Youths rarely own any productive assets that would enable them to become self-employed or provide collateral for accessing credit. Enhancing the capacity of rural youth and supporting them to access financial services is an important national priority.

6. **Nutrition**: Malnourished people more than halved to 21.4 % of population in the triennium 2015-17 from 49% in 2000-202[3]. Although child malnutrition rates have decreased, the country still has one of the highest malnutrition rates in Sub-Saharan Africa. Child nutrition should be prioritized to prepare future generation for productive employment.

7. **Social Inclusion**: The inclusion of women, youth and marginalized people in Ethiopia, particularly in resource poor areas is limited. The common problem for these categories is that of limited access to markets and resources, especially financial resources. The targeting strategy for FUFIPIII will ensure that the RFIs proactively seek out clients in these categories and bring them into financial system.

8. **Development challenges –** Ethiopia continues to work on reduction of poverty, vulnerability of livelihoods and people, limited to access to finance and relatively weak Rural Finance Institutions (RFI). Despite impressive achievements in reducing poverty, more than one in five people continue to be poor. Many poor households that have been lifted above the poverty line, slide back to poverty if faced with shocks that disturbs either the person or the livelihood. Inadequate access to financial services remains one of the major bottlenecks impeding economic growth and household incomes particularly in rural areas where there is still a significant demand-supply gap. The percentage of adults with an account rose from 22% in 2014, to 35% in 2017 leaving 65% *not included*. Only 18% of adults reported being able to raise emergency funds from savings; others would turn to family and friends or sell their assets. With more than 13 million clients to be served by 2025, the RFIs should be sound, stable and offer relevant financial services to the clients. Barring the top five MFIs, others are still classified as small or medium sized and most have not reached operational and financial stability. The 11000+ RUSACCOs are at different stages of institutional maturity. A number of them are still too small with insufficient business volumes.

IFAD’s comparative advantage

9. IFAD understands the RFIs in Ethiopia through its sustained engagement over the last 15 years. RUFIP I and II have played a pivotal role in supporting the expansion and outreach of MFIs and RUSACCOs. MFIs grew from a handful when first phase of RUFIP became operational, to 38 to date with a significant share benefitting from debt finance and technical skills development offered through the RUFIP Programmes. Likewise, the number of RUSACCOs increased from 134 during RUFIP I start-up to about 11,200 in December 2018. IFAD has a number of lessons from its continuing engagement with Ethiopia over several years. A sound financial sector focused on poor, vulnerable and underserved areas can make a difference to livelihoods and economic growth. RFIs require not just technical capacities, but also financial resources in the initial stages to lend. Regulators of financial sector should be supported to develop the RFIs as sound and sustainable institutions. RFIs should focus on targeting poor and vulnerable and social performance management apart from protecting customers.

Project objectives, geographic area of intervention and target groups

10. **The overall goal of RUFIP III is *improved livelihoods and reduced vulnerability and poverty in Ethiopia*.** The objective of the programme is *improved livelihoods and reduced vulnerability and poverty through increased incomes and better ability to manage risks at household level.* RUFIP III will be achieved through a nationwide network of 11000+ RUFIP supported RUSACCOs and their secondary structure (the Unions) and 38 MFIs. Improved access to finance will also include targeting beneficiaries of other IFAD funded projects. RUFIP will cover 13.5 million clients of which more than 75% will be poor in different strata and includes about 6.5 million new clients to be acquired during the programme period. The key outcomes planned are (i) strong rural financial institutions with sound operating performance that offer better Financial access to vulnerable people, (ii) Wider offer of services and products responsive to customer needs from RFIs that are supported to diversify and expand business and (iii) Effective Financial inclusion for marginalised people and regions. RUFIP III, will continue to be a nationwide initiative with increased focus on least developed areas. The proposed **target group** consists of rural poor (3.25 million very poor, 7 million moderately poor and 3.25 million other categories) people with financial services requirements (savings, credit and insurance) for asset build up and loans for agricultural and other rural enterprises, especially youth-led and women-led. People in least developed areas would be served in a manner designed to improve their resilience through savings, credit and insurance products. Beneficiaries of other IFAD supported investment projects – PASDIP II, PCDP III, LLRP – will be targeted as well.

Components and Theory of Change

11. The proposed Programme will be implemented over a 6-year period and consist of four components: (1) Building capacity of institutions and clients; (2) Improving regulation, supervision and institutional discipline (3) Facilitating funds flow and diversification of RFI business, and (4) Programme Management. Component 1 focuses on building the capacity of RFIs (RUSACCOs and MFIs) and more importantly their clients. The objective of this component is to strengthen the institutional capacity of RFIs to better serve the programme’s target groups. Component 2 will deal with regulatory capacities for ensuring best performance outputs from RFIs and improved client protection leading to higher client confidence in financial services and better protection from risks and losses in use of RFIs’ services. Component 3 will support the RFIs in securing resources required to meet the credit demand. Apart from the line of credit from IFAD, EU and others, domestic funds from Government of Ethiopia, Development Bank of Ethiopia, commercial banks and financial institutions is envisaged. Component 4 deals with management of the project implementation through a Programme Coordination and Management Unit (PCMU) in DBE and ensuring adequate governance by a Programme Steering Committee. The theory of change is based on the assumption that by increasing the access of rural poor faced with development challenges to a range of financial services and products better tailored to their needs, they will be able to invest in income generating activities, augment and diversify their income, insure against risks and improve their quality of life. Further, by strengthening MFIs and RuSACCOs/unions (RFIS) to deliver an expanded range of financial products and services to a larger number of clients, primarily targeted by the project’s targeting and social inclusion strategy, the rural financial sector will become more stable and inclusive.

Alignment, ownership, and partnerships

12. RUFIP III is aligned to SDGs (SDG1: Poverty; SDG2: food security in smallholder agricultural and rural development context; and SDG5: gender equality and empowerment), national policy priorities of poverty reduction through rural and financial sector interventions, gender responsiveness and beneficiary participations. RUFIP programmes have seen high level of ownership by Government and its implementation partners. Government had allowed the RFIs use LOC for a sustained period of time (12 years) in the first instance and is ready to utilize reflows of RUFIP loans for redeployment in RFIs. EIB has agreed to partner the programme with a loan of US$ 112 million. The European Union has committed the equivalent of US$19.4 million as co-financing. AGRA has committed USD 1.5 million for setting up a guarantee facility to support RFIs in their quest to borrow from banks and financial institutions. There is interest from both international organizations, domestic institutions to partner the project. RUFIP III is designed to work in harmony with other projects of other agencies and serve their clients in accessing financial services.

Costs and financing and economic analysis

13. RUFIP III will enable access to financial services to 13.55 million savers (including 11.25 million borrowers) by 2025 (from estimated 7.6 million households in 2019). MFI sector would serve 10.25 million clients, RuSACCOs (and Unions) would cover 3.3 million clients. The amount of savings and individual loans which many of the client households take, would substantially increase per household, raising the penetration of rural finance by 2025. The total outlay of the programme is estimated at USD 305.7 million over a six year period. About USD 40 million will be initially financed by IFAD. EIB has committed $112 million with part of the funds earmarked for developing leasing products for rural areas. A US$19.4 million contribution has been earmarked by the European Union. AGRA has committed US$ 1.5 million towards a guarantee fund. USD50 million will be financed by the Government of Ethiopia.[4] Participation from DBE, CBE and Ethiopian Insurance Corporation is also envisaged at US$ 60 million. Beneficiary contribution from the clients will be in the form of Savings with RFIs (which is utilized to provide loans to clients) and also share capital contributions in case of members of RUSACCOs.

14. The flow of benefits over a 18 year period returns a FIRR of 27 percent and EIRR of 28.2 percent. The financial analysis, at a discount rate of 12% returns an NPV of USD 89.5 million and a BCR of 3.8. Sensitivity analysis projects that the programme can comfortably weather 20% increase in costs, 10% drop in yield and 100% increase in provisions for defaults with FRR and ERR exceeding 20% in all cases. Switching value analysis concludes that an increase of 238% in operating costs or reduction of 74% in benefits can be absorbed.

Sustainability and risks

15. Sustained provision of appropriate financial products and services to the target clients by RFIs without dependence on external support is the final outcome that would produce the desired impacts of continuing poverty reduction and livelihood risk mitigation. The project interventions operate at three levels (Macro- NBE, FCA; Meso –RFIs, to secure this most desired outcome. A key requirement for sustainability of RFIs is the availability of domestic funds for their on-lending. The guarantee facility and continuing robust savings performance would supplement the resources of RFIs. The RFIs are not built up as project institutions, but as commercial institutions that are market savvy, which is the key for their sustainability.

16. The programme carries political, economic, regulatory, climate and fiduciary risks, most of which can be mitigated. Appropriate control systems and mitigation mechanisms have been built in to the design. The project is categorized B from Environmental and Social point of view. The climate risk is classified as moderate. The adverse effects if any are expected to be minimal and remediable.

Programme Management

17. While mostly continuing the RUFIP II management arrangements, staffing for critical aspects in targeting, social performance and partnerships is to be strengthened. Some streamlining of process for RuSACCOs' access to programme funds has been envisaged. NBE, FCA and AEMFI would play key roles in implementing components 1 and 2. Governance structures to operate a guarantee fund

and insurance agent partnerships for RFIs would be set up. Monitoring and evaluation function will be strengthened with focus on measuring results and impact. MIS would be improved, both in terms of technology and content. Annual Outcome Surveys will be introduced to provide data for measuring progress on goal, impact and outcome indicators.

Innovations

18. The four critical innovations brought in RUFIP III are: 1) institution of a guarantee facility which will help RFIs to access financial resources from banks and financial institutions for on-lending; 2) capacitation of RFIs to become agents of insurance companies and market their products to rural clients; 3) positioning of the programme as financing hub for clients of all other projects of different agencies to access financial services and 4) introducing leasing finance in rural areas through RFIs.

Implementation plan

19. As it continues from an earlier phase, the programme is implementation ready, with few prior actions to be taken. The PIM provides a detailed account of what and how of the implementation and operational details.

1. Context

A. National context and rationale for IFAD involvement

a. National Context

1. **Political and economic context**. The current Government of Ethiopia (GoE) came to power in April 2018 with a vision to liberalize the country, both politically and economically. The government is pursuing a raft of political and economic reform, persisting with efforts to transform the country from agricultural based economy into a manufacturing hub.[5] Ethiopia had one of the highest poverty rates in the world in 2000[6] with 56% of the population living below US$1.25 per day Purchasing Power Parity (PPP), but by 2011, this percentage declined to a much lower level of 31%. Ethiopia successfully achieved six of the eight Millennium Development Goals (MDGs)[7]. The proportion of people below the poverty line has been halved; the prevalence of hunger and undernourishment has been reduced; access to education has expanded; the gap in school enrollment between boys and girls has narrowed; mortality of children under-five has been reduced by two-thirds; and good progress was recorded in reducing HIV/AIDS, malaria, tuberculosis and other diseases. While this notable progress made toward eliminating extreme poverty with an impressive pace of poverty reduction over the years, Ethiopia still has some way to go to emerge from being one of the poorest countries in the world.

2. GDP growth in Ethiopia ranged between 15.3 to 45.1% in the last ten years[8] (2009 to 2018) making it one of the best performing economies in sub-Saharan Africa. In 2017/18, GDP growth slowed to 7.7% due to political uncertainty and restrictive macroeconomic policies[9]. The high and consistent economic growth over the past decade has been driven by high levels of public investment and growth in services and agriculture. Ethiopia pursued the objective of reducing poverty by assigning a strong role for the GoE in the economy to encourage growth and improve access to basic services. Agricultural Development-Led Industrialization is emphasized for economic transformation. GOE had committed 60% of its total expenditure over the last seven years to poverty-oriented sectors – such as agriculture, education, health, water, and road development – to bring about pro-poor economic growth. The government is implementing a programme of setting up agro-industrial parks (AIPs) based on geographical catchment areas for diversified crops with potential for developing in to high quality value chains. Share of agriculture to GDP has fallen from 45.88% in 2006 to 34.9% in 2017-18. Industry and service sectors have increased their contribution from 54.13% share of GDP in 2006 to 66.2% in 2018). The public spending has come out of domestic and high levels of foreign debt; IMF had observed that foreign debt levels are high and the country "*remains at high risk of debt distress, owing to its small export base"**[10]***Reducing fiscal deficit and current account deficit are priorities and private capital inflows can stabilize the macro situation. The recent opening of the economy to private sector and increasing market orientation are laudable steps.

3. **Stage in transition and vulnerability** - The agriculture sector, which supports 80% of Ethiopia's population still suffers from frequent droughts, aggravated by climate change. Poverty remains higher in vulnerable, drought-prone regions. According to a study by WFP[11], percentage of households in the poorest wealth quintile in SNNPR (35%), Somali (28%) and Afar (36%) regions are higher than national average (25%). Prolonged droughts and excess rains result in crop loss leading to food shortage in some households; and they have to rely partly on food assistance. The Pastoral and agro-pastoral (PAP) communities that are vulnerable to shocks, (account for 60 percent of land and 12 to 14 percent of population) lag behind in most social and economic indicators. The country's economic growth has not adequately trickled down to PAP communities. The Government, with support from IFAD and World Bank, is launching a project to enhance livelihoods resilience of pastoralists and agro-pastoralists through productivity and diversification of value chains.

4. **Poverty (SDG1), food security in smallholder agricultural and rural development context (SDG2), and gender equality and empowerment (SDG5):** Ethiopia's most recent poverty analysis report[12] notes the marked decline in poverty over the last two decades. The poverty headcount ratio fell from 45.5% in 1996 to 23.5% in 2016. Ethiopia's Human Development Index (HDI)[13] value for 2013 was 0.463 with a ranking of 173 out of 189 countries. However the Poverty reduction in the rural areas has not been commensurate with the macroeconomic growth achieved. There are still 21.4 million people in Ethiopia living below the poverty line (less than US 250; ETB 7184) per annum, who are unable to meet their basic consumption needs. As measured by the poverty head count index in 2015/16, rural poverty at 27% is nearly two times higher than urban poverty at 15%. Across regions Tigray, Amhara and Benishangul report higher poverty head count ratios while Harari region reported the lowest poverty ratio at 7.1%.

5. **Relevant national strategies, policies and/or programmes on smallholder agriculture, rural poverty reduction and enhanced food security:** Ethiopia's policy, strategy and development programmes are geared towards meeting the objectives poverty alleviation and improving livelihoods. The government's second phase of its **Growth and Transformation Plan** (GTP II: 2015/16 to 2019/20), as well as the **National Financial Inclusion Strategy** recognize the role of access to finance in contributing to rapid economic growth and poverty reduction. Some of the development initiatives of the Government of Ethiopia (GoE), with the support of its external multilateral partners, are highlighted below.

6. **GTP II –** is primarily built on sectoral policies, strategies and programmes, lessons drawn from the implementation of GTP I and the post-2015 sustainable development goals (SDGs). GTP II has nine strategic pillars, three of which have direct relevance for the Ethiopia-IFAD partnership: (i) Sustaining rapid, sustainable, broad–based and equitable economic growth and development; (ii) Increasing productive capacity and efficiency through improving quality, productivity and competitiveness of agriculture and manufacturing industries; and (iii) Promoting women and youth empowerment. GTP II sets a long-term goal for Ethiopia to become a middle-income country by 2025, with growth rates of at least 11.2% per year during the plan period. It highlights the promotion of financial inclusion, specifically increasing outreach and domestic savings. Greater emphasis is also placed on strengthening modern payment systems and developing regulations based on international standards.

7. **National Financial Inclusion Strategy –** With support of The World Bank, a five year strategy (2017 – 2022) has been developed with the vision of "achieving universal access to and use of range of affordable and high-quality financial products and services by 2025". The four strategies are: 1) Strengthen financial and other infrastructure, Ensure supply of a range of suitable products, services and access points 3) build a strong financial consumer protection framework, and 4) Improve financial capability of clients. RUFIP is designed to contribute the vision and be a part of all the four strategies.

b. Special aspects relating to IFAD's corporate mainstreaming priorities

8. **Gender:** Unequal gender norms limit Ethiopian women's ability to own land, control resources and income, secure equitable wages, access credit, and engage in leisure pursuits. An estimated 46 percent of all working women (aged 15-49) are engaged in agriculture. (57%in rural areas)[14]. Gender inequalities compound an adverse environment for women farmers that results in productivity losses and negative effects on the household economy. The gender inequality index ranking Ethiopia at 121 out of 189 countries[15], highlights the challenge. With its gender sensitive approach RUFIP II had about 45% women as clients which will be targeted to increase in RUFIP III.

9. **Youth**: Youth in Ethiopia (15 to 29 years old) are largely unemployed, underemployed, underpaid. Youth unemployment rate in Ethiopia is 7.59% among the youth between 15 and 24 years old[16]. Most of them are landless, without options for farm based livelihoods and without jobs. Youths rarely own productive assets that help them become self-employed or provide collateral for accessing credit. RFIS financed youth under RUFIP III though in general financial institutions consider youth (who are without skills and experience) as higher credit risk. PEACE Microfinance had 68% youth clients and ACSI had 17% youth out of its 2.9 million clients under Youth start project of UNDP. The Rural Job Opportunity Creation Strategy (RJOCS) (2017) focuses on activities at both federal and regional levels in Ethiopia to create rural jobs. Enhancing the capacity of rural youth and providing them finance are critical in attaining the goal of sustainable development.

10. **Nutrition**: Although child malnutrition rates have decreased, Ethiopia still has relatively high malnutrition rates in Sub-Saharan Africa. According to the 2011 Ethiopia Demographic Health Survey data, the percentage of chronically malnourished or stunted children dropped from 58% in 2000 to 44% in 2011 (5.1 million stunted children with 21% severely stunted). The highest rates were in the regions with high levels of food poverty. The proportion of underweight children fell from 41% in 2000 to 29% in 2011. The prevalence was highest in the Afar region (40%) followed by Amhara, Benishangul-Gumuz, Somali and Tigray. Acute malnutrition or wasting stood at 10% (1.1 million children). Malnourished people declined to 21.4% of population in the triennium 2015-17, a steep decline from 49% in 2000-2002. Nutrition should be prioritized with focus on reduction of stunting incidences among children to achieve GTP's long term goals.

11. **Social Inclusion**: Women, youth and marginalized people in Ethiopia, particularly in resource poor areas are challenged by limited access to technology, finance and markets. The targeting strategy for RUFIP III will ensure that the RFIs seek out such marginalized people and bring them into the financial system for savings, credit and insurance services.

12. **Environment and Climate Change:** Land degradation in the form of soil erosion, sedimentation, depletion of nutrients, deforestation and overgrazing, is one of the environmental challenges faced by farmers, particularly in the Ethiopian highlands. It is one of the major causes of low and declining agricultural productivity and continuing food insecurity and rural poverty. Degradation of water resources as well as loss of biodiversity are other key challenges linked with deforestation, overgrazing, over cultivation, inappropriate farming practices and increasing human population. Removal of vegetative cover on steep slopes for agricultural expansion, firewood and construction timber as well as for grazing space contributes to extensive soil erosion. Topography, soil types and agro-ecological parameters are also drivers of environmental degradation processes influenced by natural resource exploitation and sub-optimal agricultural practices.

13. Ethiopia's Environmental Policy (1997) aims to improve and enhance the health and quality of life of the population and promote sustainable social and economic development through sound management and use of natural resources to meet the needs of the present generation without compromising the ability of future generations to meet their own needs. The policy seeks to ensure the empowerment and participation of the people and their organizations at all levels in environmental management activities, raise public awareness and promote understanding of the essential linkage between environment and development National Growth and Transformation Plan.

14. Achievement of the goal to improve livelihoods and reduce vulnerability to poverty for rural communities and thus RUFIP III beneficiaries will be impacted by climate change. The main anticipated risks due to climate change include the following: (i) increase in frequency and extent of drought episodes and intermittent floods;(ii) food insecurity due to loss of crops and animals due to either droughts or floods (iii) increase outbreak of pests and diseases; (iv) increase in temperature; (v) irregularity in rainfall and prolonged dry spells; (iv) shortage of water for humans and animals. Given that smallholders are already being adversely affected by the changing climate, they are taking some measures to adapt. However their actions are usually not sufficient and they require further support to adopt improved technologies and practices and build their resilience. Pastoralists are adopting a variety of coping mechanisms. In the farming areas, many are shifting to more drought tolerant crops and varieties, improved forest management practices, diversified energy sources, and alternative means of income from off-farm activities. Pastoralists have also divided pasture into wet and dry season grazing areas to better manage risk, while others have changed the composition of their heard from cattle to camels and goats, which can better tolerate dry, hot weather.

GoE has planned a climate-resilient green economy as a development strategy. This development direction promotes environmental protection, reducing fossil fuel consumption which releases greenhouse gases into the atmosphere. In line with the climate resilient green economic plan, innovative financial mechanisms in green and climate finance (off grid systems, renewables and energy efficiency) can contribute to lessening the adverse effects of climate change in rural environments and reduce climate induced vulnerability.

c. Rationale for IFAD involvement

15. IFAD understands rural areas and rural finance sector in Ethiopia through its sustained engagement over the last 15 years. RUFIP I and II have played a pivotal role in supporting the expansion and outreach of MFIs and RUSACCOs. MFIs grew from a handful at the start of RUFIP to 38 (in 2018) of which 22 access debt finance and capacity development offered by RUFIP II. Likewise, the number of RUSACCOs increased from 134 during RUFIP I start-up to about 11,260 in December 2018. While other IFI funders have from time to time supported Ethiopian MFIs, IFAD remains the only major development partner supporting the large RUSACCOs network. The credit lines and the accompanying technical capacity building measures have ensured that most RFIs are able to function well even while serving about 7 million clients. Successful past interventions that nurtured the sector form its infancy, provide a strong base from which IFAD will be able to support the RFIs in their quest for scale and stability. As per the demand and supply analysis (Annex 11), during RUFIP III, total loans of the RFIs are projected to touch 19,635 million ETB, for which the institutions will have to raise resources by way of savings, capital funds and borrowings. Despite a healthy growth in savings and capital, the analysis reveals a shortfall of 31,703 million ETBs which the institutions will have to fill by way of borrowings. While RFIs' will have to diversify their sources of funds, , catalytic funding in the form LOC and accompanying capacity building measures will help the institutions mature faster.

16. **Development challenges – Poverty and Vulnerability:** Despite impressive achievements in reducing poverty, the country has a significant number of poor (more than one in five people is poor), as described in the preceding sections. Very poor have not been able to cope with the lack of viable livelihood opportunities and access to means of securing livelihoods (such as jobs, finance of income generating assets). While a number of poor have been lifted above the poverty line, they are sure of being out of poverty permanently. Vulnerability to shocks relating to health, death in the family, drought, floods, a short term job-loss, etc., makes the household slide back in to poverty. This vulnerability needs to be dealt with so that people can achieve income stability and cope with shocks on their own. Vulnerability is severe in climate sensitive areas and pastoral regions. In Ethiopia nearly two-thirds of adults in agriculture and livestock rearing reported having experienced one bad harvest or significant livestock loss in the past five years According to Global Findex Survey (2017). Less than 10% reported having received compensation for such a loss. This would imply that a large majority of rural people do not have risk coping mechanisms.

17. **Access to finance**: RUFIP I and II provided financial services to almost 7 million people by end of 2018, exceeding the projections on amount of savings and credit. Despite this, inadequate access to financial services remains a major bottleneck impeding livelihood activities, particularly in rural areas. The country lags behind other sub-Saharan countries in financial inclusion as reflected by the Global Findex database, 2018. The percentage of adults with an account with a bank rose from 22% in 2014, to 35% in 2017, but still lower than the regional level of 43% of adults having an account. Only 11 % adults could borrow from a financial institution. Only 18% of adults reported being able to raise emergency funds from savings; others would turn to family and friends or sell their assets.

18. **Making fledgling rural finance institutions more robust:** The rural finance institutions are the key partners that have included about 7 million clients to financial services over a 15 year period. With 6.5 million clients to be additionally served by 2025, the RFIs should be sound, stable and be able to offer relevant financial services. Barring the top five MFIs[17], others are still small or medium sized and a sizeable number has not developed the competence required for self-driven growth. The RUSACCOs, created over the past years, are at different stages of maturity. Many are still too small with low business volumes. There is a consensus among development partners (World Bank, DFID) that RUFIP III should focus on consolidating the RuSACCOs, which is also the strategic direction of the RUSACCO sector. The regulatory capacity in terms of tools, skills and frameworks need strengthening both in NBE and FCA, to meet the growing demands of RFIs.

19. **IFAD comparative advantage**: As explained earlier, IFAD has the institutional memory, set of tools and processes and learnings from experiences over 15 years. Its involvement in rural sector provides the client context which is integrated in to the development framework of RFIs to produce client level and RFI level outcomes. IFAD – in partnership with World Bank - has also supported SACCO development in pastoral areas through the Pastoral Community Development Programme (PCDP) II and III and Lowland Livelihood Resilience Project (LLRP) that will commence in 2019. IFAD has also funded PASIDP II dealing with participatory small irrigation interventions. RUFIP will act as a financing hub for clients served by the other IFAD financed projects/programmes in Ethiopia.

Impact of RUFIP on IFAD's target group

Access to financial services is a critical element in helping poor come out of poverty and improve their livelihoods. According to World Bank, **'Finance is at the core of the development process. Backed by solid empirical evidence, development practitioners are becoming increasingly convinced that efficient, well-functioning financial systems are crucial in channeling funds to the most productive uses and in allocating risks to those who can best bear them, thus boosting economic growth, improving opportunities and income distribution, and reducing poverty'[18].** In the case of RUFIP I and II evidence from the field in the form of studies, interim evaluation and anecdotes brings out that clients benefited from access to financial services[19]. The interim evaluation of **RUFIP[20] found evidence of increased incomes, higher crop yields, more livestock ownership, better asset build up and improved quality of housing**. It reported that income levels were proportionally higher for those with a longer term access to financial services.

Other studies carried out by different researchers and institutions also found significant improvement in the lives of clients. These include: 1) Clients with access to savings services from RFIs reported increased incomes, assets, higher ability to spend on education and health and higher level of savings (70% of households) as compared to those without such access[21]. 2) The 97% of members believed that the RUSACCO helps them to improve their food security and 70% of non-members agreed that the RUSACCO improves its members' well-being[22]. 3) Participation in the micro credit service of DECSI (a large MFI) had highly significant average effect on households' average monthly income. It was obvious that the average monthly incomes of households that get access to micro credit are fairly higher[23]. 4) The households' annual income had improved as a result of microfinance credit intervention. Participation in microfinance service has increased total annual income of participant households by ETB 2,129.7 which is 11% higher than the income of non-participants[24]. 5) Another study of DECSI found that access to financial services has brought about positive changes in the standard of living of people (50%) and assets (63%) who accessed the MFI services. Although a minority of the clients have not benefited, most of the clients have benefited positively[25]. 6) The anecdotal evidence also points to improvements in income, assets, employment, consumption, food security, health and education[26]. **With its significant outreach and focus on low income households, RUFIP I and II have been able to create a poverty reducing impact.**

B. Lessons learned

20. RUFIP and RUFIP II, together had a significant impact in improving access to financial services to rural population that was till then largely excluded. IFAD has lessons from RUFIP and other projects implemented by IFAD, other international and national agencies in Ethiopia.

21. **Line of credit (LOC) as an effective tool**: The approach of providing credit funds to RFIs to widen the customer base and improve access to finance was clearly validated in RUFIP. While the client outreach of RFIs met targets, there was a significant increase in savings and credit well beyond the programme estimates (by 180% in savings and 71% in credit). The envisaged bridging function of the LOC leading to entry of domestic resources did not fully materialize. Shortage of liquidity due to macroeconomic and monetary developments and lack of readiness in financial institutions to lend to RFIs restricted funds flow from commercial banks. RUFIP III should have additional mechanisms (such as guarantees) to increase readiness among domestic funders.

22. **Capacity building interventions need priority and sequencing**: The capacity building interventions were delayed, but were found to be effective in improving the RFIs' operations. LOC

component was utilized much faster, riding on robust demand and relative ease to operation. Capacity building interventions were comparatively difficult to carry out on account of slow procurement attributed to limited institutional capacity, scarcity of competent service providers and delays in justification of previous expenditure.

23. **Contribution to inclusive rural transformation**: RUFIP programmes have contributed in creating the institutional basis and motivation for the continued transformation of microfinance sector. The RUSACCOS have been able to meet the requirements of marginalized people and least developed areas that have little presence of financial institutions, thereby bringing poor people into financial service coverage. With the experience of financing a variety of rural activities, RFIs will be able to finance beneficiaries of other projects (by IFAD and others agencies) in the country to facilitate them to take up income enhancing livelihood activities. The 2012 National Diagnostic Study for Implementation of Access to Financial Services for Low-Income Women Households and Entrepreneurs in Ethiopia (ILO) suggest that increased household incomes generated from the effective delivery of financial services enable the rural poor to better cope with external shocks, improve food security, and enhance access to health care, education and water.

24. **Capacity requirements at SACCO Union level**: The consolidation of the RUSACCO sector is required to continue at greater pace, as this effort is beginning to improve the institutional capacity of the Unions in the delivery of technical and financial services to the primary RUSACCOs. Specifically, the consolidation will continue to address the significant liquidity gap and the delivery of technical and financial services and capacity building to the primary RUSACCOs. The creation of region-based apex institutions for the RUSACCO Unions, would help to enhance the operations and expand growth of sector in a coordinated and sustainable manner. This development will be strengthened and scaled-up in RUFIP III.

Performance of RFIs

25. The MFIs have shown that with support of RUFIP capacity building and LOC, well run institutions can expand with profitability and sustainability. The last eight years data shows that MFIs in all three categories (Large, Medium and Small) have been operationally sustainable, and provided good returns on assets and equity. In case of RuSACCOs, a similar outcome is expected at the end of RUFIP III as significant capacity building, enabling supervision and credit line are envisaged.

26. **Digital financial services can improve efficiency and outreach**: RUFIP and RUFIP II have transformed the MFI sector in improving their liquidity, creditworthiness and in turn their outreach. The significant growth in outreach provides an opportunity for automating financial management, and continued improvement in the supervision and reporting of the entire rural finance system of RUSACCOs/their Unions and MFIs. Six MFIs are already offering mobile money products through 800 branches; there is strong recognition that innovative initiatives such as digital finance/mobile banking can transform financial inclusion landscape.

27. **Programme management**: Overall project management at DBE through PCMU had been effective in managing the LOC and financial management, but needed to improve in developing and utilizing monitoring and evaluation (M&E) tools. In RUFIP II, implementing partners were conducting procurement, without sufficient capacity, leading to slow pace of capacity building initiatives as well IT enablement of RFIs. The direct linkages of PCMU with RUSACCOs for accessing LoC proved operationally burdensome. Where Unions of RUSACCOs were utilized to channelize LoC funds, there was greater operational and cost efficiency and such as this would be a preferred channel in RUFIP III.

2. Project Description

C. Project objectives, geographic area of intervention and target groups

28. RUFIP III will seek to strengthen livelihoods of rural poor, enabling them to attain higher income and assets required to improve the quality of life. The proposed programme will strive to capacitate about 13.5 million clients[27] of RFIs (of which 6.5 million would be new entrants) in improving their livelihoods and managing risks through financial and non-financial measures, including savings, credit and insurance. RUFIP III will address the constraints in availability of and access to financial services to poor households and least developed areas; adopt programmatic approach that builds on positive past experiences; introduce innovations, consolidate and scale up

achievements and lessons learned so far. The overall goal of RUFIP III is *improved livelihoods and reduced vulnerability and poverty through increased incomes and better ability to manage risks at household level.* The objective of the programme is *to increase access to a range of financial products and services to rural households through sustainable rural financial institutions.*

29. RUFIP III will directly contribute to achievement of the **COSOP (2017-21)** Strategic Objective 1 (SO1), enhanced resilience and productivity of ecosystems and livelihoods through the provision of sustainable financial services and Strategic Objective 2 (SO2), improved market linkage and access to finance and technology, through its focus on rural and agricultural finance and the associated asset build up, income improvements and better and continuous market integration. It is also aligned with the **IFAD Strategic Framework (2016-2025)**. RUFIP III is aligned to IFAD mainstreaming priorities relating to youth, women and pastoralists and also contribute to developing partnerships with public and private sector entities. RUFIP III will support achievement of three (3) Sustainable Development Goals (SDG) as explained in Para 4.

30. RUFIP III will be achieved through a nationwide network of more than 11,000 RUSACCOs and their secondary structure (the Unions), and 38 MFIs that currently focus on rural communities. Improved access to finance will also be available to beneficiaries of other IFAD funded projects such as PASIDP and LLRP in order to enhance the overall impact of IFAD portfolio in Ethiopia. The programme will support eligible rural financial institutions (RFIs) to bridge their liquidity gaps through a credit fund; strengthen them through consolidation of the RUSACCO sector and to enhance their institutional capacity for delivery of financial services through capacity building activities; explore setting up a guarantee fund that would attract commercial banks and financial institutions to provide resources to RFIs, initiate marketing of rural client friendly insurance products through the RFIs, continue to support ongoing automation of RFI's MIS systems; and strengthen the regulatory and supervisory capacity of regulators, National Bank of Ethiopia (NBE) and the Federal Cooperative Agency (FCA).

31. The key **impacts** envisaged include reduced poverty and better ability to cope with vulnerability arising from shocks. The programme should lead to: (i) strong rural financial institutions that offer financial services to vulnerable people; (ii) Wider offer of services and products responsive to customer needs; iii) diversified and expanded business in RFIs; and, (iv) Effective Financial inclusion for marginalised people and regions.

32. In terms of **geographic coverage**, RUFIP III will continue to be a nationwide initiative with increased focus on least developed areas (drought prone areas, pastoral areas and areas with low penetration of financial services) and achieve goals of GTPII and the national financial inclusion strategy.

33. The proposed **target group** consists of 13.5 million rural people (about 6.5 million would be new clients, 50% will be women and 10% youth) with financial services requirements for asset build up and productive utilization of loans for agricultural development and other rural enterprises, especially youth-led and women-led enterprises. People in least developed areas would be served through savings, credit and insurance products. Beneficiaries of other IFAD supported investment projects – PASDIP II, PCDP III, LLRP – will be targeted as well. RUFIP III also aims to facilitate access to finance by rural communities in programmes and projects financed by other development partners where technical capacities are being built among rural communities for improving livelihoods and enhancing economic performance.

34. RUFIP III **target groups can be classified** as very poor and poor (subsistence households, living below the poverty and food poverty line and being often food insecure and vulnerable), transitory poor (households producing a surplus for marketing, being food secure but at risk from economic or climate shocks) and better off (commercially oriented households with secure livelihoods is and able to cope with shocks). RUFIP III estimates to target about 3.25 Million clients from very poor and poor households, 7 Million transitory poor households, and 3.25 million better off clients. Thus, 75% of RUFIP direct benefits are expected to reach the poorest and most vulnerable groups and regions in Ethiopia.

35. **Targeting and social inclusion strategy:** While RUFIP II had a self- targeting approach driven by the RFIs, RUFIP III will apply a combination of self-targeting and direct targeting approach. While client enrolment decisions are left to the RFI, they will be capacitated and incentivised (through resources access criteria) to focus on the most vulnerable and marginalized groups. RFIs will be required to track and report coverage of clients of different categories as defined in the targeting strategy. Some of the capacity building interventions and LOC will be utilized for incentivizing RFIs to

implement the programme's targeting strategy. A key requirement for RFIs will be the preparation of a strategy for meeting targeting priorities relating to poor segments, gender, youth and least developed areas with the help of baseline data. This plan will be integrated in to the AWPB targets. As detailed in the PIM, the mobilization process will be conducted in close collaboration with Unions/FCA as well as MFIs. RUFIP III team and Region/Woreda Promotion agents will work together to bring about the inclusion of vulnerable households.

36. **Targeting criteria:** To ensure that project services will serve the intended households, the targeting and social inclusion strategy will prioritize drought prone areas where majority of poor are concentrated and where smallholder farmers are highly affected by climate shocks. These will be identified, among others, through the presence of safety net programmes (i.e. PSNP 4) where communities are supported to develop alternative income generating activities (IGA) and savings through RUSACCOs. In addition, the available statistics on poverty and malnutrition levels across Woredas and Kebeles will inform the geographic targeting and the selection of priority areas/communities.

37. **Improving nutrition among food insecure households:** The project recognizes that access to finance is a key element that can play an important role in combatting malnutrition if it is accompanied by awareness creation. Limited nutrition knowledge among beneficiaries may prevent RUFIP III target groups to translate increased production and income as a result of access to finance into improved diets. The project will contribute to improved nutrition by promoting awareness at community level, through nutrition education and demonstrations, with special focus in areas where higher food vulnerability is registered due to negative environmental effects (i.e. drought).

38. **The Gender Mainstreaming Strategy** will consider scaling up of best practices which have been effective for women and youth inclusion and outreach, as well as promotion of suitable products for them. RUFIP I and II have demonstrated experiences on outreach of women and data disaggregation: they account cumulatively for 46% RUSACCO members, whose board of directors include 40% women representatives (exceeding the minimum required at 30%) and 44% of MFIs clients. RUFIP III will require implementing partners to reach a level of at least 50% women clients and in RuSACCO boards. The performance of RFIs' in gender coverage will be tracked.

39. **The youth mainstreaming strategy** recognizes the relevance to scale up successful interventions and results such as the UNCDF supported Youth Start (YS) programme. It constitutes a source of evidence-based achievements for increased growth rate of youth clients (up to 70%) and good practices and training modules to be taken up for replication regarding young men and women access to finance. RUFIP III will consider the existing surveys as well as methodologies/training modules developed with support of YS programme and Women's World Banking (WWB)[28], to be adapted to the different regional contexts and trainings for MFIs/FCAs staff at all levels. This intervention is expected to expand finance education among youth, catalyse the growth of young clientele of RFIs and enhance investment in viable enterprises.

D. Components/outcomes and activities

40. The proposed Programme will be implemented over a 6-year period and consist of four components: (i) Building capacity of institutions and clients; (ii) Improving regulation, supervision and institutional discipline (iii) Facilitating funds flow and diversification of RFI business, and (iv) Programme Management.

41. **Component 1: Building capacity of institutions and clients.** Component 1 focuses on building the capacity of RFIs (RUSACCOs and MFIs) and more importantly their clients, resulting in an inclusive and sustainable rural financial sector. The objectives of this component are to enhance financial literacy among the rural population to enhance uptake of financial products and to strengthen the institutional capacity of RFIs to better serve the target groups. The anticipated outcome is an operationally and financially sustainable rural financial sector and network of MFIs and RUSSACOs to serve poor. In particular, the focus of RFIs business strategies will be oriented towards savings mobilization through product development and marketing initiatives. To accelerate the movement away from LOC and encourage raising of resources elsewhere certain measures have been provided in design. The conditions for availing LOC stipulate that the large MFIs that have financial strength for raising resources will get funds only to the extent of repayment of past loans compelling them to raise resources from elsewhere for their growth and expansion. Supporting this effort will be the guarantee mechanism that would be in place. The capacity building effort will work on newer instruments (for the

Ethiopian market) such as financial products that meet the needs of the poor, securitisation, bonds and debentures. The savings mobilisation effort will be strengthened. The participation of Ethiopian Insurance Corporation will be taken as an example to bring on board other insurers for deploying their insurance funds in RFI sector. Linking of LOC with level of savings mobilised is a condition that can be considered after the first two years of project performance and taking stock of ground conditions. During Mid-term review, further actions possible are focusing LOC only on marginalised areas and targeted clientele, leaving other general business to be funded by other sources of funds.

42. Training in financial literacy in more remote Woredas of the country is of critical importance. Client capacity to use financial products and services will be built up through structured courses, and delivered by the RFIs. Greater financial literacy, combined with wider institutional presence, will increase membership in RFIs, enhance uptake of financial products and services, strengthen client relationship and improve consumer protection. IFAD's experience with promoting financial literacy trainings of immediate use to low income rural people will be drawn upon from IFAD-supported SACCO development programmes in Uganda and other countries in the region. Client training will also consider investment aspects, especially for youths to enhance their ability to invest in productive enterprises. The IFAD financed trainings will be embedded in the annual training calendars of MFIs and RUSACCOs and will utilize training materials developed under RUFIP II.

43. The technical and operational capacities of the RFIs would be strengthened through training and exposure to good practices/institutions. High level training courses would be carried out for senior management of RFIs with involvement of AEMFI and other competent service providers. Training of trainers from the RFIs would be carried out on key operational aspects which would then be used by RFIs to train mid and junior level staff. Training on supervisory and regulatory subjects specified by the regulators (NBE and FCA) would be provided from time to time to address emerging needs. RFIs will be supported for improved internal systems and processes, higher levels of information technology adoption, introduction new products, services and financial sector partnerships. Some of the IT adoption related work that commenced during RUFIP II (Enabling RFIs to acquire IT systems and customized software) would be continued and brought to a fruitful conclusion.

44. **Component 2: Improving regulation, supervision and institutional discipline.** This component will deal with regulatory capacities for ensuring best performance outputs from RFIs and improved client protection. The objective of this component is to strengthen the capacities of NBE and the FCA in their mandates to supervise and regulate MFIs and RUSSACCOs (and their Unions), respectively in a manner that improves client confidence in financial services and affords protection from risks and losses in use of RFIs' services. The primary driver of regulation of RFIs in emerging economies should the achievement of effective financial inclusion of people that are not participating in the financial sector, through a combination of stable and viable financial institutions that offer customer responsive products and services. The regulatory principles that should govern NBE and FCA in their oversight of RFIs should be promotion of autonomy of operations, good governance that ensures that RFIs take care of all stakeholder's interests, investments in technology and processes the result in customer protection, social performance and transparency and orientation of the RFIs towards quality financial inclusion on market based approaches. The supervision should be risk-based, requiring the RFIs to understand and map their different risks and have systems and mechanisms in place to deal with the risks. Creation of enabling conditions for RFIs to form, thrive and expand, provision of a level playing field for all RFIs regardless of their ownership or size should be key objectives of the regulatory regimes.

45. The GoE is considering major political and economic reforms (i.e., more open market economy) including financial sector reforms. As part of these reforms, RUFIP III envisages several opportunities for policy dialogue in: 1) setting up credit bureau; 2) institution of depositor protection mechanism for RFI clients; 3) enabling regulations for agent networks in financial sector; 4) easier entry norms for RFIs in to the national payment systems; and, 5) developing protocols to facilitate rural and micro-leasing markets through the agency of RFIs. IFAD's explicit contribution in these identified opportunistic areas for policy dialogue is envisaged through facilitation of periodic events/workshops and discussions.

46. Regulatory and supervisory support under this component will directly enhance the operational and financial sustainability of MFIs and RUSACCOs. With RUFIP support, NBE has implemented a number of measures to strengthen its supervision over MFIs, including capacity building of staff, development of policy framework, covering areas such as micro-insurance, and consolidation of MFI sector through mergers, acquisitions and liquidation, agent banking and leasing for rural areas. NBE will continue to be supported for policy development for RFIs, in aspects such as

fit and proper criteria for diversification of business, governance, advanced risk management, customer protection and social performance practices. Need based support for improving MIS at NBE to enhance supervision rigor will continue.

47. FCA for RuSACCOs: The process of separating the legal, as well as regulatory and supervisory responsibilities between financial and non-financial cooperatives and setting up dedicated financial cooperatives regulation wing in FCA will be supported. A twinning arrangement as well as an IFAD-financed technical assistance from ILCUF has produced useful recommendations that will be the basis of a roadmap for orderly separation of these functions between financial and non-financial cooperatives. Supervision and regulation capacity of FCA will be developed further as tiered regulation/ inspection is rolled out by FCA following the receipt of approval from the appropriate Ministry. Further, FCA will be enabled to initiate suitable action to guide the establishment of Regional Apex financial institutions, ultimately an apex organization at a national level that will support the RUSACCOs through their unions.

48. **Component 3: Facilitating funds flow and diversification of business**. The objective of this component is to improve financial support mechanisms and increase the range of products and services to meet the requirement of IFAD target groups. By doing so, build resilience and sustainability in the rural financial sector. The anticipated outcome is increased availability of lendable resources, capital and savings for MFIs and RUSSACOs, insurance products and leasing products for the target groups. The Component envisages a line of credit for RFIs, a guarantee fund to enable RFIs borrow from other sources, diversification of products to include agriculture value chain financing, an insurance marketing mechanism through RFIs for better risk mitigation at households' level and introduction of a leasing product to meet rural requirements for investment in equipment and assets.

Initiative	**Objective**	**Implementing partners**
Line of Credit	Catalytic support for loan funds, coverage of target groups and least developed areas with financial services	MFIs and RUSACCOs
Agricultural value chain financing	Loan funds for improving credit flow for value chain activities in AIP areas	MFIs and RUSACCOs, PROSEAD
Guarantee Fund	Diversification of sources of funding, introduction of different borrowing instruments	AGRA, DBE
Insurance Marketing	Access to risk mitigation products for rural households	Insurance Companies, RFIs as agents
Leasing	Increasing range of options for rural households for investment in equipment	Leasing companies, RFIs as agents

49. The steering committee will have representation appropriate for oversight of the project with these varied sub-components. Each initiative will have a sub-committee, including technical experts from the implementing partners, under PCMU to steer the specific sub-component. In the PCMU, an expert with experience in financial sector will backstop the management of partnerships with financial institutions under guarantee fund, insurance and leasing.

50. To attract interest of commercial banks and other financial institutions in funding of RFIs, a guarantee fund in collaboration with AGRA and other partner institutions is envisaged. The guarantee fund will make access to loan resources easy from commercial banks for small and medium MFIs, Cooperative Unions and also reduce the cost of borrowing. The guarantee fund would examine different alternatives for guaranteeing different instruments issued by RFIs and expand the range of possibilities. A clear objective of the component is also to utilize the guarantee facility and the capacity building measures in component 1 and 2 attract a diversified base of institutions and instruments from which RFIs can access resources and thereby reduce dependence on external credit lines.

51. In view of the multitude of different lines of credit currently in the market and also the need to put domestic support funds under a unified and professional management, stakeholders expressed the desire to IFAD for creating a more sustainable loan fund structure and use RUFIP III as an anchor and launch platform. To achieve this, RUFIP III will provide linkages and access to finance for clients

of other development projects that need credit, savings or insurance products. The LOC will be used by RFIs for on-lending to clients of other projects for which linkage protocols will be in place.

52. In a bid to improve risk mitigation capacity of clients, initiatives on marketing of rural insurance products to the clients of RFIs will be taken. The MFIs and RUSACCO Unions would be linked to willing insurance companies to train their staff to market insurance products (life, health, crop, livestock, etc.) that are suitable to their clients. In collaboration with EU supported PROSEAD project, access to finance for farmers, primary cooperatives and Unions operating in the catchment areas of Agro Industrial Parks (AIP) promoted by the GoE will be supported.

53. **Component 4: Programme Management:** This component will support the management of the project implementation through Programme Steering Committee and Programme Coordination and Management Unit (PCMU) in DBE. The PCMU will be strengthened with appropriate expertise to address the technical needs of RUFIP III, such as expertise in social performance, customer protection and poverty tracking to fully reflect the focus of RUFIP III on poverty outcomes and also mainstreaming IFAD priorities. Based on experiences from RUFIP II's PCMU capacity on financial management, procurement, MIS and core banking system, as well as product development will be strengthened. The weaknesses in MIS and Monitoring and evaluation, information flow and quarterly reporting experienced during RUFIP II will also be addressed under RUFIP III, with appropriate training, staffing and systems. Given the two decades involvement in RUFIP by 2025, knowledge management will be a key part of programme management. The lessons would be documented in the form of cases, best practices and tools utilized and made available in public domain.

E. Theory of Change

54. **Poverty** and vulnerability to shocks that make households slide back to poverty are key and chronic problems facing rural Ethiopia. The problems arise from a number of constraints, faced by smallholder farmers including: high dependence on rainfall for their agricultural activities; limited access to land and/or small-scale landholdings; limited mechanization; insufficient access to inputs; low technical know-how for income generating activities and inadequate access to markets and finance.

55. RUFIP III theory of change (TOC) is based on the assumption that by increasing the access of rural poor faced with development challenges to a range of financial services and products better tailored to their needs, they will in turn be able to invest in their farming activities (and thus in their enhanced productivity and competitiveness) and/or diversify their income through off farm activities and gradually improve their livelihood and their resilience to climate change related shocks. As such, the RUFIP III is designed to address the problem of limited access to finance by the rural poor associated with lack of collaterals to access credit; limited culture of savings and low level of financial inclusion arising from limited financial institution presence, dearth of products and services suited to rural poor and lack of financial literacy. The TOC also recognizes that RFIs, which have the potential to improve access to services for rural poor suffer from paucity of funds, comparatively low technology and skill levels and absence of systems and processes geared towards customer protection and social performance. The regulators face challenges of continuously developing regulatory capacity (both technical and procedural) to meet the rapidly growing industry demands. In order to further improve access to finance interventions at macro (NBE, FCA), meso (MFI< RUSACO/Unions) and micro levels (Clients) are needed.

56. RUFIP III entry point will be the strengthening of MFIs and RuSACCOs/unions (RFIS) to deliver an expanded range of financial products and services to a larger number of clients, primarily targeted by the project’s targeting and social inclusion strategy (as defined above). By doing so, the rural financial sector will become more stable and inclusive. To ensure soundness of the RFIs, the capacity of regulating and supervising agencies, NBE and FCA will be strengthened. The programme will also deal with the core problems in financial services to the poor, the lack of financial resources in RFIs to fully meet the credit demand. A line of credit, co-financing by other international and domestic funders, a guarantee fund to attract funds for RFIs, an insurance marketing arrangement through insurer-RFI partnership are all envisaged to meet liquidity shortages in RFIs. These interventions will culminate to poor and vulnerable benefitting from an expanded RFI presence that can expand clientele over the programme period; a basket of diverse products and services that are friendly and responsive to client needs; a higher level of institutional discipline and fair market conduct to protect clients and a sound microfinance sector that offers stability, inclusiveness, and certainty; ensure that people are able to find avenues to save, borrow for investing and insure their risks to ultimately

improve livelihoods and reduced vulnerability and poverty in Ethiopia through increased incomes and better ability to manage risks at household level. Annexes 1 and 2 present the Logical Framework and schematic summary of the ToC, which present the outcomes as a result of RUFIP III interventions and the higher order development impacts.

F. Alignment, ownership and partnerships

57. RUFIP III will contribute to achievement of SDGs (SDG1: Poverty; SDG2: food security in smallholder agricultural and rural development context; and SDG5: gender equality and empowerment), national policy priorities of poverty reduction through rural and financial sector interventions, gender responsiveness and beneficiary participations. RUFIP III is fully aligned to national priorities contained in Growth and Transformation Plan II and the National Financial Inclusion Strategy. RUFIP III continues most of the positive features from the past and the changes in design conform to the IFAD's Rural Finance Policy[1]. In particular, poverty impact tracking, social performance and client protection principles are built in to design of RUFIP III. The mainstreaming of cross cutting priorities of IFAD relating to youth, gender, climate change, environmental sensitivity have been integrated in the design.

58. RUFIP III is aligned to Government's aims in terms of targeting marginal regions, as well as the target groups and youth employment. A notable feature of the RUFIP programmes has been the high level of ownership by Government and its implementation partners. The willingness of the Government to allow the RFIs use LOC for a sustained period of time (12 years) in the first instance and agreeing to utilize reflows of RUFIP loans About $ 45 million) as part of LOC in RUFIP III is a positive reflection of how much the GOE has valued RUFIP. Further, GOE encouraged DBE to deploy its own resources to supplement the LOC. While the innovative use of long term credit by RFIs for continuous recycling is now recognized internationally, among domestic policy makers, RUFIP has for long enjoyed a sound reputation as an example of successful financial sector programme. The results oriented collaboration with the GOE and different implementing agencies, (NBE, FCA and the cooperative structure and AEMFI) has been the basis for ownership and partnership.

59. IFAD is partnering with EU, AfDB, FAO, UNIDO, EIB, and bilateral support from Italy and other European countries in the PROSEAD project, resulting in synergies and opportunities to create a private sector driven development model for the rural areas in Ethiopia. Further an IFAD grant-financed Project, "Managing risks for rural development: promoting micro-insurance innovations in China, Ethiopia and Georgia" implemented by the Micro-Insurance Center, will develop suitable weather index based insurance products during the period 2017 –2021. An IFAD grant funded Project "Improving rural financial inclusion through co-operatives in Ethiopia, Tanzania, and Malawi" implemented in Ethiopia by the Irish League of Credit Unions Foundation (ILCUF), 2017-2020 is supporting RUSACCOs to establish Regional apex federations and associated Central Financing Facility instruments for accessing wholesale loans for on-lending in the RUSACCO sector, although the effort is currently focused on establishing one Regional apex federation. The ILCUF is also providing technical support in FCA’s effort to develop Tiered regulation/inspection of the RUSACCO sector.

60. In RUFIP, financial partnerships have been secured. The EIB has committed US$ 112 million towards the credit line, part of which will be utilized for developing leasing and lease finance options for agri and rural enterprises. The European Union has committed about US$19 million as co-financing. AGRA has committed USD 1.5 million for setting up a guarantee facility to support RFIs in their quest to borrow from commercial banks and financial institutions. There are indications of interest from both international organizations, domestic banks and insurers to partner the project. RUFIP III is designed to work in harmony with other projects of other agencies. In particular, the programme provides for establishing access to credit for clients of other projects, where income generating livelihoods are technically supported by projects, but access to finance is not part of the project components.

G. Costs, benefits and financing

a. Project costs

61. RUFIP III will enable 13.5 million clients to access financial services by 2025 (from about 7 million households in 2018). MFIs and RuSACCOs would account for 10.2 million clients, and 3.3 million clients respectively. Apart from increasing savings and loans of clients, RUFIP III would improve access of agricultural value chain farmers to new credit products and agri-enterprises to equipment leasing and lease finance, raising the penetration of finance to rural households by 2025.

62. RUFIP III mainstreams climate change and a substantial part of the credit it provides is likely to help beneficiaries adapt to climate change and enhance household resilience to weather-related shocks. However, as no resources are specifically ring-fenced for investment in climate change adaptation at this time, IFAD climate finance will be monitored during implementation rather than by providing an estimate at design.

Table 1: Summary Table of costs by component and financier (US dollars 000)

Component	Borrower/counterpart		IFAD loan		IFAD Grant		Other cofinanciers		Beneficiaries		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
1. C1: Building capacity of institutions and customers	2,517.5	12.9	-	-	14,437.2	74.0	1,599.6	8.2	951.4	4.9	19,505.7	6.4
2. C2: Improving regulation, supervision and institutional discipline	1,908.5	13.0	-	-	12,727.4	87.0	-	-	-	-	14,635.9	4.8
3. C3: Facilitating funds flow and diversification of business	45,000.0	17.2	4,900.0	1.9	3,993.8	1.5	209,900.0	79.6	-	-	263,793.8	86.3
4.C4: Programme management	2,521.2	32.1	-	-	3,941.6	50.1	1,400.4	17.8	-	-	7,863.2	2.6
	51,947.2	17.0	4,900.0	1.6	35,100.0	11.5	212,900.0	69.6	951.4	0.3	305,796.6	100.0

Table 2: Programme costs by expenditure category and financier (US dollars 000)

Category	Borrower/counterpart		IFAD Loan		IFAD Grant		Other Cofinanciers		Beneficiaries		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
1. Consultancies_DA	3,477.0	12.9	-	-	20,624.6	76.8	2,762.4	10.3	-	-	26,864.0	8.8
2. Credit Guarantee Fund	45,000.0	17.1	4,900.0	1.9	3,993.8	1.5	209,900.0	79.6	-	-	263,793.8	86.3
3. Equipment & Materials	400.6	13.0	-	-	2,645.2	86.1	10.5	0.3	15.6	0.5	3,071.8	1.0
4. Training	1,205.5	13.0	-	-	6,876.4	74.4	227.1	2.5	935.9	10.1	9,244.9	3.0
5. Salaries & Allowances	879.8	47.8	-	-	960.0	52.2	-	-	-	-	1,839.8	0.6
6. Operating Costs_DA	984.3	100.0	-	-	-	-	-	-	-	-	984.3	0.3
	51,947.2	17.0	4,900.0	1.6	35,100.0	11.5	212,900.0	69.6	951.4	0.3	305,798.6	100.0

Table 3: Programme/project costs by component and year (US dollars 000)

Component	2020	2021	2022	2023	2024	2025	Total
1. C1: Building capacity of institutions and customers	5,359.9	3,959.9	4,063.0	2,833.7	2,115.1	1,174.1	19,505.7
2. C2: Improving regulation, supervision and institutional discipline	2,533.3	3,487.0	3,225.2	2,401.0	2,216.5	772.9	14,635.9
3. C3: Facilitating funds flow and diversification of business	60,115.1	60,115.1	60,115.1	60,115.1	11,666.7	11,666.7	263,793.8
4. C4: Programme management	2,508.9	1,339.2	1,336.1	874.3	937.5	867.2	7,863.2
	70,517.1	68,901.3	68,739.4	66,224.1	16,935.7	14,480.8	305,798.6

b. Project financing/co-financing strategy and plan

63. The total cost of the proposed programme is estimated at approximately US$305.7 million over a six year implementation period. About USD 40 million will be initially financed by IFAD. EIB has committed USD 112 million towards the programme of which a part would be utilized for promoting lease financing among rural businesses and enterprises. European Union has finalized a contribution of USD19 million. AGRA has committed USD 1.5 million towards a guarantee fund. GoE will contribute USD 51.9 million of which USD 45 million will be in cash for incremental credit from inflows of previous lines of credit under RUFIP programmes; and USD 6.9 million to cover duties and taxes. In addition, discussions are ongoing with BADEA (Arab Bank for Economic Development in Africa) for funding of USD 20 million (If the discussions do not fructify, there will be a gap of USD 20 million, which can be filled by: (i) possible additional resources that become available in IFAD during the IFAD11 cycle; and (ii) co-financing and lines of credit provided by other development partners (domestic and foreign), and as and when they emerge). In terms of local partnerships, the DBE, Commercial Bank of Ethiopia and Ethiopian Insurance Corporation are likely to cofinance USD 25 million, 20 million and USD 15 million, respectively. An estimated 63.7% of programme outlay will be funded from external resources and 36.3% from domestic resources.

Financiers of RUFIP III (USD ‘000) (*In addition, taxes will be borne by the Government of Ethiopia*)

IFAD	40,000
External cofinanciers	
EU	19,400
AGRA	1,500
EIB	112,000
BADEA (to be confirmed)	20,000
Sub-total	152,900
Domestic cofinanciers	
Government of Ethiopia	50,000*
DBE	25,000
Commercial Bank of Ethiopia	20,000
Ethiopian Insurance Company	15,000
Sub-total	110,000
Total	302,900*

64. Beneficiary contribution from the clients will be in the form of Savings with RFIs (which is utilized to provide loans to clients) and also share capital contributions in case of members of RUSACCOs. MFI clients had saved to the extent of 67% of loans availed by them by end December 2018. RUSACCO members had brought in their funds in the form of share capital and savings to the tune of 77% of loans availed by end December 2018. The savings and share capital contributions will continue to increase and will constitute a significant resource for RFIs. These are not reckoned in the cost and financing tables as beneficiary contributions as the volume of savings would be about 25 times of the project outlay. RUFIP seeks to fill about 23.3 % of the resource gap of RFIs to meet the credit demand. The data on savings and share capital will be collected and reported quarterly by the PCMU. RFIs will be required to contribute a part of the costs of training and capacity building measures; this would be 20% of costs in case of MFIs and 5% of costs in case of RUSACCOs/Unions amounting in all to 0.3% of project outlay.

c. Disbursement

65. Nature of project eligible expenditures – RUFIP III expenditure categories have been assigned in accordance with the standard flexcube expenditure categories. Eligible expenditures include the following expenditure categories: (i) credit/guarantee funds, (ii) equipment and materials, (iii) consultancies, (iv) training (including workshops), and, (v) salaries, allowances, and operating costs. The summary costs and financing plan are shown in cost tables presented in project costs. Most of project funds (83.5%) are allocated for the credit line.

66. **Funds Flow and Disbursement arrangements.** Unless required by cofinanciers, the funds from different co-financiers would flow through the PCMU under the uniform terms and conditions, criteria and funds flows mechanisms finalized for RUFIP III. Based on lessons from ongoing RUFIP II, disbursement arrangements have been streamlined in case of RuSACCOs to cut delays and improve accountability. To improve efficiency in the funds flow, while cognizant of the need to reduce the high operating cost, some cost centres have been given more financial management responsibility and others removed from direct implementation.

d. Summary of benefits and economic analysis

67. The methodology used for the analysis is based on the 'with-project' increase in revenue of rural finance institutions by subsector, in this case microfinance institutions (MFIs) and rural savings and credit cooperatives (RUSSACOs), as per IFAD Internal Guidelines on Economic and Financial Analysis.

68. **Outreach**: The analysis builds on the achievements of RUFIP II, with the number of borrowers for MFIs is expected to grow from just over 5 million in 2018 to 10 million in 2025 and for RUSSACOs the number of new members is expected to grow from 1.9 million in 2018 to 3.3 million in 2025, under RUFIP III over the six year period. 3.5 million clients will be from among very poor and poor, 7 million from moderately poor, but vulnerable and 3.5 million from other categories. Of the clients 50 % will be women and 10% youth. The coverage of household members will be a minimum of about 43 million and a maximum of about 62 million[30]. At the estimated minimum coverage of 43 million people, RUFIP will influence about 40% of the population in the country. This is a significant level of outreach and it would encompass most of the very poor and poor people in Ethiopia.

69. **Financial and economic rate of returns**: The financial discount rate used is 12 percent, a rate used by successive World Bank projects in Ethiopia over the past year (2018).[31] Although the deposit rate on savings as per RUFIP III is at 8 percent, a more conservative value is used as the opportunity cost of capital. The social discount rate used in the analysis is rounded up to 7.0 percent, based on Ethiopian sovereign bond yields.[32]

Key indicators of financial and economic returns

Indicator	**Benefit flow over 18 years**	
	FRR @12%	ERR @7%
IRR %	27.0	28.2
NPV (USD mn)	89.5	197.8
BCR	3.8	7.3
Switching Value-Benefit %	-74%	-
Switching value –cost %	238%	-

70. Overall, the MFI subsector and the RUSSACOs subsector produce positive returns under the microfinance sector. The microfinance subsector returns over an 18-year period an NPV of USD 3,279 million and a FIRR of 65.5%, using the line of credit. Calculations of the RUSSACO subsector return NPV of USD 111 million over an 18-year period and an FIRR of 20%. The returns between MFIs and RUSSACO differ since MFIs are profit driven while RUSSACOs are membership-driven. The latter is governed by its members and decide on lending rates to their own members, while MFIs lend to maximize profit – within the limits of regulatory oversight. Being community owned institutions the interest charged by RUSACCOs is always lower, reflecting the client focus. The lower interest in RUSACCOs has a positive client level impact in the form of higher retained earnings. The unique financial design that allows the RFIs to utilize the credit funds over a twelve year period, ensures that recipient RFIs have adequate time to become sustainable. RUSACCO segment is important for clients in least developed pastoral areas and remote rural locations.

71. Other assumptions included in the analysis include a staggered model of lending to RFIs over a six-year period, a grace period of seven years followed by a five year repayment period. During the programme there would be no repayment of LOC on account of the grace period. A similar dispensation is envisaged for RUSACCOs under RUFIP III. The period taken for benefits flow for EFA

is 18 years based on the fact substantial part of funds (externally contributed) will be disbursed in the first four years of the programme and these funds (including reflows) would be utilised by the RFIs for the next twelve years.

Sensitivity and switching value analysis

72. The sensitivity tested for increases in cost by 10 percent and 20 percent and a decrease in yield by 10 percent over an 18-year period. The results remain robust for the 18-year period in the tables below. Since the market for financial services remains early-stage, the combination of an 18-year discount period and continued appetite for micro-financial services suggests that high growth is more than likely matched by high appetite, willingness and ability to repay loans in the near future.

Sensitivity Analysis	FIRR %	NPV USD Mn	BCR	ERR %
Increase in operating costs by 10%	27.0	89.5	5.7	27.1
Reduction in yield by 10%	21.0	45.6	2.4	22.9
Increase in risk provision by 100%	23.0	55.4	2.8	24.4

73. Switching values benefit and cost under the 12 percent financial discount rate and 18-year discount period is -74% for benefits and 283% for costs, suggesting significant resilience to volatility in costs and benefits.

74. Benefit stream taken in to consideration for the EFA is that of surpluses generated by the RFIs utilizing the line of credit and the institution and client building support from RUFIP III. Further benefit streams arise from the application of loans taken by more than 11 million borrowers in their income generating enterprises. Given the diversity of income generating activities and the multiple crops and enterprises, these benefits have not been quantified at present (as the benefit stream from RFIs provides sufficient justification at this stage for the investments). At the macro level too benefits accrue to the country from financially included poor and vulnerable people. A strong RFI network with a majority of households included creates a financial highway that creates enabling conditions for businesses and government to reach out to and transact with the poor households. The benefits arising from this are tangible, though difficult to quantify.

e. Exit Strategy and Sustainability

75. Sustained provision of appropriate financial products and services to the target clients by RFIs without dependence on external support is the final outcome that would produce the desired impacts of continuing poverty reduction and livelihood risk mitigation. The project interventions operate at three levels to secure this most desired outcome. At the Macro level policy and regulatory institutions are engaged in providing a set of enabling conditions in which RFIs can operate efficiently and secure the confidence of clients. RUFIP III will continue to support the NBE and FCA to enhance their technical capacities for policy making, regulation and supervision. At the Meso level RUFIP provides a line of credit to supplement resources and influences other financiers to fund LOC, by setting up guarantee facilities and introducing RFIs as an eligible asset class for lenders. In addition, the RFIs' technical and operational capacities to offer unhindered services would be augmented through capacity building, IT upgradation and systems improvements. The resulting RFI institutional structure would be in a position to perform at high standards of efficiency and productivity; and be able to take informed decisions of accessing financial resources and technical services from the market. At the micro level, the clients are capacitated to access financial services optimally to improve their livelihoods and reduce risks. This is done through financial literacy training and making financial services available nearer the clients' locations. Further to help clients manage their vulnerability, access to insurance services would be facilitated so that within a basket of savings, credit and insurance livelihood risks of different kinds can be mitigated. Financial analysis brings out that RUSACCOs take longer to achieve sustainability. While some RUSACCOs had been supported in RUFIP I, about 5000 RUSACCOs have been supported in RUFIP II. RUFIP will thus provide continuing support to RUSACCOs, as that is critical for their maturation into sound financial institutions.

76. Four key aspects of sustainability are addressed as part of the exit strategy. Resource sustainability and financial sustainability for the RFIs, relevance and adequacy of regulatory practice

and customer comfort with products and services offered by RFIs. In essence the project should deliver effective access to finance that makes customer livelihoods sustainable, support RFIs in becoming financial sound institutions that have access to a diversified resource base and strengthen regulators to establish oversight benchmarks and practices that ensure clients and RFIs get best outcomes. The design provides for initiatives that address all the foregoing requirements as explained the preceding paragraph. RFIs are not built up as project institutions, but as perpetual commercial institutions which will last beyond the project period. Appropriate regulation (strengthened by the project) will ensure their relevance and efficiency. RFIs with the capacity built during the project period for financial, operational and risk management would be able to sustain themselves at the end of RUFIP III. Financially literate clients, with the experience dealing with RFIs during the project period will be able to take informed decisions in future regarding the nature of products and services required by them.

3. Risks

H. Project risks and mitigation measures

The programme carries political, economic, regulatory, operational, climate and fiduciary risks:

Risk category	Comments
Political risks: The ongoing reform programme of a new government, involving reorganization of public sector and regional – federal government relations can lead to internal disagreements and hinder smooth implementation.	Continuous communications between IFAD and GOE and strengthening of programme institutions to be self-reliant. Focus on poor, women and youth can have an important alleviating effect on account of favourable public opinion.
Economic risks: Macro-economic and financial instability, fluctuating exchange rate and inflation can impair implementation. Domestic funding availability can be impacted on account of the economic policies adopted that can suck out liquidity.	Since the loans to RFIs are ETB denominated, the risks will be **moderate.** With about 80 % of funds for the LOC are from secure sources, liquidity constraints for RUFIP will be low.
Policy and regulatory risks: Changes in policies on privatization, market orientation and profitability can affect the MFIs that work on private sector principles. Any policies that crowd out private sector investments can lead to losses, loan defaults and enterprise failure in MFIs. The uneven playing field between private sector MFIs and those in public sector ownership of Regional Governments is a challenge. Lack of regulatory capacity and delayed response to dynamic requirements of fast growing RFI sector can increase risks.	The risk that privatization policies will be reversed seems low; so is the probability of risk significantly affecting the sector. Periodic dialogue between AEMFI, NBE, FCA and Regional governments required to ensure a level playing field. Component I aims at strengthening regulatory capacity to minimize risks.
Proposal for reform of DBE can impact the programme. Weaknesses in DBE's non-RUFIP business operations can hinder smooth implementation.	Since the reform of DBE has involvement of multilaterals such as World Bank, the actions are expected to be calibrated to ensure seamless transition. RUFIP has been ring-fenced and has a dedicated implementation machinery; hence risk impact is expected to be minimal

Operational Risks: Institutional weaknesses and lack of capacities of RFIs (especially for RUSACCOs and their Unions) may affect deepening and widening of financial services. New products may fail to perform as can the agency arrangements for insurance marketing. The RUSACCOs and Unions may encounter governance risks on account of weak leadership and low skills in governance. Fraud, embezzlement and losses out of negligence are inherent to financial services business. Failure to attain operational and financial sustainability of the MFIs and RUSACCOs can impact clients and is a significant risk.	The capacity building interventions are expected to specifically address operational risks. Given the commercial interests on the part of both insurance companies and RFIs, risks in agency arrangements will be resolved quickly. FCA, through capacity building measures and rigorous supervision can minimize the governance risks in cooperatives. There are risk mitigation products available with insurance companies to control and manage fiduciary risks arising from operations. The role of regulators and PCMY would be critical in controlling these risks. In case of existing MFIs, the ROA and OSS levels have been high. While fluctuations in profitability may occur, the institutions are unlikely to make losses and exhibit financial weakness. In case of RUSACCOs, adequate data is not available to make trend projections. FCA has introduced the necessary MIS and will monitor performance, to guide the RUSACCOs for sustainable operations.
Social and environmental risks: Inappropriate targeting and financing of environmentally sensitive activities can put the programme in jeopardy. Climate change resulting droughts can impact livelihoods and loan repayment by clients and cause higher provisioning costs for RFIs.	A comprehensive assessment has been carried out (SECAP) of environment and social factors and ways of mitigating associated risks. Through adoption of the suggested measures in SECAP, these risks can be managed. The sensitivity of RFIs to a doubling of provision against loan defaults shows that they can still be resilient. The proposed introduction of insurance products is likely to increase the risk absorption capacity of clients, thus providing them financial security. This in turn will reduce default risks. Project implementing partners (MFIs and RUSACCOs) will be trained during start-up to ensure that the environmental and social impacts of lending activities are addressed at the planning, preparation and loan approval process. PIM will incorporate these safeguards for adherence during loan sanction and monitoring processes.

77. Risks at different levels have also been analyzed and dealt with to ensure that the programme delivers on its intended outcomes and impact. At the micro level clients face vulnerabilities arising from livelihood shocks and weather risks. Apart from providing advisory on coping behaviours during such periods, the clients would be encouraged to take insurance cover of an appropriate nature to counter the shocks. At institutional levels, competition and fiduciary risks can erode sustainability and reduce pace of growth. Utilising the capacity building support of the programme, RFIs should introduce systems to compete with peers as also minimize fraud risks. At the macro level, NBE and FCA would be acutely aware of systemic risks and the mitigation for the same. The key officials should be trained to foresee risks, and act with promptitude. Stakeholder consultations during policy development can reduce policy risks. NBE and FCA should guide the RFIs to adopt sound risk management policies and risk control systems. RFIs failing to sustain their profitability, thereby weakening ability to service savers appropriately is a risk possibility that the project has to address from the beginning. In case of RUSACCOs the risk is higher on this score. The measures outlined in the design and the partnership of the sector regulators, improve the ability to deal with these risks and also take prompt action.

78. **Fiduciary risks**: The overarching inherent risk is high as measured by Transparency International's Corruption Perceptions Index (CPI) for 2018 and the most recent, published Public Financial Management (PFM) Assessment was undertaken under the Public Expenditure and Financial Accountability (PEFA) Program in 2014, among other areas indicated weak accounting and internal audit exacerbated by capacity constraints associated with high staff turnover. Whereas financial management arrangements currently in place in the RUFIP II complimented with the some country's national financial management systems meet IFAD's minimum requirements, these are aa number of risks that IFAD will have to bear with during RUFIP III implementation.

79. PEFA assessment. According to the most recent PEFA assessment of 2014, which covered the Federal Government budgetary and extra-budgetary institutions, and all autonomous government agencies at federal level, the legal framework is observed to be consistent with international standards and is seen to be widely understood by budget institutions. Overall, the major challenge observed by PEFA was staff turnover of procurement officers, mainly due to low salaries. This resulted in a high demand for training of newly recruited staff by PPPAA, but again this is still persistent until today since the salary structures of government staff have not been revised.

Financial management risk	**Mitigation**
· Use of MS Excel for accounting data processing and reporting poses a risk of data loss, delays in reporting, errors and fraud.	· Procure and install an off the self -accounting software with a modified chart of accounts coded to accommodate accounting and reporting needs of RUFIP III has and this will be one of the financing covenants.
· Many implementing agencies with wide geographical spread and limited capacities posing a risk low disbursement as a result of delays in justification and potential ineligible expenditure.	· Funds flow arrangements for the financial cooperative sector aligned to the proposed role of FCA in the implementation arrangements and last point of receipt of funds in the sector put at Financial Cooperative Union rather than Woreda level. · A full time, dedicated accountant for RUFIP III, recruited competitively and on fixed contract provided for to boost financial management capacity at FCA. · RUFIP III M & E officer will take the lead in AWPB preparations and consolidations in consultation with finance staff.
· Poor quality AWPB often submitted late.	· Common coding of chart of accounts and M & E system to facilitate common reporting and comparison of financial and physical progress · IFAD will support training on AWPB preparation as part of the start-up activities to improve quality of AWPBs
· Poor quality audit reports characterised by insufficient disclosures, failure to follow financial reporting standards and absence of management letters.	· PCMU will have to consolidate and provide the auditors with complete set of financial statements with all the disclosures in compliance with International Public Sector Accounting Standards (IPSAS) at least three months following end of fiscal year to facilitate audit report submission no later than six months following end of the fiscal year. · Terms of Reference for audit will clearly specify IFAD audit requirements and will be subject to IFAD No objection.

I. Environment and Social category

80. RUFIP III may have some adverse environmental and/or social impacts on human populations or environmentally significant areas, but the likely impacts: (i) are less adverse than those for category A; (ii) are site specific and mostly reversible in nature; and (iii) can be readily remedied by appropriate preventive actions and/or mitigation measures. Based on the justification above and the National EIA Guideline and the SECAP, the programme falls under Category B. It is not expected to

have any significant irreversible adverse environmental or social implications. The project will support access to financial products which are adapted to the needs of vulnerable populations and do not engender major adverse environmental and social impact. Category B projects require an ESMP, which is incorporated in the SECAP review note in the form of a matrix, showing the output from the environmental and social Management Framework analysis. As the specific investments that will be made by the RUFIP III beneficiaries are currently unknown an ESMF has been developed during the design phase. The ESMF includes guidance and screening criteria for the selection of sub-projects for the cases that necessitate an ESMP to be developed during project implementation phase.

J. Climate Risk classification

81. Based on the preliminary design of RUFIP III and the agreed project activities in the design, basic climate risk analysis of the project has been done. According to this analysis RUFIP III has **moderate** climate risk. The risk classification is based on the typology of investments that will be made by the RUFIP III beneficiaries. Given that most of the beneficiaries are smallholder framers and pastoralists their livelihoods and hence investments made are exposed and sensitive to climate shocks. However, the resources accessed through RUFIP III can also be utilized for investments that can build the resilience of the beneficiaries and support the recovery following climate related shocks.

82. **Climate change**: The key trends and shocks the project beneficiaries should anticipate due to climate change during project implementation include the following: (i) increase in frequency and extent of drought episodes, famines and outbreaks of diseases;(ii) Famine due to Loss of crops, animalsl (iii) Increase in the frequent flood hazards; (iv) Decline in precipitation and increase in temperature; (v) Irregularity in rainfall and droughts; (iv) Shortage of water for human and animals. Pastoralists are adopting a variety of coping mechanisms, including more drought tolerant crops and varieties, improved forest management, diversified energy sources, and off-farm activities. Pastoralists have also divided pasture into wet and dry season grazing areas to better manage risk, and changed their herd from cattle to camels and goats, that are drought tolerant.

Government of Ethiopia has planned a climate-resilient green economy as a development strategy. This development direction promotes environmental protection, reducing fossil fuel consumption which releases greenhouse gases into the atmosphere. In line with the climate resilient green economic plan, innovative financial mechanisms in green and climate finance (off grid systems, renewables and energy efficiency) can contribute to lessening the adverse effects of climate change in rural environments and reduce climate induced vulnerability.

4. Implementation

K. Organizational Framework

a. Project management and coordination

83. The implementation arrangements of RUFIP II will be largely continued and strengthened based on lessons learned. MOF will be the representative of the GOE. The project Steering Committee provide policy and strategic leadership/guidance and oversight to the programme. The project Steering Committee will have key institutions such as MOF, NBE, FCA, DBE, One insurance Company, One Commercial Bank, as members. The Project director will provide support to the PSC for its functioning.

84. DBE as the Lead Implementing Agency, will establish a PCMU to coordinate and manage implementation of all the proposed programme activities. The main partners will include the NBE, the FCA, and AEMFI. The PCMU, hosted by DBE will take care of operational aspects relating to consolidation of AWPBs, release of funds under the plans, collection, analysis and reporting of information on periodically. NBE and FCA will undertake regulation and supervision and guide the RFIs. The RFIs (MFIs and RUSACCOs) will expand financial services and widen/deepen product offering to clients. MFIs and RUSACCO Unions (on behalf of RUSACCOs) will be able to access line of credit from DBE through application to the PCMU as per the procedures established.

85. Two sub-committees of the PCMU would be established, one for the guarantee facility and another for managing the Insurer – RFI agent partnerships. The guarantee facility will be set up in

DBE and managed by qualified experts. AGRA and other partners would provide TA for initial set up as also framing operational procedures and guidelines for the guarantee facility. To coordinate the interventions relating to targeting, social performance and customer protection, suitable expertise will be placed within the PCMU. The expert concerned will dialogue with the RFIs and FCA and offer guidance on planning, monitoring, reviewing and reporting based on data. A person with experience of financial sector would be in position in PCMU to drive the guarantee fund, insurance marketing through RFIs and managing financial sector partnerships with RUFIP. The M&E function in the PCMU will integrate data collection and studies relating to targeting, social performance and customer protection in to normal MIS and M&E processes as well as periodic reporting.

86. MFIs that satisfy qualifying criteria[33] will become implementing agencies and be able to avail line of credit and capacity building support. RUSACCOS will be able to access RUFIP support through their Unions (about 140 them, which will be the implementing agencies) which will make applications for credit and capacity building support to FCA. FCA will in turn send the applications to the PCMU. The routing of RUSACCO support through their unions has been done with a view to streamline programme coordination and management.

87. The positioning of RUFIP as a hub for financing other projects will be achieved through identification of areas of operation of other participating projects and making arrangements with RFIs in those areas to establish standard protocols for financing. The protocols will specify the requirements for selection of eligible clients and forwarding their applications to a nodal officer in the local RFI, who will then take responsibility for further processing of the credit applications. The training of clients from a financial literacy point of view will be taken up jointly by the RFI and the participating project. The participating projects will be encouraged to hire or designate a rural finance professional for maintaining the relationship with the local RFIs.

88. Partnerships with technical advisory institutions will be required for progress out of poverty tracking, social performance and customer protection mainstreaming, operations of guarantee facility and managing the insurance product marketing through RFI agents. Building capacities in the RFIs will also require partnerships and training arrangements.

b. Financial Management, Procurement and Governance

Financial Management

89. ***Organization and Staffing*** The MoF, as representative of the Borrower, will represent GoE on all matters pertaining to RUFIP III. DBE is assigned the responsibility of Lead Executing Agency and will ensure the overall oversight for the implementation of Programme at National level with its roles reflected at Regional level. This includes the provision of general policy directions for the implementation, coordinating, implementing and ensuring coordination with other relevant agencies. As a disbursement condition and as part of the PCMU, a full time Finance Manager and at least two accountants must have been assigned. IFAD No Objection will be needed for the hiring of the Finance Manager. As these are full time staff of DBE, counterpart funds shall be used to cover their salary costs.

90. FCA has been designated as a key implementing agency for the financial cooperative sector. This will involve coordinating budgeting, release of funds, justification and reporting for all Regional Bureaus as well as FCA itself. Given the current low capacity at FCA’s finance directorate, a dedicated accountant will be recruited competitively on fixed term contract basis to join the finance team for purposes of RUFIP III financial management. For each of the other implementing agencies, focal staff will be assigned to handle RUFIP III day to day financial management requirements. As there will be a small volume of transactions, these do not need to be fully dedicated. The Regional Cooperative Promotion Bureaus will collate financial reports from Unions and report to FCA, which in turn will report to PCMU. Detailed financial reporting and audit arrangements will be documented in the relevant contracts/MoUs.

91. **Budgeting.** RUFIP III M&E officer will take the lead in AWPB preparations and consolidations in consultation with finance staff. IFAD will support training on AWPB preparation as part of the start-up activities. As part of the budget calendar and one of the financing covenants, the AWPB will be submitted to IFAD for No Objection no later than 07 May, each year.

92. **Internal Controls.** The financial control environment in Ethiopia is relatively strong albeit with some challenges. As assessed by PEFA, there is high compliance to the strong internal controls and improvement in external audit and related oversight. Under RUFIP II, some control gaps have been identified by statutory audits and supervision missions including; absence of accounting software, weak PIM, delays in justifications by implementing agencies, irregular reconciliations among others. These controls are strengthened in the PIM.

93. **Accounting Systems, Policies and Procedures.** Use of MS Excel limited RUFIP II reporting to programme components, sub-components, and expenditure categories leaving out individual activity level. MS Excel is time consuming and prone to errors and fraud and limits budget control. As critical start-up activity, an off the shelf accounting software will be procured, installed and the chart of accounts coded and tailored to accommodate project needs.

94. **Reporting and monitoring.** Financial reporting under RUFIP II focused on the annual financial statements for presentation to statutory auditors. Interim financial reporting internally and even to IFAD was not done. Contributions of implementing partners were not reported. Under RUFIP III, quarterly reporting will be a requirement and will form part of a more comprehensive interim financial reporting. Details are elaborated in the PIM.

95. **Internal and External Audit.** Given the medium fiduciary risk, DBE internal auditors will undertake internal audits of RUFIP II. The quality of the submissions made have sometimes been wanting with inadequate disclosures, absence of management letters and use of inappropriate standards. PCMU will have to consolidate and provide the auditors with complete set of financial statements with all the disclosures in compliance with International Public Sector Accounting Standards (IPSAS).

96. **Procurement arrangements**. As per the Federal procurement proclamation, directive and manual, the actual practice of procurement is decentralized to public bodies or procuring entities that poses a structure that will ensure internal control in the decision-making process. In this case, the Development Bank of Ethiopia (DBE) is the public body under which RUFIP III will operate and will therefore be responsible for the overall procurement function. At regional level, although procurement is governed by the Public Procurement and Property Administration Proclamation, each region has specific procurement directives.

97. For the ongoing RUFIP II, there is no dedicated procurement unit/specialist for the PCMU. The procurement function is undertaken by the DBE directorate of property facility management. Apart from AEMFI, the other implementing agencies, namely; FCA and NBE, are also public bodies that ensure internal control in the procurement decision-making process. AEMFI does not have a procurement unit. A procurement committee has been set up to prepare the necessary procurement related documents and evaluate offers. The challenges associated with procurement arrangements are:

98. The PCMU will not be a procurement entity per se, but to effectively mitigate the challenges observed above, there is need for the PCMU to have a fulltime procurement specialist dedicated to the project. The procurement specialist, in partnership with the DBE procurement unit will be responsible for; (i) Consolidating the procurement plans from IAs in the IFAD format, and monitor and report on their implementation (ii) Review procurement processes by IAs and ensure that they conform to both government and IFAD requirements and (iii) Follow up on procurement processes with DBE procurement unit and ensure that the entire procurement processes are sped up and carried out in accordance with the law.

99. **Procurement methods and prior review amounts.** Procurement will be undertaken using the general methods as set out in the Public Procurement and Property Administration Proclamation. Despite the thresholds set out in the proclamation, according to IFAD handbook on procurement, international competitive bidding (ICB) will be used for contracts above the following values: (i) Works: above USD 1 million equivalent, (ii) Goods: above USD 250,000 equivalent; and (iii) Services:" above USD 250,000 equivalent. The prior review thresholds are initially set at; (i) Award of any contract for goods and works estimated to cost USD 100,000 equivalent and any contract awarded through direct contracting; and (ii) Award of any contract for services estimated to cost USD 50,000 equivalent or more and any contract awarded through direct contracting.

100. **Governance**. All participating institutions are legal entities with clear management and governance structures. At PCMU level, the Programme Steering Committee will take the overall project governance responsibility. IFAD's anti-corruption policy and whistle blowing procedures will be

mainstreamed in the PIM and elaborated at start up to mitigate the risk of corruption and promote effective utilisation of RUFIP III resources.

L. Planning, M&E, Learning, KM and Communication

a. Planning, M&E, Learning, Knowledge Management and Communication

101. RUFIP III AWPB process for each year will start in December of the previous year. It will be prepared in a participatory manner from the ground up based on PCMU orientations and an agreed upon template. The process will start with the MFIs and RuSACCOs. The Financial Institutions will plan their annual activities under the programme and incorporate them in their respective institutional and business development plans. While MFI will transmit their budget proposals directly to DBE for review and consolidation, RuSACCOs needs will be consolidated by their respective Unions, which in turn will submit them to FCA (through the RCPB if so desired by FCA). FCA will consolidate the plans of all Unions in to an AWPB and forward the same to PCMU. A key requirement will be the preparation of a strategy for meeting targeting requirements relating to poor segments, gender, youth and marginalised areas with the help of baseline data by the MFIs and the Unions. A nodal officer in each MFI will prepare a strategic plan that will outline the local context of coverage of vulnerable customers and marginalised woredas and how these would be covered to meet the targeting requirements of the project over the six-year project period. This plan would be integrated in to the AWPB business targets from year to year so that tracking of targeting gets integrated in the AWPB process.FCA, AEMFI and NBE will prepare their respective AWPB. As AEMFI and FCA will be in charge of Capacity Building for their respective sectors, their AWPB will be prepared in consultation with the MFIs (AEMFI) and the RCPB and Unions of RuSACCOs (FCA).

102. AWPB will be consolidated PCMU, validated by the National Steering Committee and sent to IFAD no later than 90 days before the start of the implementation year (July 1st). Each AWPB will also include a procurement plan and, a disbursement plan. The AWPB might be revised at least once during the implementation year, upon request by the PCMU to IFAD, or following orientations by a joint supervision mission.

RUFIP III implementing partners will be required to report implementation progress on a quarterly basis. PCMU will integrate their inputs in its quarterly report and submit the comprehensive progress report of the programme to DBE management and IFAD.

103. RUFIP III will develop a Results Based Management Monitoring and Evaluation (M&E) System aligned to the Government of Ethiopia and IFAD requirements. The M&E will be built around the programme's Logical Framework (Log-Frame), which will be informed and updated throughout the programme's lifetime. The M&E system will be used as a decision tool throughout the programme's life cycle, from inception to completion.

104. As the PCMU will be fully integrated in DBE's External Fund and Credit Management Directorate (EFCMD), RUFIP III M&E will be under the responsibility of the EFCMD's Director. RUFIP III will maintain the multi-level project monitoring and evaluation system of RUFIP II, with a hierarchical pyramid from the beneficiary RFIs to the PCMU, with clear roles and responsibilities of the various actors at each level.

105. Monitoring of project outcomes and output indicator. A baseline survey of the MFI and RuSACCOs and their Unions as well as their respective customers will be carried out during the first year of implementation to provide benchmark data for later impact assessments. Due to the limited capacity to collect data and keep records on their customers, the RFI were only required under RUFIP II to at least track outreach and repayment indicators. Data collection is set to improve with the scaling-up of the Management Information System (MIS) activities currently piloted by AEMFI and FCA.

106. Additional information will be collected periodically using thematic and follow-up studies. Annual Outcome Surveys (AOS) will be conducted in the target area every year starting from the 2nd year of implementation, in order to: (i) measure changes happening at the household level in terms of livelihoods and food security during the project life; (ii) assess targeting efficiency; (iii) provide evidence of project success or failure; (iv) quantify outcomes at client level to the extent feasible and

(v) provide timely performance information necessary to undertake corrective actions. RUFIP III will also take advantage of studies conducted by its implementation partners.

107. RUFIP II had limited M&E capacity, with a high turnover of staff at all levels of the system. As a result, RUFIP was only able to fulfil one of the three expected functions of a project M&E system. The M&E team capacity will be strengthened to collect and analyze data, identify key trends in progress and advise management on adjustments needed in project implementation. In the first year of programme implementation, team in charge of RUFIP III, M&E officers will be certified through PriME, the new M&E Training and Certification programme mandatory for IFAD-funded projects.

108. RUFIP III will upgrade RUFIP II M&E system. A database management system (DBMS) that will allow to monitor the Log-Frame indicators and implementation progress of the Annual Work Programs and Budget (AWPB) will be introduced in the first year of project implementation. The DBMS will be linked to the Accounting Software and customized to allow for simultaneous monitoring of both Physical and Financial execution. The DBMS will be administered by the PCMU; it will be informed by data collected at the grass-roots level following the hierarchical organizational structure outlined above and using instruments developed in collaboration with the various stakeholders. For more efficiency and to foster more ownership from the RFIs, RUFIP will incorporate data collection tools commonly used by RFIs into the design of its own tools. The flow of data and information on the RuSACCOs side will be simplified to reduce the number of actors involved in the chain of transmission and allow for easier interactions between the RuSACCOs Unions and their members with the PCMU.

109. **Knowledge Management and Communication**. RUFIPIII implementation strategy will include a process of learning and capitalization of lessons learned in order to build a critical mass of knowledge all on all aspects of the programme (technical, administrative, financial and fiduciary). Knowledge accumulated will be used throughout the project life to inform decisions and help improve the performance of the project as well as informing other IFAD operations in Ethiopia and across the division, and other technical and financial partners' initiatives.

110. RUFIP III Knowledge Management Strategy will aim at building the capacity of the implementing partners i.e. by supporting these actors in elaborating their own KM Strategies, acquiring the necessary tools for implementing them, access knowledge outside of their institutions and disseminating knowledge. RUFIP III approach will promote peer-to-peer exchanges, networking of RFIs, organising workshops, sponsoring thematic studies and impact studies. Case studies, short videos and information brochures on various themes relating to financial literacy, customer protection, use of different financial products and services will be prepared. Suitable means and forums will be used for dissemination. Based on the past experiences and the ongoing activities during RUFIP III successful practices realting to products, processes, institutions will be documented and made use of during the capacity building courses under component I and II. RFIs, their associations and Unions, as well as the supervisory structures (NBE and FCA) will be invited to play a lead role in the identification of opportunities to build partnerships to further their access to knowledge, within the target area and beyond. The results of annual outcome surveys and Poverty tracking measurements will be documented and used to inform all concerned and interested on the poverty impact of microfinance. In particular AEMFI will be encouraged to utilise the knowledge products in dissemination to wider audiences through African Microfinance Network.

111. Opportunities for policy dialogue have been identified in the areas of customer protection, social performance aspects in to RFIs working. A number of studies and actions have been proposed in the areas of risk based supervision, setting up credit bureau, depositor protection in RuSACCOs in component 1 and 2 for implementation by NBE and FCA. With both the sector regulators as partners and Ministry of Finance as the nodal ministry, policy dialogue on key aspects of financial inclusion for improved livelihoods can be facilitated through periodic events and discussions.

b. Innovation and scaling up

112. RUFIP III will bring in three critical innovations in the financial sector. The first is the institution of a guarantee facility which will help RFIs to access financial resources from banks and financial institutions. This facility will induce a steady flow of domestic funds, and will be part of the exit strategy for securing resources for RFIs. The facility will be structured to offer guarantees and indemnities of a wide range that would help RFIs to issue a variety of financial instruments and diverse borrowing arrangements – such as loans, bonds and debentures, securitization and sale of portfolio, etc.

113. The second innovation is that of facilitating access to insurance products to rural clients in scale[34]. RFIs will be capacitated to become agents of insurance companies and market their products. Other country experiences show that all the three parties, the clients, RFIs and insurance companies will post significant gains. Given favourable conditions, the potential for scaling up insurance penetration in rural areas through this model is high and the client level impact in vulnerability reduction is very high.

114. The third innovative aspect of RUFIP is the positioning of the programme as financing hub for all other projects of different agencies where livelihood strengthening takes place, but access to finance remains a constraint. RUFIP III will establish easy procedures to be able to serve clients of other projects to access financial services from the RFIs. The RFIs will be able to utilize the LOC and capacity building initiatives of RUFIP to serve the clients of other projects. Some of these clients will also be targeted under IFAD's mainstreaming priorities.

115. There are some procedural innovations envisaged that would help in improving targeting, tracking and measurement of results. Nodal officers are to be identified in the MFIs and FCA that would focus on targeting programme interventions on youth, women and underserved areas right from the planning process. The nodal officers would also generate information from the respective organisations' MIS and review performance on mainstreaming priorities every quarter. Tracking of clients' progress in their livelihoods using tools such as Progress out of Poverty Index will enable to measure outcomes and impact over the programme duration. RFIs would be trained in use of such tools, collection of data and data based analytical review of outcomes.

M. Implementation plans

a. Implementation readiness and start-up plans.

116. Since this would be third phase of a well-functioning programme, the state of readiness for implementation is assessed to be high. Some aspects that need to be worked upon before start up are: i) the finalisation of guarantee facility in consultation with other collaborating agencies; ii) the development of the insurance agency business framework involving RFIs and insurance companies; iii) baseline studies to arrive at RFI specific targeting strategies; iv) the identification of TA providers for tracking client level progress out of poverty (such as Grameen Foundation, key member of PPI alliance); v) the procurement of an off the shelf accounting software by the PCMU, installed with customization. At present no expenditures are expected to be incurred before start of the programme, on account of continuation of existing RUFIP II.

117. At the start of the programme, it would be essential that the PCMU has the full complement of staff and the critical experts to handle the new elements introduced in RUFIP III, namely social performance, customer protection, targeting strategy for mainstreaming IFAD priorities, guarantee fund, insurance marketing partnerships between insurers and RFIs. A campaign to inform all MFIs and RUSACCO unions of the eligibility criteria to avail support from RUFIP III and the procedural aspects should be carried out. If necessary a training for potential new implementing partners (MFIs and Unions) should be conducted within the first two months of commencement.

118. To commence implementation a first Work Plan and Budget for 18 months has been prepared that would enable the programme to smoothly deal with teething problems. The PIM is part of the design documents. Training of staff in understanding PIM and its usage should be provided within the first three months of programme become operational. A start up workshop will help the project staff and other stakeholders understand the features of programme design, become aware of the implementation strategies and operational procedures. Clarity on the quality and type of MIS required to analyse and report on impact and outcomes will be provided in the start-up workshop.

b. Supervision, Mid-term Review and Completion plans.

119. In the first year of implementation, the supervision plan will include visits to the implementers. This will be complemented by desk review of progress and financial reports, internal audit reports and annual statutory audit reports and ongoing support from IFAD. IFAD and DBE will jointly undertake periodic supervision and implementation support missions with the Country Director of IFAD having oversight of the supervision. While EIB will administer the EIB financing and the EU grant, both institutions will be invited to join these supervision missions, in view of enhancing partnership and

minimizing transaction cost for the Borrower. The frequency, length and team composition will be based on programme's support needs at a given time. Further co-financiers of the project may carry out reviews/studies of their own, based on prior agreement. While the joint supervision missions carry out comprehensive annual reviews of project performance, the periodic Implementation Support would be more frequent focusing on specific areas, components and themes as may be necessary. The Mid Tern Review of RUFIP III will be jointly done by GoE and IFAD in accordance with IFAD requirements and no later than mid-point of project implementation; and Project completion review will be a responsibility of GoE with support from IFAD, as needed, in accordance with the PCR guidelines.

Footnotes

[1]Ethiopia Poverty Assessment; World Bank, January 2015

[2]Ethiopia Progress towards the MDGs, 2014

[3] FAOSTAT – Ethiopia. http://www.fao.org/faostat/en/#country/238

[4] In addition to taxes, salaries and logistics, the Government has agreed to place the reflows of past RUFIP loans to the tune of USD 45 million with RUFIP for LOC.

[5] Ethiopia: Economist Intelligence Unit, 2 Quarter 2019 Report

[6] Ethiopia Poverty Assessment; World Bank, January 2015

[7] Ethiopia Progress towards the MDGs, 2014

[8] National Bank of Ethiopia, Fourth Quarterly Bulletin, Volume 34, 4, 2018.

[9] IMF Country Report, December 2018

[10] Article IV consultation 2018 Staff report – IMF December 2018

[11] Comprehensive Food Security and Vulnerability Analysis, WFP and Ethiopia Central Statistical Agency 2014.

[12] Ethiopia's Progress Towards Eradicating Poverty: An interim Report on 2015-16 Poverty Analysis Study, by National Planning Commission, Ethiopia.

[13] Human Development Indices and Indicators: 2018 Statistical Update Briefing note for countries on the 2018 Statistical Update Ethiopia. - UNDP

[14] Central Statistical Agency [Ethiopia] and ICF International (2012). Ethiopia Demographic and Health Survey 2011. Addis Ababa, Ethiopia.

[15] Human Development Report 2017, UNDP.

[16] World bank Report, 2018

[17] Amhara Credit & Saving Institution, Dedebit Credit and Saving Institution S.C, Omo Micro Financing s.c, Oromia Credit and Saving S.C, Addis Credit & Saving Institution S.C

[18] Access to Finance and Development: Theory and Measurement, Chapter 1; Finance For All, A World Bank Policy Research Report- siteresources.worldbank.org/INTFINFORALL/ Resources / 4099583.../FFA_ch01.pdf

[19] Please see Note on Impact of RUFIP on Lives of Clients, Annex 15 to PDR

[20] Rural Financial Intermediation Programme, Interim Evaluation, March 2011- Independent Office of Evaluation, IFAD

[21] The Impact of Microfinance on Household Saving: The Case of Amhara Credit and Saving Institution, Degadamot Woreda - Journal of Poverty, Investment and Development - www.iiste.org

[22] The impact of saving and credit cooperatives on food security in the West Amhara Region of Ethiopia, Ayele, Zemen Ayalew, University College of Cork, Ireland

[23] Impact of Micro Credit on the Livelihood of Borrowers: Evidence from Mekelle City, Ethiopia 1*Bekele Abraham Diro, 2Dereje Getachew Regasa, Aksum University, Ethiopia, 2. Mekelle University, Ethiopia

[24] Analysing the Impact of Credit on Rural Households' Income in the Case of Cheliya District, West Shoa Zone, Oromia National Regional State - Tadele Erena Geleta[1], Alelign Ademe Mengistu[1] and Solomon Amsalu Gesese, Journal of Global Economics. 2018, Vol 6(3): 304.

[25] The role of microfinance institutions on poverty alleviation in Ethiopia - Dr. D. Guruswamy Assistant Professor, Mekelle University, Ethiopia - Indian Journal of Commerce & Management Studies January 2012

[26] a) Women entrepreneurs in Ethiopia lead the way from poverty to empowerment ; b) Women's cooperatives boost agriculture and savings in rural Ethiopia – UN Women - http://www.unwomen.org/en/search-results?keywords=ethiopia

[27] Based on projections and credit demand estimates made during design.

[28] A US based non-profit, working for financial inclusion of poor-women, through a network of 49 partners across the world

[29] Rural Finance Policy, International Fund for Agricultural Development, Rome

[30] The actual number of people covered cannot be precisely estimated on account of over/aps arising from multiple loan accounts in the name of one person (especially in towns and cities with heavy competition), and multiple clients from the same household. Assuming that multiple accounts cover 30% of the total, then the coverage would about 43.4 million, which is assumed as the minimum coverage.

[31] Resilient landscapes and livelihoods project (October 2018) and Urban Institutional and Infrastructure Development Project (March 2018).

[32]http://cbonds.com/emissions/issue/99509

[33] Provided in the PIM

[34] While small scale pilots in crop and livestock insurance have been implemented in the last few years using RFIs as agents, these have not been done on scale. IFAD has supported the MicroInsurance Centre to design a weather index insurance product with local insurers for rain-fed production of PASIDP II supported farmers, thus expanding the previous activities supported by WFP with focus on viability and sustainability.

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Rural Financial Intermediation Programme – Phase III (RUFIP III)

Design report

Annex 1 – Logical Framework

Rural Financial Intermediation Programme III

Logical Framework

Results Hierarchy	Indicators				Means of Verification			Assumptions
	Name	Baseline	Mid-Term	End Target	Source	Frequency	Responsibility	
Outreach	1.b Estimated corresponding total number of households members							
	Household members							
	1.a Corresponding number of households reached							
	Households							
	1 Persons receiving services promoted or supported by the project				PCMU quarterly report from project MIS	Annually	PCMU	
	Total number of persons receiving services	7000000	10250000	13500000				
Project Goal Contribution to the reduction of poverty in rural Ethiopia	Annual income of participating households				Baseline, mid and end line survey, annual outcome surveys	Annually	PCMU	Sustained national and regional economic and political stability (A) Competent TA provider available and able to offer the tools and train RFI and PCMU staff
	Increase		20	50				
	Increase in ownership of assets among beneficiaries				Baseline, midline, endline surveys, annual outcome surveys and poverty tracking tool results	Annually		
	Increase (male beneficiaires)		35	75				
	Increase (female beneficiaires)		35	75				
Development Objective Increased access for rural households by a range of financial services and products	1 Persons receiving services promoted or supported by the project							
	Increase in access from MFIs and RUSACCOs				Baseline, mid and end line survey	Baseline, mid-term and completion	PCMU	
	Increased access to savings		35	75				
	Increased access to credit		35	75				

Results Hierarchy	Indicators				Means of Verification			Assumptions
	Name	Baseline	Mid-Term	End Target	Source	Frequency	Responsibility	
	Increased access to insurance		35	75				
Outcome Strong RFIs with sound operating performance offering better financial access to vulnerable people (improved sustainability of RFI)	1.2.6 Partner financial service providers with portfolio-at-risk ≥30 days below 5%				NBE, FCA quarterly, annual reports	Yearly, mid-term and completion	PCMU	Regulatory policies and economic environment remain favourable to RFIs
	Percentage	60	80	90				
	1.2.7 Partner financial services providers with operational self-sufficiency above 100%				NBE, FCA quarterly, annual reports	Yearly, mid-term and completion	PCMU	
	Percentage			95				
	Partner MFIs and RUSACCOs with 25% reduction in operating costs							
	MFIs	0	75	95				
	RUSACCOs	0	50	90				
Output Social performance and customer protection practices adopted	RFIs with effective social and customer protection policies				Date from RFIs - reported by AEMFI and FCA	Yearly, mid-term	PCMU	RFIs are willing to adopt new practices
	RFIs	10	50	100				
Output MIS/M&E improved from scaling up of RUFIP-II IT and MIS	RFIs with industry standard MIS/M&E							
	RUSACCOs	50	100	140				
	MFIs	20	35	100				
Output Capacity and financial resources of MFIs and LFIs to provide financial access to farmers, cooperatives, unions and SMEs operating in the value chains and in the AIPs are increased (PROSEAD)	Increase of number of farmers as clients of financial entities in the park catchment areas supported by the project				RFIs M&E and reporting on lending portfolio agains targets	Yearly, mid-term	PCMU	
	Increase (male farmers)		15	40				
	Increase (female farmers)		15	40				
Outcome Wider offer of services and products responsive to customer needs	New/modified services and products developed and marketed in response to customer needs				DBE quarterly reports, annual reports	Yearly, mid-term and completion	PCMU	
	RFIs offering new products	0	50	90				

Results Hierarchy	Indicators				Means of Verification			Assumptions
	Name	Baseline	Mid-Term	End Target	Source	Frequency	Responsibility	
Output Funding from financial institutions and other programs mobilised	RFIs accessing financing from other sources				RFIs reports, FCA, AEMFI	Yearly, mid-term	PCMU	
	Increase							
	RFIs		50	80				
Outcome Effective financial inclusion for marginalised people and regions	Annual increase in clients in underserved regions				Poverty tracking tool results, annual outcome surveys	Annually	PCMU	Sound industry reporting (A)
	Annual increase		25	25				
	1.2.5 Households reporting using rural financial services				Annual outcome surveys	Yearly, mid-term and completion	PCMU	
	Households							
Output Access to loanable funds for RFI improved and criteria made more equitable	Increase of medium and small RFI accessing LoC							
	MFIs	80	85	90				
	RUSACCOs		50	75				
Output Establishment and implementation of partnerships with other government and PTF initiatives working with under-served regions and marginalized people	Partnership coordination framework							
	Clients referred to by other partner/projects working with under-served regions and marginalised people	0	1600000	3200000				
Output Nutrition of vulnerable households improved	Households starting backyard/kitchen garden as a result of the trainings received							
	Households	0	25	50				
Output Policy engagement	Regulation development in financial infrastructure: National payments, Credit bureau or Collateral Registration				NBE reports	Annual	PCMU	A = probable area of policy engagement for RUFIP III, among all reform areas
	Regulations issued by NBE	0	1	2				
	User participation of financial infrastructure				NBE	Annual	PCMU	
	MFIs participating	0	5	40				

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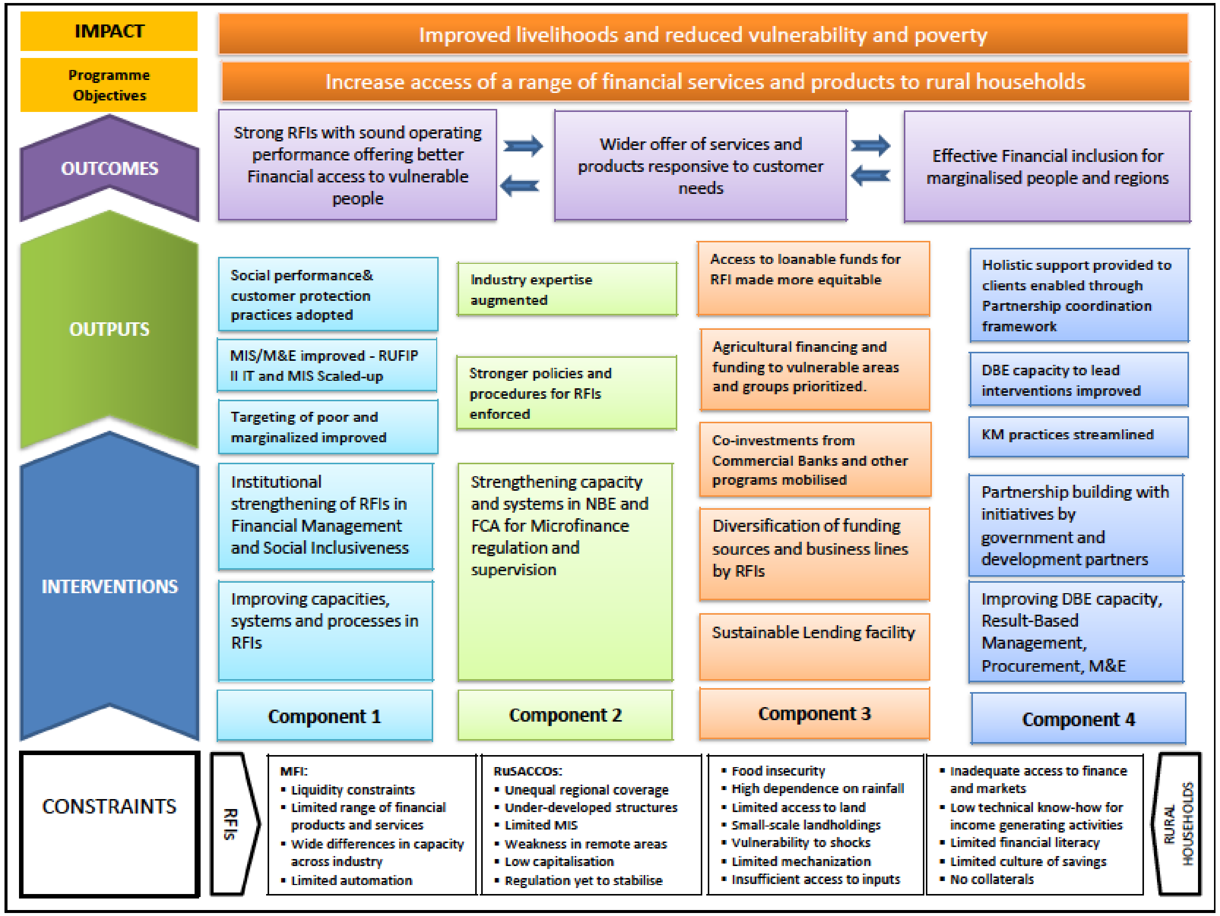
Rural Financial Intermediation Programme – Phase III (RUFIP III)

Design report

Annex 2 – Theory of change

Annex 2: Theory of Change



The Federal Democratic Republic of Ethiopia

Rural Financial Intermediation Programme – Phase III (RUFIP III)

Design report

Annex 3 – Project cost and financing: Detailed cost tables

Annex 3: Project cost and financing: Detailed costs tables

1. Project costs for RUFIP3 were based on estimates obtained during an in-country mission to Ethiopia in February/March 2019. Key summary tables are available below with a full set available in the appendix. Supporting footnotes are available in each detailed table.

2. **Project Period:** The proposed programme is financed over a six-year period.

3. **Price contingencies:** A contingency of US$ 0.32 million is provided to compensate for inflation of one percent on the US$. Given that most of the funds are allocated to the credit line this amount is considered sufficient. No inflation rate was used for local currency to ensure all allocated funds are utilized without deviation. At implementation the PCMU may revise quantities at the time of spending if additional funding becomes available due to foreign currency gains. No forecast was made on local currency values.

Inflation and Exchange rates

	Up to Project Start	2020	2021	2022	2023	2024	2025
Inflation (in %'s) /a							
ALL							
Annual rates							
Local	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	0.0	1.0	1.0	1.0	1.0	1.0	1.0
Compounded rates							
Local	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	0.0	0.5	1.5	2.5	3.5	4.6	5.6
NONE							
Annual rates							
Local	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Compounded rates							
Local	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exchange rates (Local/Foreign) /b							
ALL							
Rates actually used	28.2	28.2	28.2	28.2	28.2	28.2	28.2
Constant purchasing parity rates	28.2	28.1	27.8	27.5	27.2	27.0	26.7
% deviation	0.0	0.5	1.5	2.5	3.5	4.6	5.6
NONE							
Rates actually used	28.2	28.2	28.2	28.2	28.2	28.2	28.2
Constant purchasing parity rates	28.2	28.2	28.2	28.2	28.2	28.2	28.2
% deviation	0.0	0.0	0.0	0.0	0.0	0.0	0.0

4. **Taxes and Duties.** Most items procured under the programme will be purchased locally. VAT (15%) will be financed by the government and all other identifiable taxes and duties, in line with the practice of externally financed projects in Ethiopia.

5. **Basis for Cost Estimates.** Project costs are estimated as of March 2019 prices. Estimates for costs of works, equipment, salaries, local technical assistance, operation and maintenance were based on recent data provided by the DBE, FCA, NBE and AEMFI. Professional staff at the PCMU will be either seconded by the Government or contracted on an annual basis. All prices are VAT included, using 13.04% as used. Various import and excise duties apply for imported goods and services. International technical assistance is assumed to be free of tax.

A. Programme Costs

6. The total investment and incremental recurrent programme costs, including contingencies, is estimated at US$ 304 million. The programme has four components, their full names are as follows:

i. Building Capacity of Institutions and Clients
ii. Improving Regulation, Supervision and Institutional Discipline
iii. Facilitating Funds Flow and Diversification of Business
iv. Programme Management

7. The fund reflows and line of credit amount to 86 percent of total funding under component 3, it being the largest share, while capacity building activities of RFIs and regulatory bodies under components 1 and 2 amount to 11 percent, with programme management amounting to only 3 percent. The relatively small proportion of funding to component 4 is made possible because of the nature of the large line of credit.

8. Note: Staff under the PCMU are fully funded by the government as a counterpart contribution to the programme, signifying considerable ownership of the investments.

Programme Costs by Component (USD '000)

	(ETB '000)			(US$ '000)			%	% Total
	Local	Foreign	Total	Local	Foreign	Total	Foreign Exchange	Base Costs
1. C1: Building capacity of institutions and customers	383,724.1	162,036.0	545,760.2	13,607.2	5,746.0	19,353.2	30	6
2. C2: Improving regulation, supervision and institutional discipline	286,379.1	122,733.9	409,113.0	10,155.3	4,352.3	14,507.6	30	5
3. C3: Facilitating funds flow and diversification of business	7,438,985.2	-	7,438,985.2	263,793.8	-	263,793.8	-	86
4. C4: Programme management	173,150.6	47,488.8	220,639.4	6,140.1	1,684.0	7,824.1	22	3
Total BASELINE COSTS	8,282,239.0	332,258.8	8,614,497.7	293,696.4	11,782.2	305,478.6	4	100
Physical Contingencies	-	-	-	-	-	-	-	-
Price Contingencies	1,176.7	7,847.0	9,023.6	41.7	278.3	320.0	87	-
Total PROJECT COSTS	8,283,415.7	340,105.7	8,623,521.4	293,738.1	12,060.5	305,798.6	4	100

9. External financing of the line of credit is staggered evenly over the first four years to allow for good practice and management of funds throughout the programme's lifespan, while domestic funds will continue lending throughout the six years of the programme, going through several cycles, as per the table below.

Programme Components by Year, including contingencies (USD '000)

	Totals Including Contingencies						
	2020	2021	2022	2023	2024	2025	Total
1. C1: Building capacity of institutions and customers	5,359.9	3,959.9	4,063.0	2,833.7	2,115.1	1,174.1	19,505.7
2. C2: Improving regulation, supervision and institutional discipline	2,533.3	3,487.0	3,225.2	2,401.0	2,216.5	772.9	14,635.9
3. C3: Facilitating funds flow and diversification of business	60,115.1	60,115.1	60,115.1	60,115.1	11,666.7	11,666.7	263,793.8
4. C4: Programme management	2,508.9	1,339.2	1,336.1	874.3	937.5	867.2	7,863.2
Total PROJECT COSTS	70,517.1	68,901.3	68,739.4	66,224.1	16,935.8	14,480.9	305,798.6

Expenditure accounts by Year, including contingencies (USD '000)

	Totals Including Contingencies						
	2020	2021	2022	2023	2024	2025	Total
I. Investment Costs							
A. Consultancies	6,320.6	5,849.7	5,375.9	4,133.5	3,328.6	2,072.9	27,081.2
B. Credit, Guarantee Funds	60,155.1	60,155.1	60,155.1	60,155.1	11,706.7	11,666.7	263,993.8
C. Equipment and Materials	1,596.4	188.6	482.8	54.3	54.5	54.7	2,431.3
D. Training	1,974.3	2,237.1	2,254.9	1,410.6	1,375.4	216.0	9,468.3
Total Investment Costs	70,046.4	68,430.6	68,268.7	65,753.5	16,465.1	14,010.2	302,974.5
II. Recurrent Costs							
A. Salaries & Allowances	306.6	306.6	306.6	306.6	306.6	306.6	1,839.8
B. Operating costs	164.1	164.1	164.1	164.1	164.1	164.1	984.3
Total Recurrent Costs	470.7	470.7	470.7	470.7	470.7	470.7	2,824.1
Total PROJECT COSTS	70,517.1	68,901.3	68,739.4	66,224.1	16,935.8	14,480.9	305,798.6

10. Counterpart contributions by MFIs and RUSACCO/Unions is anticipated at 20 percent and 10 percent, respectively, for training and working related activities. These are factored in the beneficiary contribution in the table, overleaf. Domestic and external financiers, excluding IFAD, fall under co-financiers, such as AGRA, BADEA, EIB and EU for external financiers, and Commercial Bank of Ethiopia, Ethiopian Insurance Company, DBE and the GoR as domestic sources of finance. All contributions from external financiers go towards the Line of Credit under Component 3, all except for USD 3 million from the EU for TA.

Components by Financiers, (USD '000)

	Borrower/counterpart		IFAD Loan		IFAD Grant		Other Cofinanciers		Beneficiaries		Total			Local (Excl.	Duties &
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	For. Exch.	Taxes)	Taxes
1. C1: Building capacity of institutions and customers	2,517.5	12.9	-	-	14,437.2	74.0	1,599.6	8.2	951.4	4.9	19,505.7	6.4	5,878.6	11,109.7	2,517.5
2. C2: Improving regulation, supervision and institutional discipline	1,908.5	13.0	-	-	12,727.4	87.0	-	-	-	-	14,635.9	4.8	4,463.9	8,263.5	1,908.5
3. C3: Facilitating funds flow and diversification of business	45,000.0	17.1	4,900.0	1.9	3,993.8	1.5	209,900.0	79.6	-	-	263,793.8	86.3	-	263,793.8	-
4. C4: Programme management	2,521.2	32.1	-	-	3,941.6	50.1	1,400.4	17.8	-	-	7,863.2	2.6	1,718.0	5,488.1	657.1
Total PROJECT COSTS	51,947.2	17.0	4,900.0	1.6	35,100.0	11.5	212,900.0	69.6	951.4	0.3	305,798.6	100.0	12,060.5	288,655.1	5,083.1

Detailed Cost Tables (USD '000)

Component 1: Building Capacity of Institutions and Clients – MFIs

		Quantities							Unit Cost	Totals Including Contingencies (US$ '000)						
	Unit	2020	2021	2022	2023	2024	2025	Total	(US$)	2020	2021	2022	2023	2024	2025	Total
I. Investment Costs																
A. MIS improvement of MFIs and NBE																
MIS-Project shared hardware infrastructure /a	lumpsum	1	-	-	-	-	-	1	997,377	999.1	-	-	-	-	-	999.1
Trainings and capacity building for project team /b	lumpsum	1	-	-	-	-	-	1	89,286	89.4	-	-	-	-	-	89.4
Software Upgrades for Shared Data Center and DR	lumpsum									89.4	44.9	45.0	45.2	45.4	45.5	315.4
Subtotal										1,178.0	44.9	45.0	45.2	45.4	45.5	1,404.0
B. Human resources development at MFIs																
Trainings to MFIs staffs/management/board /c	Training	25	30	30	30	30	25	170	16,000	400.7	482.5	484.2	485.9	487.6	407.8	2,748.6
TOTs for MFI staff /d	Training	1	1	1	1	1	-	5	20,000	20.0	20.1	20.2	20.2	20.3	-	100.9
Pastorialist MFIs-Trainings to MFI staffs/management/board /e	Training	15	15	15	15	15	-	75	16,000	240.4	241.2	242.1	242.9	243.8	-	1,210.5
Modules preparations/consultants payment /f	Training	10	10	10	10	10	-	50	6,250	62.6	62.8	63.0	63.3	63.5	-	315.2
Workshops and seminars /g	Training	1	1	-	1	1	-	4	7,100	7.1	7.1	-	7.2	7.2	-	28.6
Subtotal										730.9	813.8	809.5	819.5	822.4	407.8	4,403.8
C. Research & Knowledge Management for MFI sector																
Research and Knowledge Management /h	lumpsum	1	1	1	-	1	-	4	50,000	50.1	50.3	50.4	-	50.8	-	201.6
D. Exposure visits																
Exposure visits to board of directors and general managers of M	lumpsum	2	-	2	-	-	-	4	45,000	90.2	-	90.8	-	-	-	180.9
Pastorialist area MFIs-exposure visit for board and management	lumpsum	2	-	2	-	-	-	4	45,000	90.2	-	90.8	-	-	-	180.9
Subtotal										180.3	-	181.6	-	-	-	361.9
E. Social perfomance management /i	lumpsum	1	-	-	-	-	-	1	50,000	50.1	-	-	-	-	-	50.1
F. Knowledge management																
Financial literacy and education	Training	1	1	1	1	1	-	5	60,000	60.1	60.3	60.5	60.7	60.9	-	302.6
Knowledge Management/documentation/conferences /j	lumpsum	1	-	1	-	1	-	3	50,000	50.1	-	50.4	-	50.8	-	151.3
Subtotal										110.2	60.3	111.0	60.7	111.7	-	453.9
G. Strengthening AEMFI																
Strengthening AEMFI-Launching EFTRI's certification programme	lumpsum									30.1	30.2	30.3	17.2	17.3	-	124.9
Study for transforming AEMFI into apex level organisation	study	-	1	-	-	-	-	1	15,000	-	15.1	-	-	-	-	15.1
Staff Development/Trainings /k	number	3	3	3	2	-	-	11	6,000	18.0	18.1	18.2	12.1	-	-	66.4
TNA for developing training programmes by AEMFI and EFTRI	study	-	-	1	-	-	-	1	18,000	-	-	18.2	-	-	-	18.2
Institutional development/ furniture and computers/stationary	set	0.2	0.2	0.15	0.15	0.15	0.15	1	60,000	12.0	12.1	9.1	9.1	9.1	9.2	60.6
Upgrading and maintaining websites of AEMFI and EIFTRI	lumpsum	1	1	1	1	1	1	6	5,000	5.0	5.0	5.0	5.1	5.1	5.1	30.3
Mobility / travel	lumpsum	0.2	0.2	0.2	0.2	0.1	0.1	1	75,000	15.0	15.1	15.1	15.2	7.6	7.6	75.7
Shorter term local consultant /l	lumpsum	1	1	1	1	-	-	4	15,000	15.0	15.1	15.1	15.2	-	-	60.4
AEMFI Staff Salary (Long Term High Level local consultant) /m	number	2	2	2	2	2	2	12	45,000	90.2	90.5	90.8	91.1	91.4	91.7	545.7
Subtotal										185.3	201.0	201.7	165.0	130.5	113.7	997.3
Total										2,484.8	1,170.3	1,399.2	1,090.4	1,160.8	566.9	7,872.5

\a EU financing
\b Nb of Woredas, zonal and regional offices.
\c Nb of trainings
\d Nb of ToTs
\e Nb of trainings
\f Nb of modules
\g Nb of w orkshops
\h Nb of research studies; EU Financing
\i EU Financing
\j EU financing
\k Nb of staff
\l per person
\m Nb of project staff

Component 1: Building Capacity of Institutions and Clients - RUSACCOs

		Quantities							Unit Cost	Totals Including Contingencies (US$ '000)						
	Unit	2020	2021	2022	2023	2024	2025	Total	(US$)	2020	2021	2022	2023	2024	2025	Total
I. Investment Costs																
A. Capacity Building of RUSACCOs/ Unions /a																
Training of Trainers (ToT) /b	number	27	-	26	-	-	-	53	179	4.8	-	4.7	-	-	-	9.5
Exposure Visits /c	number	500	500	500	500	-	-	2,000	72	36.1	36.2	36.3	36.4	-	-	145.0
Refresher training /d	number	-	1,000	1,000	1,000	1,000	1,000	5,000	27	-	27.1	27.2	27.3	27.4	27.5	136.7
Subtotal										40.9	63.3	68.2	63.8	27.4	27.5	291.2
B. Member Level development																
Financial Literacy /e	number	1,000	1,000	1,000	500	500	500	4,500	54	54.1	54.3	54.5	27.3	27.4	27.5	245.1
Grievance Redressal /f	number									25.0	25.1	25.2	25.3	20.3	20.4	141.4
Customer Protection Measures /g	lumpsum									50.1	50.3	50.4	50.6	40.6	40.8	282.8
Social Performance management	lumpsum									17.0	25.1	25.2	2.2	17.3	17.3	104.2
Impact Assessment studies of benefits -Documentation of success stories	unit	1	-	-	-	-	-	1	150,000	150.3	-	-	-	-	-	150.3
Subtotal										296.5	154.8	155.3	105.5	105.6	106.0	923.8
C. Policy Makers Development Programmes																
Exposure Visits- Overseas /h	number	-	15	15	-	-	-	30	5,357	-	80.8	81.1	-	-	-	161.8
Exposure Visits- Internal /i	number	30	30	30	30	30	-	150	1,500	45.1	45.2	45.4	45.6	45.7	-	227.0
Conferences /workshops /j	number	50	50	50	50	50	50	300	179	9.0	9.0	9.0	9.1	9.1	9.1	54.3
Subtotal										54.0	135.0	135.5	54.6	54.8	9.1	443.1
D. Policy and product Development Interventions																
Studies on new financial services/products /k	lumpsum									17.9	-	30.6	90.4	90.7	-	229.6
Linkage with digital financial Services /l	lumpsum									17.0	10.1	30.3	70.9	71.1	-	199.3
Deposit guarantee system	lumpsum	1	1	1	1	1	-	5	40,000	40.0	40.0	40.0	40.0	40.0	-	200.0
Subtotal										74.9	50.1	100.9	201.2	201.8	-	628.9
E. Financial integration																
Support for IT infratructure (hardware, software) for RUSACCOs /m	number	45	75	90	45	-	-	255	17,857	805.0	1,346.2	1,621.1	813.4	-	-	4,585.7
Institutional Development- Setting up 2 Apex level national/regional Bodies /r	number	2	-	-	-	-	-	2	3,500	7.0	-	-	-	-	-	7.0
Linking RUSACCOs to Unions /o	lumpsum	1,000	3,000	3,000	2,000	2,000	1,000	12,000	4	4.0	12.1	12.1	8.1	8.1	4.1	48.5
Setting up a training Institution of excellence at the National Level /p	unit	-	1	-	-	-	-	1	500,000	-	502.6	-	-	-	-	502.6
Developing Training Institutions at Regional level for Financial Coperatives-	lumpsum	2	2	-	-	-	-	4	25,000	50.1	50.3	-	-	-	-	100.3
Setting up Certification System for ptofessional and institutional excellence	lumpsum	1	-	-	-	-	-	1	200,000	200.3	-	-	-	-	-	200.3
Pilot testing new products	lumpsum	1	-	1	-	1	-	3	75,000	75.1	-	75.7	-	76.2	-	227.0
Training Need Assesment	lumpsum	1	-	-	-	-	-	1	200,000	200.3	-	-	-	-	-	200.3
Viability and Transformation Impact Study	lumpsum	1	-	-	-	-	-	1	50,000	50.1	-	-	-	-	-	50.1
Integrating Financial Cooperatives with Financial Inclusion Programme	lumpsum									28.0	18.1	18.2	18.2	18.3	18.3	119.2
Integrating SACCOs/Unions with Payment Systems /r	lumpsum									8.5	8.5	8.6	8.6	8.6	5.2	48.1
Integrating Unions/ SACCOs with Credit Information system	lumpsum									14.3	17.9	36.0	36.2	18.1	-	122.6
Mobility Support for Union/ RUSACCO staff /s	motorbike	150	-	-	-	-	-	150	3,571	536.6	-	-	-	-	-	536.6
Technical Staff Support for Unions /t	person Year	100	100	100	100	100	100	600	4,285	429.2	430.7	432.2	433.7	435.3	436.8	2,598.0
Subtotal										2,408.6	2,386.5	2,203.8	1,318.2	564.6	464.4	9,346.2
Total										2,875.0	2,789.6	2,663.8	1,743.3	954.3	607.1	11,633.2

\a Other Cofin equal to EU financing
\b 53 participants from FCAs and regions
\c Committee Members from RUSACCOs; 400 RUSACCOs w ith 5 participants each , 5 days
\d 457 URSACCOs w ith 10 participants each, 2 day efresher program
\e 4,500 members, 3-day program
\f RUSCACCO members
\g RUSACCO members
\h 30 experts from FCA and RCPA
\i 150 staff of FCA and RCPA
\j 6 conferences, w ith 50 participants, 1 each year
\k Financial products, e.g. micro –insurance products- credit life
\l e.g. vouchers, e.pinayments ,e.insurance
\m Support to 245 RUSACCOs
\n APEX Regional Bodies; EU financing
\o RUSSACOs: 12,000 RUSACCOs covered - communication expense (non-consulting services)
\p National training institute: may include w orks and non-consulting services
\q 4 x training institutions
\r For study and technology development
\s 150 motor cycles to Unions/ RUSACCOs based on performance criteria
\t 1 technical staff recruited on contract for each of the 100 unions

Component 2: Improving Regulation, Supervision and Institutional Discipline – of MFIs by NBE and AEMFI

		Quantities							Unit Cost	Totals Including Contingencies (US$ '000)						
	Unit	2020	2021	2022	2023	2024	2025	Total	(US$)	2020	2021	2022	2023	2024	2025	Total
I. Investment Costs																
A. Financial and Digital Inclusion Framework																
Financial and Digital literacy programmes for MFI clients , especially in	lumpsum	1	1	1	1	1	1	6	75,000	75.1	75.4	75.7	75.9	76.2	76.5	454.7
Support for Technology Innovation	lumpsum	1	1	1	1	1	1	6	50,000	50.1	50.3	50.4	50.6	50.8	51.0	303.2
Policy and Strategic Interventions	lumpsum	1	1	1	1	1	1	6	25,000	25.0	25.1	25.2	25.3	25.4	25.5	151.6
Subtotal										150.3	150.8	151.3	151.8	152.4	152.9	909.5
B. Capacity Building Training for personnel																
Training and sensitization on the operationalization and implementatior	lumpsum	8	-	8	-	-	-	16	3,200	25.6	-	25.8	-	-	-	51.5
Risk Management and Risk Based Supervision for MFIs.	lumpsum	10	10	10	10	10	-	50	4,300	43.1	43.2	43.4	43.5	43.7	-	216.9
Regulation and supervision of Islamic financial service	lumpsum	8	10	9	8	9	-	44	4,000	32.1	40.2	36.3	32.4	36.6	-	177.5
Boulder Microfinance Training	lumpsum	4	4	4	4	4	-	20	8,000	32.1	32.2	32.3	32.4	32.5	-	161.4
Portfolio Quality and Delinquency management	lumpsum	5	5	-	-	-	-	10	1,000	5.0	5.0	-	-	-	-	10.0
Troubled assets relief programme	lumpsum	8	8	8	-	-	-	24	4,000	32.1	32.2	32.3	-	-	-	96.5
Subtotal										169.9	152.8	170.1	108.3	112.8	-	713.8
C. Exposure Visits for Policy Exploration/ New Learning																
Operation and regulation of digital financial service cyber security an	number	8	8	8	8	8	-	40	3,300	26.4	26.5	26.6	26.7	26.8	-	133.2
Establishment and operation of Deposit Insurance Scheme for MFI sav	number	9	9	-	-	-	-	18	4,800	43.3	43.4	-	-	-	-	86.7
Lease Financing regulation and Operation	number	10	10	10	10	10	-	50	3,600	36.1	36.2	36.3	36.4	36.6	-	181.6
Linkage of MFIs - Agency banking by Commercial Banks through MFIs	number	10	10	10	10	10	-	50	3,500	35.1	35.2	35.3	35.4	35.6	-	176.5
Development of self regulation and institution of SRO by upgrading AE	number	-	10	10	-	-	-	20	3,500	-	35.2	35.3	-	-	-	70.5
Subtotal										140.8	176.5	133.6	98.6	98.9	-	648.4
D. Conferences/ Seminars/ Workshops																
Adoption of IFRS by MFIs and its impact from Regulatory Perspective	number	700	-	-	-	-	-	700	5	3.5	-	-	-	-	-	3.5
Annual auditors Conference	number	150	150	150	150	150	-	750	5	0.8	0.8	0.8	0.8	0.8	-	3.8
Annual Supervisors Conference	number	30	30	30	30	30	30	180	5	0.2	0.2	0.2	0.2	0.2	0.2	0.9
Implementation and operationalization of CG framew ork on MFIs	number	350	350	-	-	-	-	700	5	1.8	1.8	-	-	-	-	3.5
Responsible financing and financial consumer protection (customer g	number	-	-	700	-	-	-	700	5	-	-	3.5	-	-	-	3.5
Supervision and regulation of MFIs in the context of financial sector lit	number	-	-	-	700	-	-	700	5	-	-	-	3.5	-	-	3.5
Assessment on the current status, challenges and future prospects c	number	-	-	-	-	700	-	700	5	-	-	-	-	3.6	-	3.6
Training and sensitization on Bank Supervision Application	number	700	700	700	-	-	-	2,100	5	3.5	3.5	3.5	-	-	-	10.6
Advanced use and application of Excel application for Supervisors	number	100	100	100	100	100	100	600	5	0.5	0.5	0.5	0.5	0.5	0.5	3.0
Conference on Social performance management	number	100	100	-	-	-	-	200	5	0.5	0.5	-	-	-	-	1.0
Subtotal										10.7	7.2	8.5	5.0	5.0	0.7	36.9
E. Studies related to Policy, Systems, Impact																
Assessment on the need and implementation modalities of commercia	study	1	-	-	-	-	-	1	125,000	125.2	-	-	-	-	-	125.2
Assessment on the need, risks and implementation modality of transfo	study	-	1	-	-	-	-	1	125,000	-	125.6	-	-	-	-	125.6
Assessment on the adequacy and effectiveness of law enforcement	study	1	-	-	-	-	-	1	125,000	125.2	-	-	-	-	-	125.2
A study on the need and modalities for setting up a Credit Reference	study	1	-	-	-	-	-	1	125,000	125.2	-	-	-	-	-	125.2
A study for evolving policy and system for securitisation of assets	study	-	-	-	1	-	-	1	125,000	-	-	-	126.5	-	-	126.5
A study for developing new financial products w ith necessary safeg	study	-	-	1	-	-	-	1	125,000	-	-	126.1	-	-	-	126.1
A study on MIS and appropriate exposure norms and reporting syster	study	-	-	1	-	-	-	1	125,000	-	-	126.1	-	-	-	126.1
A study on Corporate Governance	study	1	-	-	-	-	-	1	125,000	125.2	-	-	-	-	-	125.2
A study on Payment Settlement System	study	-	1	-	-	-	-	1	125,000	-	125.6	-	-	-	-	125.6
Subtotal										500.9	251.3	252.2	126.5	-	-	1,130.9

Component 2: Improving Regulation, Supervision and Institutional Discipline – of MFIs by NBE and AEMFI - continued

		Quantities							Unit Cost	Totals Including Contingencies (US$ '000)						
	Unit	2020	2021	2022	2023	2024	2025	Total	(US$)	2020	2021	2022	2023	2024	2025	Total
I. Investment Costs																
F. IT Tools																
Electronic file and management system	unit	-	-	1	-	-	-	1	125,000	-	-	126.1	-	-	-	126.1
Automation the onsite supervision system	unit	-	1	-	-	-	-	1	125,000	-	125.6	-	-	-	-	125.6
Developing w eb pages for Directorate of Mf Supervision	unit	-	-	1	-	-	-	1	300,000	-	-	302.6	-	-	-	302.6
Subtotal										-	125.6	428.7	-	-	-	554.3
G. Documentation- Manual/ Guidelines																
Development of Policy and Procedure Manual for handling Policy form	lumpsum	-	1	-	-	-	-	1	125,000	-	125.6	-	-	-	-	125.6
Development of Crisis Management and Problem Resolution Framew o	lumpsum	-	-	-	-	1	-	1	125,000	-	-	-	-	127.0	-	127.0
Development of Stress Testing Policy and Procedure for MFIs.	lumpsum	-	-	-	1	-	-	1	125,000	-	-	-	126.5	-	-	126.5
Macro prudential Assessment Framew ork and Financial System Stab	lumpsum	-	-	1	-	-	-	1	125,000	-	-	126.1	-	-	-	126.1
Subtotal										-	125.6	126.1	126.5	127.0	-	505.2
H. Setting up of Apex Development Bank																
Institutional support for setting up of an Apex Development Bank	lumpsum	1	1	-	-	-	-	2	125,000	125.2	125.6	-	-	-	-	250.9
I. Setting up of Regional Office in Pastoral Region																
Study for setting up of Regional Office in Pastoral Region	lumpsum	-	-	-	-	1	-	1	100,000	-	-	-	-	101.6	-	101.6
J. Long term Consultantant for overseeing NBE interventions																
Appointment of long term consultant for overseeing NBE interventions	lumpsum	1	1	1	1	1	1	6	50,000	50.1	50.3	50.4	50.6	50.8	51.0	303.2
K. Development of Micro Insurance																
1. Exposure Visits in Micro- Insurance: /a																
MI Regulatory Framew ork	number	5	5	5	5	-	-	20	3,600	18.0	18.1	18.2	18.2	-	-	72.5
MI products and best practices	number	5	5	5	5	-	-	20	3,600	18.0	18.1	18.2	18.2	-	-	72.5
Financial literacy strategy	number	5	5	5	-	-	-	15	3,600	18.0	18.1	18.2	-	-	-	54.3
Subtotal										54.1	54.3	54.5	36.4	-	-	199.3
2. Capacity Building / Training programmes for MI																
Social Performance Management in MI	number	10	10	10	-	10	10	50	4,000	40.1	40.2	40.3	-	40.6	40.8	202.0
Product Development	number	10	10	10	10	-	-	40	4,000	40.1	40.2	40.3	40.5	-	-	161.1
Managing partnership betw een MFIs, CBs and Insurer	number	-	-	10	10	10	-	30	4,000	-	-	40.3	40.5	40.6	-	121.5
Supervision oriented programme	number	-	-	10	10	10	10	40	4,000	-	-	40.3	40.5	40.6	40.8	162.2
Process Reingeneering for MI operations and settlements	number	-	-	-	10	10	10	30	4,000	-	-	-	40.5	40.6	40.8	121.9
Training of Trainers programme in MI	number	10	10	10	10	-	-	40	3,500	35.1	35.2	35.3	35.4	-	-	141.0
NBE programmes at EIFS	number									2.5	0.8	0.8	0.8	0.8	0.8	6.6
Subtotal										117.7	116.4	197.5	198.2	163.3	123.1	916.3
3. Studies related to MI																
Product Development	lumpsum	1	-	-	-	-	-	1	50,000	50.1	-	-	-	-	-	50.1
Demand Assesment	lumpsum	-	1	-	-	-	-	1	50,000	-	50.3	-	-	-	-	50.3
Subtotal										50.1	50.3	-	-	-	-	100.3
4. IT Tools for MI																
Development of Database/ MIS and reporting framew ork	lumpsum	-	1	-	-	-	-	1	300,000	-	301.6	-	-	-	-	301.6

Component 2: Improving Regulation, Supervision and Institutional Discipline – of MFIs by NBE and AEMFI - continued

		Quantities							Unit Cost	Totals Including Contingencies (US$ '000)						
	Unit	2020	2021	2022	2023	2024	2025	Total	(US$)	2020	2021	2022	2023	2024	2025	Total
I. Investment Costs																
5. Documentation/ Manual/ Guidelines on MI																
Handbook/ Manual for Supervision	lumpsum	-	1	-	-	-	-	1	50,000	-	50.3	-	-	-	-	50.3
Manual on Prudential Regulations	lumpsum	-	-	1	-	-	-	1	50,000	-	-	50.4	-	-	-	50.4
Handbook/ Manual on tools relevant to Ethiopian MI practioners	lumpsum	-	1	-	-	-	-	1	50,000	-	50.3	-	-	-	-	50.3
Subtotal										-	100.5	50.4	-	-	-	151.0
6. Literacy Campign on Micro Insurance																
Consumer Education	number	-	500	500	500	500	500	2,500	5	-	2.5	2.5	2.5	2.5	2.5	12.7
Literature on Consumer Protection	lumpsum	1	-	-	-	-	-	1	50,000	50.1	-	-	-	-	-	50.1
Literature on how MI models products work	lumpsum	1	-	-	-	-	-	1	50,000	50.1	-	-	-	-	-	50.1
Subtotal										100.2	2.5	2.5	2.5	2.5	2.5	112.8
7. Conferences and seminars																
Business Planning in micro insurance- Instituional Budget and Work	workshop	-	1	1	1	1	-	4	7,000	-	7.0	7.1	7.1	7.1	-	28.3
Consumer Protection tools	workshop	-	1	1	1	1	-	4	7,000	-	7.0	7.1	7.1	7.1	-	28.3
Financial Inclusion - Insurance Products in pastoral regions	workshop	-	1	1	1	1	-	4	7,000	-	7.0	7.1	7.1	7.1	-	28.3
Natural disasters - Protection Measures	workshop	-	1	1	1	1	-	4	7,000	-	7.0	7.1	7.1	7.1	-	28.3
Subtotal										-	28.1	28.2	28.3	28.4	-	113.2
Subtotal										322.1	653.7	333.2	265.5	194.3	125.7	1,894.4
Total										1,469.9	1,819.4	1,654.0	932.9	842.7	330.2	7,049.1

\a Nb of personnel

Component 2: Improving Regulation, Supervision and Institutional Discipline – of RUSSACOs by FCA

		Quantities							Unit Cost	Totals Including Contingencies (US$ '000)						
	Unit	2020	2021	2022	2023	2024	2025	Total	(US$)	2020	2021	2022	2023	2024	2025	Total
I. Investment Costs																
A. Strengthening of Regulation and Supervision																
Training of Supervising Officers in FCA/ Regional/Zonal /Woreda levels /a	Training	50	150	118	-	-	-	318	89	4.5	13.4	10.6	-	-	-	28.5
Training of Auditors /b	Training	-	320	-	-	-	-	320	89	-	28.6	-	-	-	-	28.6
Refresher training of auditors /c	Training	-	-	-	150	170	-	320	36	-	-	-	5.5	6.2	-	11.7
Training of Inspecting Officers /d	Training	150	200	-	-	-	-	350	89	13.4	17.9	-	-	-	-	31.3
Refresher programme for Inspecting Officers /e	Training	-	-	150	200	-	-	350	36	-	-	5.4	7.3	-	-	12.7
Training of Auditors /f	Training	100	-	-	-	160	-	260	89	8.9	-	-	-	14.5	-	23.4
Refresher Programme for Internal Auditors /g	Training	-	-	-	100	-	160	260	36	-	-	-	3.6	-	5.9	9.5
Sensitisation of Board/ Committee members on Governance /h	lumpsum	1,500	2,000	1,000	-	-	-	4,500	89	133.7	178.9	89.8	-	-	-	402.4
MIS Development of Unions and SACCOs /i	number	25	50	50	50	50	-	225	17,857	447.2	897.5	900.6	903.8	907.0	-	4,056.0
Appointment (Recruitment) of auditors /j	number	100	100	100	100	100	100	600	4,285	429.2	430.7	432.2	433.7	435.3	436.8	2,598.0
Engaging consultant for drafting regulaions on Financial Cooperatives and en	lumpsum									5.0	-	-	5.8	-	-	10.8
Conducting studies on prudential norms, deposit safety and customer protect	lumpsum	-	1	1	1	-	-	3	100,000	-	100.5	100.9	101.2	-	-	302.6
Development of Codes of Conduct /m	lumpsum									17.9	-	18.0	7.2	7.3	-	50.4
Development of Legal Framew ork /n	lumpsum									3.6	-	3.6	-	3.6	-	10.8
Strengthening off-site Surveillance /o	lumpsum									-	-	10.1	-	-	-	10.1
Total										1,063.4	1,667.6	1,571.2	1,468.1	1,373.8	442.7	7,586.8

\a Nb of supervisory officers; 5 day training programme for 318 supervisory officers from FCA,Regions, Weredas at 500 BIRR /day
\b Nb of auditors; Risk based audit pgme of 5 days, 320 auditors from FCA, Region , Wereda.
\c Nb of auditors; 2 day experience sharing w orkshop - once during pgme.
\d Nb of inspecting officers; Trainables 350; 5 day programme
\e Nb of auditors; Refrresher programme of 2 day duration
\f Trainables 260, 5 day Risk based audit programme. 100 of those trained w ill be recruited by the project (1.1.10). It is assumed that another 160 w ill berecruited by the Union themselves.
\g Nb of auditors; Refresher programme of 2-days duration
\h Nb of Board / Committee Members; Training 4500 Board Committee members, programme of 5 days, 3 from each Board instead of 5.Includes field visits to good performing Unions/RUSACCOs
\i 225 additional Unions w ill be brought under MIS (including new Unions that are formed during the course of RUFIP III) (as against a demad of 275)
\j Nb of auditors; Appointment of 1 auditor at Union level, w ith salery of 120000 Birr/year for 6 years
\k Appointing consultant for the same at a lumpsum of 300000 Birr
\l Needs based studies by engaging consultants
\m Appointment of consultant
\n Appointment of Consultant
\o Mounting a study in 2-3 Unions.

Component 3: Facilitating Funds Flow and Diversification of Business

		Quantities							Unit Cost	Totals Including Contingencies (US$ '000)						
	Unit	2020	2021	2022	2023	2024	2025	Total	(US$)	2020	2021	2022	2023	2024	2025	Total
I. Investment Costs																
A. Line of Credit /a																
1. External Cofinanciers																
AGRA	lumpsum	0.25	0.25	0.25	0.25	-	-	1	1,500,000	375.0	375.0	375.0	375.0	-	-	1,500.0
BADEA	lumpsum	0.25	0.25	0.25	0.25	-	-	1	20,000,000	5,000.0	5,000.0	5,000.0	5,000.0	-	-	20,000.0
EIB	lumpsum	0.25	0.25	0.25	0.25	-	-	1	121,400,000	30,350.0	30,350.0	30,350.0	30,350.0	-	-	121,400.0
EU - LOC	lumpsum	0.25	0.25	0.25	0.25	-	-	1	7,000,000	1,750.0	1,750.0	1,750.0	1,750.0	-	-	7,000.0
IFAD Grant - LoC	lumpsum	0.25	0.25	0.25	0.25	-	-	1	3,993,800	998.5	998.5	998.5	998.5	-	-	3,993.8
IFAD Loan - LoC	lumpsum	0.25	0.25	0.25	0.25	-	-	1	4,900,000	1,225.0	1,225.0	1,225.0	1,225.0	-	-	4,900.0
Subtotal										39,698.5	39,698.5	39,698.5	39,698.5	-	-	158,793.8
2. Domestic Cofinanciers																
Government of Ethiopia	lumpsum									7,500.0	7,500.0	7,500.0	7,500.0	7,500.0	7,500.0	45,000.0
DBE	lumpsum	0.1667	0.1667	0.1667	0.1667	0.1667	0.1667	1	25,000,000	4,166.7	4,166.7	4,166.7	4,166.7	4,166.7	4,166.7	25,000.0
Commercial Bank of Ethiopia	lumpsum	0.25	0.25	0.25	0.25	-	-	1	20,000,000	5,000.0	5,000.0	5,000.0	5,000.0	-	-	20,000.0
Ethiopian Insurance Company	lumpsum	0.25	0.25	0.25	0.25	-	-	1	15,000,000	3,750.0	3,750.0	3,750.0	3,750.0	-	-	15,000.0
Subtotal										20,416.7	20,416.7	20,416.7	20,416.7	11,666.7	11,666.7	105,000.0
Total										60,115.1	60,115.1	60,115.1	60,115.1	11,666.7	11,666.7	263,793.8

\a Contribution to Line of Credit

Component 4: Programme Management

	Unit	Quantities 2020	2021	2022	2023	2024	2025	Total	Unit Cost (US$)	Totals Including Contingencies (US$ '000) 2020	2021	2022	2023	2024	2025	Total
I. Investment Costs																
A. Project Management Investments Costs																
1. Equipment																
Laptops /a	unit	5	5	-	-	-	-	10	1,200	6.0	6.0	-	-	-	-	12.0
Specialist IT software /b	set	1	-	-	-	-	-	1	450,000	450.8	-	-	-	-	-	450.8
Desktop Computers and peripheral devices /c	lumpsum	1	-	-	-	-	-	1	200,000	200.3	-	-	-	-	-	200.3
Subtotal										657.1	6.0	-	-	-	-	663.2
2. Vehicles																
Four-wheel Drive /d	unit	3	-	-	-	-	-	3	100,000	301.2	-	-	-	-	-	301.2
3. Studies																
Impact Studies	lumpsum	-	-	-	-	1	-	1	150,000	-	-	-	-	154.0	-	154.0
Mid-term review (MTR)	unit	-	-	-	1	-	-	1	90,000	-	-	-	91.8	-	-	91.8
Project Completion Report (PCR) /e	lumpsum	-	-	-	-	-	1	1	80,000	-	-	-	-	-	82.6	82.6
Subtotal										-	-	-	91.8	154.0	82.6	328.4
4. Workshops																
RUFIP III Launch Workshop	workshop	1	-	-	-	-	-	1	200,000	200.3	-	-	-	-	-	200.3
stakeholders Consultation Work shop	workshop	-	1	1	1	1	1	5	30,000	-	30.2	30.3	30.4	30.5	30.6	151.8
Steering Committee and PCMU meeting	workshop	1	1	1	1	1	1	6	8,000	8.0	8.0	8.1	8.1	8.1	8.2	48.5
Financial literacy sensitization workshop	workshop	1	1	1	1	1	1	6	20,000	20.0	20.1	20.2	20.2	20.3	20.4	121.3
Subtotal										228.4	58.3	58.5	58.7	58.9	59.1	522.0
5. Training and Study Tours																
Staff Local (National) training /f	Training	20	20	20	-	-	-	60	2,000	40.1	40.2	40.3	-	-	-	120.6
International Study tours /g	Training	20	20	20	-	-	-	60	9,000	180.3	180.9	181.6	-	-	-	542.8
International Training	Training	20	20	20	-	-	-	60	9,000	180.3	180.9	181.6	-	-	-	542.8
Subtotal										400.7	402.1	403.5	-	-	-	1,206.2
6. Technical Assistance and Operations																
Guarantee Facility /h	lumpsum	1	1	1	1	1	1	6	250,000	250.4	251.3	252.2	253.1	254.0	254.9	1,515.8
Insurance mainstreaming /i	lumpsum	2	1.5	1.5	-	-	-	5	100,000	200.3	150.8	151.3	-	-	-	502.4
Subtotal										450.8	402.1	403.5	253.1	254.0	254.9	2,018.2
Total Investment Costs										2,038.2	868.5	865.5	403.6	466.8	396.6	5,039.1

Component 4: Programme Management - continued

		Quantities							Unit Cost	Totals Including Contingencies (US$ '000)						
	Unit	2020	2021	2022	2023	2024	2025	Total	(US$)	2020	2021	2022	2023	2024	2025	Total
II. Recurrent Costs																
A. Program Coordination																
Project Coordinator	person Year	1	1	1	1	1	1	6	11,436	11.4	11.4	11.4	11.4	11.4	11.4	68.6
Senior Lead Technical Staff /j	person Year	4	4	4	4	4	4	24	40,000	160.0	160.0	160.0	160.0	160.0	160.0	960.0
Finance Team Manager	person Year	1	1	1	1	1	1	6	7,500	7.5	7.5	7.5	7.5	7.5	7.5	45.0
M&N Team Manager	person Year	1	1	1	1	1	1	6	7,500	7.5	7.5	7.5	7.5	7.5	7.5	45.0
Appraisal Team Manager	person Year	1	1	1	1	1	1	6	7,500	7.5	7.5	7.5	7.5	7.5	7.5	45.0
Senior Officers	person Year	8	8	8	8	8	8	48	6,408	51.3	51.3	51.3	51.3	51.3	51.3	307.6
Senior Accountant	person Year	1	1	1	1	1	1	6	6,408	6.4	6.4	6.4	6.4	6.4	6.4	38.4
Accountant	person Year	2	2	2	2	2	2	12	5,280	10.6	10.6	10.6	10.6	10.6	10.6	63.4
Procurement Specialist	person Year	1	1	1	1	1	1	6	7,500	7.5	7.5	7.5	7.5	7.5	7.5	45.0
Secretary	person Year	1	1	1	1	1	1	6	5,280	5.3	5.3	5.3	5.3	5.3	5.3	31.7
Officers	person Year	6	6	6	6	6	6	36	5,280	31.7	31.7	31.7	31.7	31.7	31.7	190.1
Subtotal										306.6	306.6	306.6	306.6	306.6	306.6	1,839.8
B. Operating Costs																
Communication /k	per year	1	1	1	1	1	1	6	49,160	49.2	49.2	49.2	49.2	49.2	49.2	295.0
Advertisement, information and publicity	per year	1	1	1	1	1	1	6	17,558	17.6	17.6	17.6	17.6	17.6	17.6	105.3
Office supplies & Stationery & budget for supplies	per year	1	1	1	1	1	1	6	52,672	52.7	52.7	52.7	52.7	52.7	52.7	316.0
External Services /l	per year	1	1	1	1	1	1	6	3,511	3.5	3.5	3.5	3.5	3.5	3.5	21.1
Asset insurance and engraving	per year	1	1	1	1	1	1	6	7,022	7.0	7.0	7.0	7.0	7.0	7.0	42.1
Water and electricity	per year	1	1	1	1	1	1	6	1,264	1.3	1.3	1.3	1.3	1.3	1.3	7.6
Cleaning & Security services	per year	1	1	1	1	1	1	6	1,264	1.3	1.3	1.3	1.3	1.3	1.3	7.6
Allow ances /m	per year	1	1	1	1	1	1	6	14,046	14.0	14.0	14.0	14.0	14.0	14.0	84.3
Other /n	per year	1	1	1	1	1	1	6	17,557	17.6	17.6	17.6	17.6	17.6	17.6	105.3
Subtotal										164.1	164.1	164.1	164.1	164.1	164.1	984.3
Total Recurrent Costs										470.7	470.7	470.7	470.7	470.7	470.7	2,824.1
Total										2,508.9	1,339.2	1,336.1	874.3	937.5	867.2	7,863.2

\a EU Financing
\b Includes installation and training for (accounting) softw are.
\c Includes printers, faxes, photocopiers, flash drives and other IT / office productivity related devices.
\d Off-road capability
\e EU financing
\f 30 persons per session
\g Exposure Visit
\h EU financing
\i TA and systems development
\j (1) Social performance and customer protection; (2) procurement; (3) linkage w ith other projects and (4) Insurance-product mainstreaming
\k Includes telephone, internet
\l Courier, Official gazette related expenses
\m Mission fees inside the country
\n Miscellaneous and unallocated expenses

Investing in rural people

The Federal Democratic Republic of Ethiopia

Rural Financial Intermediation Programme – Phase III (RUFIP III)

Design report

Annex 4 – Economic and financial analysis

Annex 4: Economic and Financial Analysis

I. INTRODUCTION

1. This annex details the economic and financial (cost-benefit) analysis of RUFIP3. The financial analysis aims at demonstrating the viability of financial investments from a commercial perspective, while the economic analysis aims at demonstrating that, from an economic perspective, the project is of benefit to wider society, taking into account, as much as possible, all quantifiable and non-quantifiable benefits in situations without and with the programme.

II. DATA SOURCES

2. The data used in the analysis is from various sources, including the Development Bank of Ethiopia (DBE), National Bank of Ethiopia (NBE), the Federal Cooperative Agency (FCA), the Association of Microfinance Institutions (AEMFI), interviews and focus groups meetings with direct beneficiaries made during field visits and mission estimates.

3. Prices are in constant terms of 2019. Financial prices collected during the field visit in March 2019 and their economic values were produced using Costab software, which removes transfer payments (taxes and duties) for foreign and local cost related items. This relates to the investments made under components 1, 2 and 4 for institutional development, capacity building and project management.

III. METHODOLOGY

4. The methodology used for the analysis is based on the average increase in revenue of rural finance institutions by subsector, in this case microfinance institutions (MFIs) and rural savings and credit cooperatives (RUSSACOs), as per IFAD Internal Guidelines on Economic and Financial Analysis.

IV. GENERAL ASSUMPTIONS

5. The report focuses on two-subsectors - microfinance institutions (MFIs) and rural savings and credit cooperatives (RUSSACOs) - to calculate the incremental net benefit of investments, using 'without-project' (WOP) and 'with-project' (WP) scenarios, with parameters and targets set out in the working papers on credit demand analysis and the financial sector. Parameters are based on information from NBE and FCA/AEMFI that determine: (i) the yield on portfolio, (ii) the rate of interest charged to RFIs for borrowed funds, (iii) the loan loss provision, (iv) operating costs, (v) cash reserves and (vi) interest on savings. Operating costs differ by subsector, on a declining basis, with the larger, more efficient MFIs benefiting from lower costs margins than smaller operations.

6. Three major factors distinguish the WOP and WP scenarios from each other: (i) the portfolio growth rate and (ii) the increase in number of borrowers, and (iii) reduction in operating costs. While operating costs decline in both scenarios the reduction is greater under the WP scenario – attributed to engagement in the RUFIP3 TA.

7. The interest rate on borrowed funds under RUFIP II was 6 percent; however, this is set to increase to 8 percent under RUFIP III. The financial discount rate used is 12 percent, a rate used by successive World Bank projects in Ethiopia over the past year (2018).[1] Although the deposit rate on savings as per RUFIP3 is at 8 percent, a more conservative value is used as the opportunity cost of capital. The social discount rate used in the analysis is rounded up to 7.0 percent, based on Ethiopian sovereign bonds

[1] Resilient landscapes and livelihoods project (October 2018) and Urban Institutional and Infrastructure Development Project (March 2018).

rates of 6.6 percent.[2] No shadow pricing is used for wages since all staff under the programme are salaried staff, and now shadow exchange rate is used either since all goods are purchased using the official exchange rate given that government offices will conduct any procurement under the programme.

8. In the analysis, the major difference between the 'without-project' and 'with-project' is the growth rate of the loan portfolio, deposits and reduction in operating costs, resulting from improvements in management and operation of RFIs. Growth rates increase for the first 10 years deriving the twin benefits of productivity improvement driven capacity building and systems improvements as well as economies of scale. Growth rates then begin to taper down on account of business nearing full economies of scale and lessening impact of capacity building measures under RUFIP. Improvements in operations and portfolio management slow down thereafter and any growth at this stage is a result of increased volume of operation, and not productivity improvements from programme related interventions.

V. RUFIP II Achievements

9. The analysis builds on the achievements of RUFIP II, whereby the number of borrowers for MFIs is expected to grow from just over 5 million in 2018 to 10 million in 2025 and for RUSSACOs the number of new members is expected to grow from 1.9 million in 2018 to 3.3 million in 2025, under RUFIP III. Forecast figures estimate that on average 30 percent of new RUSSACO members will be borrowers.

10. Data provided on 36 MFIs suggests that the type of loans will likely mirror those from the past as per the table below. Repayment rates among MFIs and RUSSACOs is above 95-98 percent according to NBE and FCA, with loan loss provision equivalent to non-repayment of around 2 percent. It is expected that under RUFIP3, similar disbursements by sector are likely, with repayments rates as high as they were under RUFIP2. New client acquisition is not expected to adversely impact repayment rates since demand is very high for financial services that offer competitive pricing and service orientation compared to informal sources of finance.

Table: Outstanding loans by sector of 36 MFIs, as of 31 December 2018 (in ETB billion)

Loans by sector	Outstanding loan	Percentage
Agriculture	21,789,164,861	50%
Manufacturing	1,786,122,550	4%
Trade & Commerce	8,603,981,259	20%
Other	1,643,133,023	4%
Energy & water	446,044,550	1%
Building & Cons	2,628,106,941	6%
Services	5,464,588,370	13%
Manufacturing	586,745,490	1%
Consumer loan	113,910,340	0%
Other	251,856,374	1%
All sectors	**43,315,867,933**	**100%**

Source: AEMFI

VI. INSTITUTIONAL AND SUBSECTOR LEVEL ANALYSIS

11. Financial profitability is calculated using an 18-year discount period to reflect the disbursement rate over six years of the programme, the seven-year grace period by DBE to RFIs and the five-year repayment period by RFIs to the DBE. While the programme is set to last only six years, the loan resources from RUFIP remain with the RFIs for 18

[2] http://cbonds.com/emissions/issue/99509

years; the modelling works to illustrate that the business is able to sustain operations to cover the whole repayment period of the line of credit.

12. Overall, the MFI subsector and the RUSSACOs subsector produce positive returns under the microfinance sector. The microfinance subsector returns over an 18-year period an NPV of USD 3,279 million and a FIRR of 65.5%, using the line of credit. Calculations of the RUSSACO subsector return NPV of USD 111 million over an 18-year period and an FIRR of 20%. The returns between MFIs and RUSSACO differ since MFIs are profit driven while RUSSACOs are membership-driven. The latter is governed by its members and decide on lending rates to their own members, while MFIs lend to maximize profit – within the limits of regulatory oversight. RUSSACOs also operate in more remote areas and are an important part of financial access.

Table: Financial Returns of RFIs by subsector

MFI Financial Returns	
Discounted over 18 years	
NPV @12%, USD million	3,279
NPV @12%, ETB million	91,820
IRR	65.5%
FX	28
RUSSACO Financial Returns	
Discounted over 18 years	
NPV @12%, USD million	111
NPV @12%, ETB million	3,098
IRR	20%
FX	28

VII. PROFITABILITY INDICATORS AND SENSITIVITY ANALYSIS AT PROGRAMME LEVEL

13. The discount period of 18 years is used to test the financial and economic scenarios for sensitivity to changes at programme level. While calculating the base scenario with a financial discount rate of 12 percent over an 18-year period, the analysis returns a FIRR of 26.6 percent, an NPV of USD 89.5 million and a BCR of 3.8. The base scenario, when calculating the economic analysis, uses a social discount rate of 7.0 percent over the same period. It returns EIRR figure of 28.2 percent, an NPV of USD 197.8 million and a BCR of 7.26.

14. Switching values benefit and cost under the 12 percent financial discount rate and 18-year discount period is -74% for benefits and 283% for costs, suggesting resilience in the base case scenario.

Table: Financial and Economic Performance Indicators

BASE CASE AND VARYING DISCOUNT RATES

Financial Performance Indicators

Discount Period	18 years		
Discount rate	@ 8%	**@ 12%**	@ 16%
Indicator			
NPV	165.9	89.5	46.2
FIRR	27%	27%	27%
BCR	5.7	3.8	2.6

Economic Perfomance Indicators

Discount Period	18 years		
Discount rate	@ 5%	**@ 7%**	@ 12%
Indicator			
NPV	266.7	197.8	93.5
EIRR	28.2%	28.2%	28.2%
BCR	8.9	7.3	4.4

15. Alternative discount rates in the analysis offer to demonstrate the possible negative and positive impact of differing operating environments, where a lower or higher discount rate is used. They test the base case for resilience and offer an example of a more favorable operating environment, taking an example from the World Bank which often uses 5 percent as a social discount rate in investment projects.

16. Data provided by AEMFI on the operational self-sufficiency of MFIs, for the period 2010-2016, illustrates a positive sub-sector with over 100 percent for all category of MFI (please see profitability ratios table at end of this annex). These figures are set to improve under RUFIP III.

VIII. LOAN USE AND IMPACT TO BORROWER

17. The capacity to repay is reflected by the low loan loss provision, which currently stands at 2 percent for MFIs, according to NBE and FCA. With an average repayment rate of 98 percent, the ability and willingness to repay loans by borrowers remains robust. It is expected that this performance record will continue under RUFIP III. The low default rates reflect the debt absorption and servicing activity among clients on the ground. Field interactions revealed that most borrowers that repaid the loan felt they got good returns from borrowing, hence the high repayment rates (over 95-98 percent) and repeat borrowing with most MFIs and RUSACCOs. As in RUFIPII, borrowing is expected to net a positive return of about 20 percent after repayment of loans. As long as net return of the client is above 10-12 percent the impact of the programme on their lives will be positive.

IX. LOAN FAILURE RATE

18. In line with IFAD internal guidelines on EFA, the analysis tested for a decline in the repayment rate from the current 2%, with a 5% decline each year over the course of the discount period. The results are summarized in the below table.

Table: Sensitivity Analysis for two-fold increase in default rate from 2% to 4%.

TWO-FOLD INCREASE IN LOAN LOSS PROVISION

Financial Performance Indicators

Discount Period	18 years		
Discount rate	@ 8%	**@ 12%**	@ 16%
Indicator			
NPV	108.5	55.4	25.3
FIRR	23%	23%	23%
BCR	4.1	2.8	1.9

Economic Perfomance Indicators

Discount Period	18 years		
Discount rate	@ 5%	**@ 7%**	@ 12%
Indicator			
NPV	179.9	132.1	59.4
EIRR	24.4%	24.4%	24.4%
BCR	6.4	5.2	3.2

19. The 18-year discount period remains robust, with positive returns for all scenarios. The sensitivity tested for increases in cost by 10 percent and 20 percent and a decrease in yield by 10 percent over an 18-year period. The results remain robust for the 18-year period in the tables below. Since the market for financial services remains early-stage, the combination of an 18-year discount period and continued appetite for micro-financial services suggests that high growth is more than likely matched by high appetite, willingness and ability to repay loans in the near future. For this reason, the upper quadrant of the scenarios tested is considered the more likely outcome.

INCREASE IN COSTS BY 10%

Financial Performance Indicators

Discount Period	18 years		
Discount rate	@ 8%	**@ 12%**	@ 16%
Indicator			
NPV	165.9	89.5	46.2
FIRR	27%	27%	27%
BCR	5.7	3.8	2.6

Economic Perfomance Indicators

Discount Period	18 years		
Discount rate	@ 5%	**@ 7%**	@ 12%
Indicator			
NPV	263.3	194.6	90.7
EIRR	27.1%	27.1%	27.1%
BCR	8.1	6.6	4.0

INCREASE IN COSTS BY 20%

Financial Performance Indicators

Discount Period	18 years		
Discount rate	@ 8%	**@ 12%**	@ 16%
Indicator			
NPV	165.9	89.5	46.2
FIRR	27%	27%	27%
BCR	5.7	3.8	2.6

Economic Perfomance Indicators

Discount Period	18 years		
Discount rate	@ 5%	**@ 7%**	@ 12%
Indicator			
NPV	260.0	191.4	88.0
EIRR	26.1%	26.1%	26.1%
BCR	7.5	6.0	3.7

DECLINE IN YIELD BY 10%

Financial Performance Indicators

Discount Period	18 years		
Discount rate	@ 8%	**@ 12%**	@ 16%
Indicator			
NPV	92.7	45.6	19.0
FIRR	21%	21%	21%
BCR	3.6	2.4	1.7

Economic Perfomance Indicators

Discount Period	18 years		
Discount rate	@ 5%	**@ 7%**	@ 12%
Indicator			
NPV	156.7	114.2	49.7
EIRR	22.9%	22.9%	22.9%
BCR	5.7	4.6	2.8

20. Detailed and summary tables are further provided in the below section.

X. TABLES

MFI – Summary balance sheet projections under RUFIP3 (in ETB MN) - truncated

MFI - BALANCE SHEET PROJECTIONS UNDER RUFIP3			Without project		With project	
Item	2018	2019	2020	2037	2020	2037
Key parameters						
Onlending interest rate	22%	22%	22%	22%	22%	22%
Interests on savings	6%	6%	6%	6%	6%	6%
Interest rate for borrowing, RUFIP II/other sc	10%	10%	10%	10%	10%	10%
Interest rate for borrowing from the project	8%	8%	8%	8%	8%	8%
Operating expenses	9%	9%	9%	9%	9%	5.8%
Cash reserves	20%	20%	20%	20%	20%	20%
Capital	15%	15%	15%	15%	15%	15%
Loan loss provision	2%	2%	2%	2%	2%	2%
Increase in number of borrowers		8%	8%	8%	10.5%	10.5%
Number of borrowers	5,105,698	5,514,154	5,955,286	22,034,666	6,093,140	33,265,946
Increase in average loan size (real)		8%	8%	5%	8.0%	8.0%
Average loan per borrower	8,491.62	9,171	9,905	26,135	9,905	36,647
Growth of deposits/savings		15%	15%	15%	30%	15%
Return on liquid assets	8%	8%	8%	8%	8%	8%
Balance sheet elements, ETB million						
Assets	62,670	73,003	85,041	837,924	87,832	1,849,434
Loan portfolio	43,356	50,570	58,985	575,884	60,350	1,219,107
Portfolio growth		*17%*	*17%*	*13%*	*39%*	*19%*
Cash reserves	5,793	6,662	7,661	82,442	8,660	250,130
Other assets	13,521	15,771	18,395	179,598	18,821	380,197
Liabitilies	62,670	73,003	85,041	837,924	87,832	1,849,434
Equity funds	13,868	15,379	17,045	101,338	17,045	468,806
Savings = deposits	28,964	33,309	38,305	412,211	43,301	1,250,651
Loan from RUFIP II/other sources of finance	19,837	24,315	29,692	324,375	26,900	129,977
Loan from the project credit line	-				586	-
Flows						
Revenues	10,002	11,658	13,590	133,290	13,970	288,214
Interests on loans	9,538	11,125	12,977	126,694	13,277	268,203
Interest of liquid assets	463.43	532.94	612.88	6,595.38	692.82	20,010.41
Expenses	8,491	9,993	11,756	120,517	11,927	183,127
Running costs	3,902	4,551	5,309	51,830	5,432	70,708
Interests on savings	1,738	1,999	2,298	24,733	2,598	75,039
Loan from RUFIP II/other sources of finance	1,984	2,432	2,969	32,437	2,690	12,998
Interests on loans from the project line	-	-		-		
Loan loss provision	867.11	1,011	1,180	11,518	1,207	24,382
Margin	***1,511***	***1,666***	***1,834***	***12,772***	***2,043***	***105,087***
Equity funds	15,379	17,045	18,878	114,111	19,088	573,893

Financial performance and profitability of MFIs – only (in ETB MN)

		2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Additional revenues, million ETB		210	769	1,562	2,596	3,961	5,831	7,481	9,529	12,048	15,069
Additional revenues banks, million USD		7.48	27.45	55.77	92.71	141.48	208.25	267.17	340.31	430.28	538.19
Credit line, million USD		154									
Additional revenues, million USD	-	146	27	56	93	141	208	267	340	430	538

MFI Financial Returns	
Discounted over 18 years	
NPV @12%, USD million	3,279
NPV @12%, ETB million	91,820
IRR	65.5%
FX	28

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Additional borrowers	137,854	301,211	493,630	719,118	982,174	1,287,855	1,641,836	2,050,486	2,520,945	3,061,215

...continued

2030	2031	2032	2033	2034	2035	2036	2037
19,353	24,902	31,746	40,329	51,072	63,920	77,090	92,314
691.19	889.36	1,133.79	1,440.34	1,824.00	2,282.85	2,753.22	3,296.94
691	889	1,134	1,440	1,824	2,283	2,753	3,297

16,537,275	12,180,548	13,459,506	14,872,754	16,434,393	18,160,005	20,066,805	22,173,820

RUSSACO – Summary balance sheet projections under RUFIP3 (in ETB MN) – truncated

RUSSACO - BALANCE SHEET PROJECTIONS UNDER RUFIP3			Without project		With project	
Item	**2018**	**2019**	**2020**	**2037**	**2020**	**2037**
Key parameters						
Onlending interest rate	14%	14%	14%	14%	14%	14%
Interest on savings	8%	8%	8%	8%	8%	8%
Interest rate for borrowing, RUFIP II	6%	6%	8%	8%	8%	8%
Interest rate for borrowing from the project credit line/RUFIP III	6%	8%	8%	8%	8%	8%
Operating expenses	3%	3%	3%	4%	3%	2%
Cash reserves, 20% of savings	20%	20%	20%	20%	20%	20%
Loan loss provision	2%	2%	2%	2%	2%	2%
Increase in the number of members		7%	7%	7%	9%	9%
Number of members	1,960,000	2,097,200	2,244,004	7,088,394	2,285,948	9,892,745
Increase in number of borrowers		30%	28%	25%	35%	20%
Number of borrowers	590,000	629,160	628,321	1,772,098	800,082	1,978,549
Increase in average loan size (real)		8%	8%	8%	9%	9%
Share capital per new member	436	436 #	436	438 #	436	438
Average loan per borrower	9,718	10,495	11,335	41,940	11,440	49,962
Increase in savings per member		15%	15%	15%	20%	15%
Savings per member	1,821	2,094	2,408	25,916	2,513	35,566
Return on liquid assets	8%	8%	8%	8%	8%	8%
Balance sheet elements, ETB million						
Assets	7,411	7,258	7,875	82,428	9,939	109,978
Loan portfolio	5,701	6,603	7,122	74,322	9,153	98,853
Portfolio growth		*15%*	*15%*	*15%*	*18%*	*18%*
Cash reserves	570	655	753	8,106	786	11,125
Other cash at hand			-		-	-
Other assets	1,140					
Liabilities	7,411	7,258	7,875	82,428	9,939	109,978
Equity funds	845	953	1,215	6,892	1,215	30,084
Savings = deposits	2,848	3,275	3,766	40,532	3,930	55,625
Loan from RUFIP II/other sources of finance	3,718	3,030	2,893	35,004	4,374	24,269
Share capital						
Loan from the project credit line					419	
Flows						
Revenues	*844*	*977*	*1,057*	*11,054*	*1,344*	*14,729*
Interests on loans	798	924	997	10,405	1,281	13,839
Interest on liquid assets	45.57	52.40	60.26	648.51	62.88	890.00
Expenses	736	774	889	10,824	1,122	9,963
Running costs	171	198	214	3,294	275	1,767
Interests on savings	228	262	301	3,243	314	4,450
Loan from RUFIP II/other sources of finance	223	182	231	2,800	350	1,942
Interests on loans from the project line	-	-		-		-
Loan loss provision	114.0	132	142	1,486	183	1,804
Margin	***108***	***203***	***168***	***230***	***222***	***4,767***
Retained earnings	953	1,156	1,384	7,122	1,438	34,850
Equity from new members	0	60	64	203	82	358

Financial performance and profitability of RUSSACOs – only (in ETB MN)

		2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Additional revenues, million ETB		54	83	117	177	235	338	496	638	852	1,072
Additional revenues banks, million USD		1.92	2.98	4.19	6.33	8.38	12.06	17.71	22.79	30.42	38.29
Credit line, million USD		110									
Additional revenues, million USD	-	108	3	4	6	8	12	18	23	30	38
Additional borrowers		171,761	199,786	231,212	260,068	297,219	338,676	423,231	352,796	402,564	458,073

	2030	2031	2032	2033	2034	2035	2036	2037
Additional revenues, million ETB	1,342	1,672	2,074	2,564	3,161	3,487	3,762	4,536
Additional revenues banks, million USD	47.92	59.70	74.07	91.58	112.88	124.52	134.34	162.02
Credit line, million USD								
Additional revenues, million USD	48	60	74	92	113	125	134	162
Additional borrowers	519,927	588,792	665,400	750,556	845,144	533,812	159,016	206,450

RUSSACO Financial Returns

Discounted over 18 years	
NPV @12%, USD million	111
NPV @12%, ETB million	3,098
IRR	20%
FX	28

Programme Level Financial Analysis over 18-year discount period (in USD)

Rural Financial International Development Programme III (RUFIP3)																		
Financial Analysis at Programme Level																		
	Project Years																	
(in USD MN)	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**	**2037**
Incremental benefits																		
MFIs	-5.2	1.0	2.0	3.3	5.1	7.4	9.5	12.2	15.4	19.2	24.7	31.8	40.5	51.4	65.1	81.5	98.3	117.7
RUSSACO	-3.9	0.1	0.2	0.2	0.3	0.4	0.6	0.8	1.1	1.4	1.7	2.1	2.6	3.3	4.0	4.4	4.8	5.8
Total programme benefits	-9.1	1.1	2.1	3.5	5.4	7.9	10.2	13.0	16.5	20.6	26.4	33.9	43.1	54.7	69.2	86.0	103.1	123.5
Costs																		
Programme costs	10.4	8.8	8.6	6.1	5.3	2.8												
Maintenance costs							0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Total programme costs	10.4	8.8	8.6	6.1	5.3	2.8	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
TOTAL NET INCREMENTAL BENEFITS	-19.5	-7.7	-6.5	-2.6	0.1	5.1	9.9	12.7	16.2	20.3	26.1	33.6	42.9	54.4	68.9	85.7	102.8	123.3

Programme Level Economic Analysis over 18-year discount period (in USD)

Rural Financial International Development Programme III (RUFIP3)																		
Economic Analysis at Programme Level																		
	Project Years																	
USD MN	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**	**2037**
Incremental benefits																		
MFIs	-5.2	1.0	2.0	3.3	5.1	7.4	9.5	12.2	15.4	19.2	24.7	31.8	40.5	51.4	65.1	81.5	98.3	117.7
RUSSACO	-3.9	0.1	0.2	0.2	0.3	0.4	0.6	0.8	1.1	1.4	1.7	2.1	2.6	3.3	4.0	4.4	4.8	5.8
Total programme benefits	-9.1	1.1	2.1	3.5	5.4	7.9	10.2	13.0	16.5	20.6	26.4	33.9	43.1	54.7	69.2	86.0	103.1	123.5
Costs																		
Programme costs	9.1	7.7	7.5	5.3	4.6	2.5												
Maintenance costs							0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Total programme costs	9.1	7.7	7.5	5.3	4.6	2.5	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
TOTAL NET INCREMENTAL BENEFITS	-18.2	-6.6	-5.4	-1.8	0.8	5.4	9.9	12.7	16.2	20.3	26.1	33.6	42.9	54.5	68.9	85.7	102.9	123.3

Sensitivity Analysis using Economic Results at Programme Level

Summary Table: Sensitivity Analysis of Financial and Economic Results at Programme Level – base case and various scenarios

BASE CASE AND VARYING DISCOUNT RATES

Financial Performance Indicators

Discount Period	18 years		
Discount rate	@ 8%	**@ 12%**	@ 16%
Indicator			
NPV	165.9	89.5	46.2
FIRR	27%	27%	27%
BCR	5.7	3.8	2.6

Economic Perfomance Indicators

Discount Period	18 years		
Discount rate	@ 5%	**@ 7%**	@ 12%
Indicator			
NPV	266.7	197.8	93.5
EIRR	28.2%	28.2%	28.2%
BCR	8.9	7.3	4.4

Summary Table: Sensitivity Analysis of Financial and Economic Results at Programme Level – increase in loan loss provision scenario

TWO-FOLD INCREASE IN LOAN LOSS PROVISION

Financial Performance Indicators

Discount Period	18 years		
Discount rate	@ 8%	**@ 12%**	@ 16%
Indicator			
NPV	108.5	55.4	25.3
FIRR	23%	23%	23%
BCR	4.1	2.8	1.9

Economic Perfomance Indicators

Discount Period	18 years		
Discount rate	@ 5%	**@ 7%**	@ 12%
Indicator			
NPV	179.9	132.1	59.4
EIRR	24.4%	24.4%	24.4%
BCR	6.4	5.2	3.2

Summary Table: Sensitivity Analysis of Financial and Economic Results at Programme Level – increase in cost by 10% scenario

INCREASE IN COSTS BY 10%

Financial Performance Indicators

Discount Period	18 years		
Discount rate	@ 8%	**@ 12%**	@ 16%
Indicator			
NPV	165.9	89.5	46.2
FIRR	27%	27%	27%
BCR	5.7	3.8	2.6

Economic Perfomance Indicators

Discount Period	18 years		
Discount rate	@ 5%	**@ 7%**	@ 12%
Indicator			
NPV	263.3	194.6	90.7
EIRR	27.1%	27.1%	27.1%
BCR	8.1	6.6	4.0

Summary Table: Sensitivity Analysis of Financial and Economic Results at Programme Level – increase in cost by 20% scenario

INCREASE IN COSTS BY 20%

Financial Performance Indicators

Discount Period	18 years		
Discount rate	@ 8%	**@ 12%**	@ 16%
Indicator			
NPV	165.9	89.5	46.2
FIRR	27%	27%	27%
BCR	5.7	3.8	2.6

Economic Perfomance Indicators

Discount Period	18 years		
Discount rate	@ 5%	**@ 7%**	@ 12%
Indicator			
NPV	260.0	191.5	88.0
EIRR	26.1%	26.1%	26.1%
BCR	7.5	6.0	3.7

Summary Table: Sensitivity Analysis of Financial and Economic Results at Programme Level - decrease in yield by 10 percent

DECLINE IN YIELD BY 10%

Financial Performance Indicators

Discount Period	18 years		
Discount rate	@ 8%	**@ 12%**	@ 16%
Indicator			
NPV	92.8	45.6	19.1
FIRR	21%	21%	21%
BCR	3.6	2.4	1.7

Economic Perfomance Indicators

Discount Period	18 years		
Discount rate	@ 5%	**@ 7%**	@ 12%
Indicator			
NPV	156.7	114.2	49.7
EIRR	22.9%	22.9%	22.9%
BCR	5.7	4.6	2.8

Table: Profitability Ratios for MFIs

Table: Return on Assets & Return on Equity-MFIs A Category (2010-16)

Year	Return on Assets	Return on Equity
2010	6.13%	18.4%
2011	5.57%	19.9%
2012	6.17%	23%
2013	6.45%	25.2%
2014	6.35%	27.8%
2015	7.25 %	30.5%
2016	4.92 %	20.8%

Table: ROA and ROE – Category B MFIs-(2010-16)

Year	Return on Assets	Return on Equity
2010	14.2%	32.6%
2011	13.7%	31.8%
2012	12.5%	31%
2013	15%	37.7%
2014	16.6%	41.8%
2015	17.2%	45%
2016	14.7%	39.1%

Table: ROA and ROE – Category C MFIs-(2010-16)

Year	Return on Assets	Return on Equity
2010	-3.3%	-5%
2011	2.4%	4.32%
2012	6.69%	12.2%
2013	5.72%	16.6%
2014	4.93%	13.1%
2015	6.17%	17.1%
2016	5.97%	17.1%

Table: OSS of Ethiopian MFIs (2010-16)

	2010	2011	2012	2013	2014	2015	2016
Category A OSS	195	214	211	206	204	212	166
Category B OSS	200	178	188	207	213	223	193
Category C OSS	85	111	127	141	156	160	162

Table: Financial Self Sufficiency (OFS) of MFIs (2010-16)

	2010	2011	2012	2013	2014	2015	2016
Category A FSS	95%	114%	111%	106%	104%	112%	66%
Category B FSS	100%	78%	88%	107%	113%	123%	93%
Category C FSS	-15%	11%	27%	41%	56%	60%	62%

Table: Operational Expenses Ratio of MFIs (2010-16)

	2010	2011	2012	2013	2014	2015	2016
Category C MFIs	38.50%	36.90%	34.20%	37.70%	23%	21%	25.60
Category B MFIs	18.80%	23.10%	19.60%	18.60%	18%	123%	20.80
Category A MFIs	8.50%	7.20%	8.20%	8.50%	9.20%	60%	11.10

NB: MFIs have been categorized as A,B and C, based on NBE categorization of MFIs in 2017.
Source: Performance Analysis of Micro Finance Institutions in Ethiopia by Abdi Ahmed Hasan & Dr. GS Batra – International Journal of Business and Management Invention (IJBMI) ,ISSN (online) 2319-8028(Print):www.ijbmi.org//Volume 7 Issue 4 Ver II/April 2018/PP-55-66

Table: Operational Self-sufficiency - Forecast

Operational Self-Sufficiency - Forecast

	Increm. diff. in % - WP			WOP			WP			Incremental difference WOP-WP		
	2020	2025	2035	2020	2025	2035	2020	2025	2035	2020	2025	2035
MFIs												
Number of borrowers	2.3%	12.8%	33.8%	5,955,286	8,750,269	22,034,666	6,093,140	10,038,124	33,265,946	137,854	1,287,855	11,231,280
Loan portfolio (ETB MN)	2.3%	12.8%	52.8%	58,985	127,344	575,884	60,350	146,086	1,219,107	1,365	18,742	643,223
Operational SS	2.8%	48.5%	49.9%	134.5%	125.3%	124.6%	138.3%	186.0%	248.6%	3.8%	60.8%	124.0%
ROA	10.0%	150.6%	73.2%	2.2%	1.6%	1.5%	2.4%	4.0%	5.7%	0.2%	2.4%	4.2%
RUSSACOs												
Number of members	1.9%	11.8%	28.3%	2,244,004	3,147,332	7,088,394	2,285,948	3,517,214	9,892,745	41,944	369,883	2,804,351
Number of borrowers	27.3%	43.0%	10.4%	628,321	786,833	1,772,098	800,082	1,125,509	1,978,549	171,761	338,676	206,450
Loan portfolio (ETB MN)	28.5%	52.6%	24.8%	7,122	13,105	74,322	9,153	19,993	98,853	2,031	6,888	24,531
Operational SS	5.5%	32.0%	71.1%	179%	145%	107%	189%	214%	370%	10.4%	68.5%	262.8%
ROA	13.2%	41.8%	93.6%	2.1%	1.6%	0.3%	2.5%	2.7%	4.3%	0.3%	1.1%	4.1%

SAMPLE AGREEMENT

LOAN AND MORTGAGE AGREEMENT BETWEEN DBE

AND

MFIS AND RURAL FINACIAL COOPERATIVES SUB SECTOR

Loan Contract

This Contract is made and entered into this__day of February 2015 between the **Development Bank of Ethiopia** (hereinafter called "the Bank") on the one hand and --------------- (hereinafter called "the Borrower") on the other hand.

WITNESSES

WHEREAS, the Bank has entered into a Lead Subsidiary Agreement with the Ethiopian Government, designated by the Ministry of Finance and Economic Development on July 16, 2012, to act as Lead Programme Agency for the implementation of the credit fund component of Rural Financial Intermediation Program II (RUFIP II), which the Government through a Programme Loan Agreement signed on December 21, 2011 borrowed from the International Fund for Agricultural Development (IFAD).

WHEREAS, the Borrower has applied for a loan of **Birr (**) hereinafter called the "Loan", to finance its loan-able fund requirement,

NOW, THEREFORE, in consideration of the premises above, the terms and conditions herein under, the Bank and the Borrower mutually agree as follows: -

ARTICLE - I

THE LOAN

Section 1.01: Loan

The Bank, in accordance with the terms and conditions of this contract, agrees to lend to the Borrower a loan of **Birr (**) for financing Rural Financial Intermediation Program II (RUFIP II). The Loan shall be disbursed from the Borrower's Loan Account in two installments after the fulfillment of all the conditions and signing of this contract as follows:

1st Disbursement

2nd Disbursement -------- up on effective utilization of the 1st

Disbursement for the intended purpose

Section 1.02: Use of the Loan

The Borrower undertakes to deliver the Loan solely and exclusively to poor rural households in line with best micro financing practices which among others include: -

a) group appraisal and lending decisions

b) group collateral and peer pressure

c) flexible demand driven loan products

d) frequent repayment

Section 1.03: Interest

a) The Borrower shall pay interest at the rate of 6% per annum on the principal amount of each part of the loan withdrawn from the Loan Account and outstanding from time to time together with cost and charges incurred hereunder by the Bank.

b) Interest shall accrue from the respective dates on which amounts are so withdrawn and shall be payable **semi-annually on January 31st and July 31st, of each year commencing on July 31, 2015.**

c) In case of default or failure to repay the principal amount of the loan and any other charges and costs**,** or failure to pay interest thereon, the interest rate applied from the date of such default or failure shall be increased by 0.5%.

d) Notwithstanding the provisions of sub-sections "a" and "c" of section 1.03 above, should there be an Agreement to alter the rate or should the Bank or any other competent authority issue a new interest rate, the rate of interest stipulated under sub-section "a" and "c" shall be replaced by the new interest rate.

Section 1.04 Collection Fees and Other Charges

The Borrower undertakes to pay all collection fees, expenses and other charges that may be incurred by the Bank to enforce performance of all the obligations of the Borrower herein.

ARTICLE – II REPAYMENT

Section 2.01: Repayment

The Borrower undertakes to repay the principal amount of the Loan in ten semi-annual installments, where the first nine equal semi-annual installments to be **Birr -----------** and the last and tenth semi-annual installment shall be **Birr----------** that come to payable on **January 31st and July 31st of each year commencing on January 31, 2022 and ending on July 31, 2026.**

Section 2.02: Appropriation of payment

Repayment made by the Borrower shall be appropriated first to the costs and charges, secondly to the interest and eventually to the principal loan.

Section 2.03: Prepayment

The Borrower shall have the right to repay in advance all or any part of the outstanding principal amount of the Loan upon giving 90 days advance notice to the Bank and payment of all charges and accrued interest.

Section 2.04: Promissory Notes

Should the Bank demand, the Borrower undertakes to draw and sign, at its own expenses, promissory notes payable to the Bank, in such manner and forms as the Bank may reasonably request, for an amount outstanding and due for payment under this Loan Agreement.

ARTICLE- III

COVENANTS AND WARRANTIES

Section 3.01: General

a) The Borrower undertakes to conduct its business activity with due diligence and efficiency and in conformity with sound administrative, financial, economic, operational, environmental, agricultural practices (including rural development practices) and good governance.

b)The Borrower shall comply with the prescribed prudential standards and regulations of the National Bank of Ethiopia.

Section 3.02: Maintenance of Records

a) The Borrower shall establish and maintain accounts in accordance with generally accepted accounting principles.

b)The Borrower shall also undertakes to prepare and maintain separate account and financial records in respect of programme credits and other financial support.

c)The Borrower undertakes to submit its external audit report along with audited financial statements to the Bank within six months of the closure of each financial year.

d)The Borrower shall submit the progress reports, in such detail and form as may be prescribed by the Bank.

Section 3.03: Duty to Maintain Management Information System (MIS)

a)The Borrower shall establish appropriate management information system adequate to generate the required information for the performance, monitoring, loan tracking and for timely preparation and submission of prescribed monitoring and progress reports.

b)The borrower shall respond satisfactory and timely to the expressed concern and recommendations of DBE.

ARTICLE – IV

CANCELLATION AND/OR SUSPENSION

Section 4.01: Suspension

If any of the following events happen, the right of the Borrower to withdraw money from the Loan account shall be suspended in whole or in part, as the case may be, until the event or events which give rise to such suspension shall have ceased to exist or until the Bank shall notify the Borrower that the right to make withdrawals has been restored, whichever is earlier, provided however, that in the case of any such notice or restoration, the right to withdraw money shall be restored only to the extent and subject to the conditions specified in such notice and no such notice shall affect or impair any right, power or remedy of the Bank in respect of any other subsequent event described in this section.

a)When the Borrower defaults under Art. I. II section 1:03 and 2.01 of this

Contract.

b) When the right of DBE to make withdrawal from the special account is

Suspended in accordance with the Lead Subsidiary Agreement.

c) When a default in the performance of any other provision on the part of the

Borrower occurs under this Loan Agreement.

d)When any extraordinary situation which, in the opinion of the Bank, make the performance of the Borrower's obligation, under this Loan Agreement, impossible.

Section 4.02: Cancellation

Notwithstanding the provision of section 4.01 above, the Bank reserves the right to cancel any amount of the Loan un-disbursed and to terminate the contract and to claim for the repayment of the loan with interest and other costs.

Section 4.03: Reservation

Notwithstanding any cancellation or suspension made on the balance in commitment, this contract shall remain in full force and effect until the loan is totally settled.

ARTICLE –V

MISCELLANEOUS

Section 5.01: Remedies

If any of the terms and conditions of the present Loan Agreement are in any way violated by the Borrower or any event specified in Article IV shall occur and continue for a period deemed to be unreasonable by the Bank, the Bank, at its option, may declare the principal amount of the Loan including all charges, together with interest then outstanding due and payable without prejudice to claim all other remedies available to the Bank under the Laws of Ethiopia; or where the borrower has some money in any of his account at the bank, the bank has the right to use the said money in the said account for the repayment and/ or payment or principal or interest or any other charges that are due.

Section 5.02: Addresses

Any notice, request or communication given, made or sent by the Borrower, or the Bank pursuant to this Loan Agreement shall be in writing and shall be deemed to have been duly given, made or sent when it is forwarded at the following addresses:-

TO THE BANK: **DEVELOPMENT BANK OF ETHIOPIA**

P.O.BOX: 190

Tel: 251 0115-51-11-88 OR 011 553 89 43

Fax: 251 0115-50-60-20

Addis Ababa

TO THE BORROWER:

New addresses may be substituted for the above addresses provided proper notice thereof is given in writing and acknowledged.

Section 5.03: Non-waiver

No delay in exercising or omission to exercise any right, power or remedy accrued to any party under Loan Agreement, upon any default, shall impair any such right, power or remedy or be construed to be a waiver thereof or any acquiescence in such default; nor shall the action of such party in respect of any default or any acquiescence in any default affect or impair any right, power or remedy of such party in respect of any other or subsequent default.

Section 5.04: Amendments

This Contract shall only be altered or amended by the written consent of both contracting parties.

<u>Section 5.05:</u> Heirs and Assignees

This Agreement shall be binding upon the heirs, assignees, and survivors of the two parties, jointly and severally without the benefit of division.

IN WITTNESS WHEREOF the parties hereto have affixed their signatures.

For and on behalf of:	For & on behalf of
Development Bank of Ethiopia	the Borrower
____________________	____________________

WITNESSES: ____________________ ____________________

IFAD
Investing in rural people

The Federal Democratic Republic of Ethiopia

Rural Financial Intermediation Programme – Phase III (RUFIP III)

Design report

Annex 5 – SECAP review note

Annex 5: Social Environment and Climate Assessment (SECAP) Review Note

The full length document should be provided here. The following SECAP-related studies if conducted should be made available ESMF, ESIA, FPIC, RAP, In-depth Climate risk analysis, GAO analysis.

ANNEX 5: SECAP Note

Introduction

1. The SECAP Review Note assesses the social, environmental and climate change issues relevant for the project, in order to identify the potential impacts of the project activities and highlight opportunities for addressing IFAD's mainstreaming themes (gender, youth, nutrition, environment and climate change) through an integrated approach.
2. The SECAP Review Note is guided by IFAD's "Social, Environmental and Climate Assessment Procedures (SECAP, 2017) and takes into consideration the Sustainable Development Goals (SDGs) and other international relevant agreements.
3. The Note was developed through desk review of available literature and consultations with relevant stakeholders undertaken during the project design mission, including: farmers' organizations, women and youth groups members of RuSACCOs and MFI clients, national authorities (Ministry of Agriculture, Ethiopian Development Bank, Federal Cooperative Agency) local authorities at the Woreda and Kebele level, technical and development partners (World Bank) among others.

Part 1 - Situational analysis and main challenges

Socio-economic situation and underlying causes

4. **Poverty:** Ethiopia has seen rapid economic growth over the past decade and is one of the fastest growing economies in the world. The International Monetary Fund (IMF) predicted the growth rate of Ethiopia to be 8.5 percent in 2018[1]. The rapid growth over the last few years has resulted in poverty reduction; extreme poverty has fallen from 55 percent in 2000 to 34 percent in 2011 and 24 percent in 2016[2].
5. According to the "Ethiopia's Progress Towards Eradicating Poverty: An Interim Report on 2015/16 Poverty Analysis Study"[3], Ethiopia's per capita GDP has more than doubled from USD396 in 2010/11 to USD 794 in 2015/16. The national poverty incidence has declined from 29.6% in 2010/11 to 24% in 2015/16. The achievement in poverty reduction could be attributed to the wide range of multifaceted pro-poor programmes implemented by the Government in rural and urban areas in all sectors. Between 2010/11 and 2015/16 about 5.3 million people been lifted out of poverty. Although the total number of population has increased from 84 million in 2010/11 to 93 million in 2015/16, the number of poor population declined from 25.1 million to 21.8 million.
6. The regional poverty head count index has declined across all regional states and in both urban and rural areas. However, the rural poverty incidence is almost twice as high as the urban poverty, making poverty a predominantly rural phenomenon in Ethiopia. While urban headcount poverty declined from 36.9 percent in 2000 to 14.8 percent in 2016 rural poverty only declined from 45.4 percent to 25.6 percent in the same period. The report indicates that income inequality measured by Gini Coefficient of consumption expenditure increased from 0.3 to 0.33 at national level. The interim report outlined government's intention

[1] World Economic Outlook, April 2018, IMF
[2] World Development Indicator. World Bank
[3] The report "Ethiopia's Progress Towards Eradicating Poverty" was prepared using the 2015/2016 Household Income and Consumption Expenditure Survey (HICES) and Welfare Monitoring Survey (WMS) data to share key findings on the study with the public.

to reduce poverty mainly through economic growth; equitable distribution of public spending and income redistribution in times of crisis.

7. **Poverty and vulnerability:** Women headed households accounting for about 23% of all rural households tend to be markedly poorer than male headed households, with female headed households comprising 46% of the lowest quintile. The intensity of poverty varies at the household level in relation to the land's size, quality and productivity, climate conditions and production technologies. Women are much less likely than men to receive an education or health benefits, or to have a voice in decisions affecting their lives. For women, poverty means undernourished families, lack of education for children and other deprivations.

8. Poverty in Ethiopia is associated with geographical inequalities. Although poverty rates have converged over time across regions, thereby reducing *inter*-regional disparities, there are significant *intra*-regional and *inter-woreda* disparities. Oromia and Amhara, the most densely populated regions in Ethiopia, have a greater proportion of *woreda*s in which the share of the bottom 40 percent is higher than the national average. The Ethiopian constitution has designated four historically underserved regions: Gambella, Afar, Somali, and Benishangul-gumuz. The regions present very high rates of multidimensional poverty, encompassing various indicators (i.e. income, health, education). Expansion of basic services to these historically underserved regions has helped to bridge development gaps.

9. **Gender inequalities:** Unequal gender norms limit Ethiopian women's ability to innovate, own land, control resources and income, access credit, and engage in leisure pursuits. An estimated 46 percent of all working women (aged 15-49) are engaged in agricultural occupations, although this figure increases to 57 percent in rural areas[4]. Yet, one third of employed women are not paid. In terms of productivity, male-managed plots produce on average 23 percent more per hectare than female-managed plots and the gap is explained by differences in land manager characteristics, land attributes and unequal access to agricultural assets.

10. Main causes for gender inequalities in the agriculture sector are: unequal access to extension services, the field´s distance from the house, reduced use of technical inputs (e.g., fertilizers), livestock use, land size,[5] product diversification and years of schooling. Gender inequalities across a range of indicators compound to create an adverse environment for women farmers that results in productivity losses. Only about 76 percent of rural women have control over crop, land and livestock compared to over 90 percent of men, but even then, ownership and decision making remains in the control of men, implying that economic shocks may have a greater impact on women, who have diminished control over resources (Population Council, 2010). As women also perform laborious household chores, including looking for water and firewood, they are more exposed to food insecurity as these might take them away from their productive activities for long hours at a time.

11. **Women's Access to Land**: Land ownership and use rights are very much skewed towards men in Ethiopia, including in rural areas. The legal framework provides women the right to use rural land through the issuance of joint holding certificate. The 2016 EDHS shows that 40% of women own land but only one in two who own land say there is a title or deed in their name for the land. Male-headed households have more fields and larger land holdings compared with female-headed households. On average, male-headed households cultivate approximately 12 fields, while female-headed households cultivate 8 fields. Similarly, male-headed households own an average of 1.17 hectares of cultivated land, compared to only 0.63 hectares of land owned by the average female-headed household. [6] These figures show the disadvantage of rural women in access to and control over important sources of livelihood.

12. **Women's participation and representation**: Government has the obligation to facilitate rural women to organize into self-help groups and co-operatives and participate in community activities. Out of over 8 million agricultural cooperative members, women accounted for a little over 1.5 million members (about 18%). Women constituted 27.4 percent of overall members in 2015, registering a slight increase from 19.5

[4] Central Statistical Agency [Ethiopia] and ICF International (2012). Ethiopia Demographic and Health Survey 2011. Addis Ababa, Ethiopia.
[5] Kaka, L., Abate, G., Warner, J., and Kieran, C. 2015. Patterns of Agricultural Production among Male and Female Holders. International Food Policy Research institute, IFPRI, 2014.
[6] integrated surveys on agriculture, Ethiopia Socio-economic Survey (ESS) 2015-2016.

percent in 2010. It must be noted that men are five times more likely than women to hold a leadership position within cooperatives while only about 3 percent of women who are in cooperatives hold such positions. (Federal Cooperative Agency Report, 2015).

13. **Women's access to finance:** Micro Financial Institutions (MFIs) and rural saving and credit cooperatives (RuSACCOs) constitute the main sources of finance in rural Ethiopia, especially for women. However, their level of penetration remains low, with less than 4 percent of the rural national population being served. Approximately 26 percent of male adults have a bank account, compared to only 17 percent of female adults. The proportion of adults with bank accounts is also higher in urban areas (54 percent) as compared to small town areas (38 percent). Unsurprisingly, this figure falls to 11 percent in rural areas. By gender, the proportion of savers for adult males is 37 percent compared with 28 for adult females.[7]

14. Though women possess equal rights with men to access bank loans, mortgages and other forms of financial credit, they have not been able to use them effectively for different reasons. First, women have generally limited awareness of the availability of these facilities. Second, women have generally low economic capacity to provide sufficient collateral to get the credit service they demand. Third, lack of trust towards women as entrepreneurs in the society also makes the financial institutions less interested in making the facilities available to women.

15. **Youth:** In agriculture, access to land is the prime barrier (most of the young population is also landless people) compounded by lack of access to credit. Motivational factors associated with the fact that in general, youth are less interested in engaging in this type of work if it is limited to subsistence agriculture are also a barrier. Apart from scarce access to land and credit, poor infrastructure and limited access to improved agricultural technologies are key reasons for youth to exit agriculture.

16. Rural youth can only access the land through inheritance from parents and/or through allocation from land administrators. The young women are unlikely inherit the land since they marry and move to their husband's village (Bezu and Holden, 2014). However, a recent empirical study indicates that since the land is becoming scarce, most rural youths are not accessing sufficient land farms either from parents or respective land authorities (Bezu and Holden, 2014).[8]

17. The nationwide youth unemployment rate has been approximately 7.59 % (WB, 2018). However, youth unemployment varies substantially by gender and location. Young women are much more likely to be unemployed (10.2 percent) than young men (5 percent). Urban unemployment rates for the youth are estimated at 27 percent – compared to 14 percent for those with ages above 25 – and are particularly high for those with secondary education.

18. **Marginalised groups**: The Ethiopian Constitution recognizes the presence of different socio-cultural groups, including historically disadvantaged and underserved communities, pastoralists, and minorities, as well as their rights to socio-economic equity and justice. The Ethiopian Constitution also recognizes the rights of pastoral groups inhabiting the lowland of the country.

19. The 12 to 15 million pastoralists belong to different groups of 29 Nations, Nationalities and Peoples. Whilst government policies have strengthened and resource allocations increased over the last decade, pastoralist areas are still amongst the least served in terms of basic services. Relating to institutional framework designed to ensure equity between regions, the government had set up the Ministry of Federal and Pastoral Development Affairs (MoFPDA), now Ministry of Peace (MoP). The responsibilities of this Ministry include promoting equitable development, with emphasis on delivering special support to the developing national regional states. The main purpose of the special support is to address the inequalities that have existed between the regions over the decades, thereby hastening equitable growth and development.

20. Men and women pastoralist and agro pastoralist are engaged in traditional livelihood systems based (i) exclusively on livestock rearing (camels, cattle, sheep and goats) or (ii) combining small to medium scale livestock production (including cattle, milking cows, sheep and goats, and poultry) with agriculture activities.

[7] *ibidem*
[8] Are rural you in Ethiopia abandoning agriculture? World Development, 2014.

These are groups of former pastoralists who because of livestock losses (natural causes or mismanagements of herds and/or lack of support from community for restocking/animal diseases) have abandoned pastoralism and are now surviving on alternative livelihood options, shifting from the traditional livelihood based system (and settlements) to a more sedentary model in search of opportunity for work, cultivable lands, and moving closer to basic social services.

21. Changes in the livelihood of pastoralists, especially for those moving from nomadic or transhumant groups to sedentarized groups, have brought relevant changes in the social system not only regarding the management of natural resources, but also in the gender roles. Those changes have given more space and created opportunities for women in socio-economic terms: in many cases, women have been able to benefit, gaining greater authority over their own earnings, social gains through trading activities as well as greater access to educational and health facilities as well as access to finance. Effectively, sedentarisation in these cases has acted to empower pastoralist women economically through market integration, access to financial services which has in turn advanced their social status[9].

22. **Nutrition**: Although child malnutrition rates have decreased, the country still has one of the highest malnutrition rates in Sub-Saharan Africa according to the 2011 Ethiopia Demographic Health Survey data.

23. The percentage of chronically malnourished or stunted children dropped from 58% in 2000 to 44% in 2011, which translates to 5.1 million stunted Ethiopian children. Some 21% of children were severely stunted. By far the highest rates were in Amhara, Tigray, Afar and Benishangul-Gumuz, rural regions with high rates of food poverty. The prevalence of underweight children fell from 41% in 2000 to 29% in 2011. The prevalence was highest in the Afar region (40%) followed by Amhara, Benishangul-Gumuz, Somali and Tigray. Acute malnutrition or wasting stood at 10% or 1.1 million children. There were marked regional differences in acute malnutrition with more than 20% of children wasted in the Afar and Somali regions where large numbers of households rely on livestock as their main livelihood. Children living in rural areas were more likely to suffer from malnutrition than those living in urban. This may be explained by lower rates of poverty, improved diets and better access to clean sanitation facilities and clean water in urban areas (DHS 2011). The primary direct and indirect causes of malnutrition in Ethiopia include persistent food insecurity, poor dietary diversity, poor food quality/safety, poor maternal and child feeding practices, suboptimal hygiene and sanitation, cultural practices, and limited access to quality nutrition services.

24. **Poverty, vulnerability and food consumption**: Households in Ethiopia face significant uncertainty with regards to future consumption. Vulnerability to weather risk has historically been very high among Ethiopian rural households. In 2015-2016, Ethiopia experienced a severe drought that required the delivery of US$1.7 billion in food assistance to nearly 17 million people. The drought was concentrated in the crop producing regions in the north and west, leading to a significant shortfall in food availability. Straight off the back of the 2016 El Nino drought, in January 2017, the United Nations appealed to the General Assembly for an additional US $900 million to support roughly five million more people, this time with the most severe impacts felt in the pastoral regions of southern Ethiopia.

25. According to the background Paper for the Chronic Poverty Report 2008-09 Growth and Poverty in Rural Ethiopia: Evidence from 15 Communities 1994-2004, almost half of rural households in Ethiopia were affected by drought in a five-year period from 1999 to 2004 (Dercon, Hoddinott and Woldehanna 2005), and drought has been found to have a significant impact on the welfare of these households. Ten years after experiencing drought, the consumption levels of those reporting a serious drought were found to be 16 percent lower than those of the families not affected, and these households still experienced lower growth rates (Dercon 2004).

26. Climate change affects agricultural production in various ways. Increases in temperature and reduced rainfall can result in shortening of maturity period and then decreasing crop yield, limitations in livestock feed availability, adverse effects on animal health, growth and reproduction, depressing the quality and quantity of forage crops, changing distribution of diseases, changing decomposition rate, contracting

[9] PCDPII supervision mission report (IFAD/WB).

pastoral zones, expansion of tropical dry forests and the disappearance of lower montane wet forests, expansion of desertification, etc (NMA, 2007; PANE, 2009).

27. Rain failure, more frequent or intense floods and droughts due to climate change threaten the performance of the economy as a whole and are the main causes of food insecurity, severe malnutrition and loss of livelihoods particularly in marginal and less productive lands (PANE, 2009). This effect is attributed to the fact that those changes can seriously depress agricultural production in the country. This clearly demonstrates that economic growth in general and households` welfare in particular are entwined and therefore livelihoods are still significantly influenced by changes in rainfall and other climate variables (World Bank, 2006).

1.2 Environment and climate context, trends and implication

28. **Environmental Assessment:** Land degradation in the form of soil erosion, sedimentation, depletion of nutrients, deforestation, and overgrazing - is one of the basic problems facing farmers in the Ethiopian highlands, and this limits their ability to increase agricultural production and reduce poverty and food insecurity. Land degradation in Ethiopia has proceeded at an alarming rate, and will be increasingly aggravated by the impact of climate change. Conservative estimates suggest that climate change will reduce agricultural crop productivity in Ethiopia by 5 -10 percent by 2030.

29. Environmental degradation is extensive in Ethiopia. But not all areas of the country are equally suffering. Both the extent and severity of the problem manifest spatial variations depending on difference in relief, ecology, rainfall, land use, land cover and soil types. Land degradation in Ethiopia is especially severe in the highlands. Environmental degradation in Ethiopia is replicated in the form of land degradation and degradation of water resources as well as loss of biodiversity. The scale of the problem dramatically increased due to the increase in deforestation, overgrazing, over cultivation, inappropriate farming practices, and increasing human population. Removing vegetative cover on steep slopes (slopes ranging between 15 and 50 percent) for agricultural expansion, firewood and other wood requirements as well as for grazing space has paved the way to massive soil erosion.

30. The three major aspects of environmental degradation in Ethiopia are depletion of forests, and degradation of farms and pastoral land:

31. *Deforestation and Forest Degradation*: Forest degradation in Ethiopia is closely linked to the ongoing population growth. More people generally lead to an increasing demand on land for living and for agricultural production. The situation got more severe in the eighties when large numbers of people moved to South West Ethiopia in organized resettlement programs. Consequently, the pressure on the forest resources increased due to a higher demand on fuel wood and construction timber. Forests covered approximately 40% of the land in Ethiopia a century ago but has shrunk to only 3% of land by the late 90s (Berry, 2003). The extensive deforestation has also led to the extinction of various biotas resulting in significant biodiversity loss.

32. *Degradation of Farm and Grazing Land.* Since 95% of the cultivated land is under small-holder peasant agriculture, the cumulative impact of the actions of these land users has eventually led to the degradation and depletion of these resources. Land degradation resulting from soil erosion is the most common environmental problem in Ethiopia. It is one of the major causes of low and declining agricultural productivity and continuing food insecurity and rural poverty. In addition, land degradation directly affects the type of plant grown on the area, reduced availability of potable water, lessened volumes of surface water, depletion of aquifers and biodiversity loss. The major causes are: rapid population increase, severe soil loss, deforestation, low vegetative cover and unbalanced crop and livestock production. Topography, soil types and agro-ecological parameters are also additional factors affecting the

land degradation processes influenced by natural resource exploitation and sub-optimal agricultural practices.

33. **Climate Trends and Impact:** According to the UNDP climate change country profiles, the average annual temperature in Ethiopia is projected to increase by 1.1°C to 3.1°C by 2060. Climate model projections under some IPCC scenarios show warming in all four seasons across Ethiopia, which may cause a higher frequency of heat waves as well as higher rates of evaporation (Conway and Schipper, 2011).

34. As one of Africa's most vulnerable nations, and the first least developed country to submit its Intended Nationally Determined Contribution (INDC) to the UNFCCC, Ethiopia communicated its plans to cut emissions below 2010 levels from 150 mega tonnes of carbon dioxide equivalent (Mt CO2e) in 2010 to 145 $MtCO_2e$ in 2030. Ethiopia's NDC includes a section on adaptation in its climate commitment and has outlined medium- and long-term actions to reduce vulnerability in key priority areas relating to drought, floods, and other cross-cutting interventions. These include measures such as capacity building to cope with the spread of diseases; strengthening water resource management, and developing insurance that can support farmers and herders in times of disaster. To achieve its long-term goal, action will be needed to build capacity to mainstream adaptation into all public and private development initiatives and the need to increase the status of women, the welfare of children and the well-being of the elderly, disabled, and refugees. The NDC indicates that full implementation of Ethiopia's ambitious goals requires expenditures of more than $150 billion by 2030 and needs significant capital investment. However, Ethiopia will tap domestic resources to pay for some of its commitment and will determine what can be accomplished without support and what will require international support.

35. Ethiopia has confronted many adverse impacts, which are manifestations of variable climate. The northern, southern and south-eastern dry land regions of Ethiopia have repeatedly faced increased frequency of meteorological drought episodes, famines and outbreaks of diseases which are believed to be linked with climate change. The droughts have highly impacted the agriculture of the country and brought about the loss of crops, animals and above all the loss of millions of people. Flood hazards have increased in recent decades, negatively impacting in crop and animal losses as well as human lives. Many studies have concluded that the agriculture sector is the most affected by climate change. For example, Deressa et al., (2008) made an integrated quantitative vulnerability assessment for seven Regional States (of the total eleven regions) by using biophysical and social vulnerability indices of Ricardian approach. The study revealed that decline in precipitation and increase in high temperature are both damaging Ethiopian agriculture.

36. <u>Impacts on Livestock production:</u> Although the direct effects of heat stress on livestock have not been studied extensively, warming is expected to alter the feed intake, mortality, growth, reproduction, maintenance, and production of animals. Collectively, these effects are expected to have a negative impact on livestock productivity (Thornton et al., 2009 cited in EACC). Chickens are particularly vulnerable to climate change because they can only tolerate narrow ranges of temperatures beyond which reproduction and growth are negatively affected. It is important to mention that poultry is mostly associated with women, women headed households and with poorest subsistence level households as an income generating activity (IGA).

37. Because of irregular rainfall and droughts, the country is experiencing deficits in food production in several areas, and likely increase in acute weather events, amplified aridity and a decrease in precipitation, range resources and soil moisture will escalate the problem severity. The shortage of water which is supposed to result from climate change will highly impact the already water stressed lowland regions and agricultural activities may no longer be

successful. The limited availability of food, due to the repeated drought cycles and disparity in rainfall, has become a major problem for millions of households in many parts of Ethiopia. Agro-pastoral and pastoral households, which are reliant on livestock for their livelihoods, can also suffer severe asset losses during droughts (World Bank, 2007).

38. According to the Ministry of Agriculture (1998), Ethiopia has 18 main agro-ecological zones. Of the 18 zones, the following 11 zones representing more than 74% of the country. Below a description:

39. **Hot to warm sub-moist lowlands**: this zone covers the warm sub-moist plains in the north-west and Rift Valley lake regions of the country. The altitude here ranges from 400 to 1600m above sea level and the mean annual rainfall varies between 200 and 1000mm. The farming system includes both crop cultivation and livestock production. Bush and grasses cover the majority of the land that is not under farming. The major problems in this zone are deforestation, malaria and poor infrastructure.

40. **Tepid to cool sub-moist mid-highlands:** this zone consists of the plains and mountains of the Tegray, Amhara and Somali Regional States. The altitude varies from 1400 to 2200m. The zone is intensively cultivated, the farming system being mixed cereal livestock production. This zone has potential for rainfed agriculture on the plains and afforestation in the mountains area. The problems here are erosion and deforestation.

41. **Tepid to cool pre-humid mid-highlands:** this zone is physio-geographically mountainous with an altitude range of 1000–3000m and it is found in different parts of the country. The climate is favourable for crop production and livestock grazing. The mean annual rainfall varies from 600 to 2200mm. mixed crop livestock production is the faming system of this zone. The crops are both annual and perennial. The main constraints are the shortage of fuelwood, and wind erosion in some places.

42. **Tepid to cool humid midlands:** This zone has a good climate and flat to gentle sloping terrain, which make it favourable for agriculture. The altitude ranges from 2000 to 2800m, and the mean annual rainfall from 900 to 2000mm. Shallow soil depth and degraded topography and drainage are some of the major constraints of the zone.

43. **Warm sub-humid lowlands:** This zone covers the warm sub-humid plains in the Gambella and Beneshangul Gumuz National Regional States. Its altitude ranges from 400 to 1000m. The natural vegetation cover is wooded grassland and cultivation is practiced mainly along major rivers such as the Baro and Akobo. Tsetse fly, malaria and the workability of vertisols are the major constraints in this zone.

44. **Tepid to cool moist mid-highlands:** This zone covers the high potential areas of Oromia and Southern Nations, Nationalities and People’s Regional State (SNNPRS). Its climate is highly conducive to the growth and development of various plant and animal species. The general physio-geography is mountainous, with altitudes ranging from 1000 to 2800m. The mean annual rainfall varies from 1100mm to 1500mm. The zone has a high potential for crops, livestock, forestry and wildlife production. Topography is the major constraint here, as it impedes the use of large-scale mechanized farming.

45. **Cold to very cold moist Afro-alpine:** This zone covers the southeastern parts of the Oromia Regional State. The altitude here ranges from 3000 to 4200m. The mean annual rainfall varies from 900 to 1800 mm. The main constraints are the rugged topography, shallow soil depth and wind erosion.

46. **Hot to warm humid lowlands:** This zone covers Oromia and the Southern Regional States. As it has favourable climatic conditions, many plant and animal species grow here. The topography is mainly mountains, with altitudes ranging from 800 to 2200m. The mean annual

rainfall ranges from 1300 to 1700mm. The potential for forestry and wildlife is high here. The main constraints are the rugged topography and shallow soil depth.

47. **Hot to warm arid lowland plains:** This zone covers the arid valley and escarpment of the Afar and Somali Regions. The altitude ranges from 0 to 1200m, and the annual precipitation from 100–600mm. The zone is sparsely cultivated (mostly irrigated) and covered by wooded grassland. This zone has a potential for livestock rearing and irrigated agriculture. Low rainfall, high temperature and lack of adequate infrastructure are the major constraints.

48. **Hot to warm pre-humid lowlands:** This zone is found in the SNNPRS. The climatic and soil conditions are conducive to the development of plant and animal species. The altitude ranges from 1400 to 2000m and the mean annual rainfall from 1000 to 1500mm. This zone has a high potential for crop production. The main constraint to production is the shallow soil depth.

49. **Tepid to cool sub-moist mid highlands:** This zone is found in the Oromia National Regional State (ONRS) and the SNNPRS. The topography here is mountainous, with altitudes ranging from 1600 to 3200m. The mean annual rainfall ranges from 700 to 2200mm. The livestock here are mainly cattle, sheep, goats, donkeys, horses and mules. Shallow soil depth and drainage are the constraints on agricultural production here.

50. Beneficiaries of RUFIP III are residing in various agro ecological zones. Variability in climate change in different agro-ecological zones is expected to adversely affect project beneficiaries of RUFIP III in different ways. An assessment conducted on major agro-ecological zones (AEZ) which covers the warm and sub-moist mid highland areas to warm and semi-arid low land areas highlighted the fact that small-scale, rain fed, subsistence farmers and pastoralists are the most vulnerable to climate changes. This study also indicated that arid, semi-arid, and dry sub humid low lands are more vulnerable while highlands have been found less vulnerable to climate change. Diversification of livelihoods, migration, nonfarm activities, sales of assets, settlement and resettlement activities, and the adoption of improved water management system are few measures that have been taken at the house hold level to minimize impacts due to climate change.

51. RUFIP III will be implemented nationally, including in the degraded areas of the country where there is serious environmental vulnerability. The loans given by RFIs under the programme will finance production and enterprise activities of small holders, including for agriculture, horticulture, forestry, livestock, etc. Excessive adoption of such activities, without adequate safeguards and reckoning of carrying capacity of local areas can aggravate environmental degradation. Possible impacts could be ground water pollution due to excessive use of fertilizers and pesticides, soil erosion due to farming of steep slope/ marginal land, lowering of ground water level due to excessive water extraction for irrigation, contamination of food and water bodies due to improper use/storage of agro chemicals, proliferation of insect vectors due to lack of proper drainage, shortage in animal fodder due to over grazing, over grazing due to increase in animal population, deforestation due to expansion of agricultural land, pollution of surface and ground water and release of pungent smell due to release of animal wastes, power shortage due to additional energy demand for agro processing and health risks due to improper use of agro-chemicals are expected to occur.

52. It has to be noted that RUFIP III does not advocate any specific activities or any specific technologies that tend to be environmentally counterproductive. Financing of ground level activities will follow sound principles of environmental sustainability with RFIs advising the clients to take the guidance of appropriate government and non-governmental agencies in sustainable production and processing practices.

53. The key trends and shocks that project beneficiaries should anticipate due to climate change during project implementation include the following: (i) increase in frequency and extent of

drought episodes, famines and outbreaks of diseases;(ii) famine due to loss of crops, animals (iii) increase in the frequent flood hazards; (iv) decline in precipitation and increase in temperature; (v) irregularity in rainfall and droughts; and (iv) shortage of water for human and animals.

54. Pastoralists are adopting a variety of coping mechanisms. In the farming areas, many are shifting to more drought tolerant crops and varieties, improved forest management practices, diversified energy sources, and alternative means of income from off-farm activities. Pastoralists have also divided pasture into wet and dry season grazing areas to better manage risk, while others have changed the composition of their heard from cattle to camels and goats, which can better tolerate dry, hot weather.

55. Besides adopting the above coping mechanism by end beneficiaries, RUFIP III could also support improved access to clean energy sources. Similarly, the following climate change risk management measures are also recommended for RUFIP III resources and their use by the beneficiaries:

- Investing in livelihood opportunities and risk management strategies for poor farmers and pastoralists, particularly women;
- Improving access to agriculture extension and advisory services;
- Investing in select activities based on long-term adaptation plans developed through the sharing of best practices and community participation, civil society engagement, and collaboration with academic and research institutions. The plans should have regular monitoring to identify promising practices for scaling up;
- Investing in proven farmers and pastoralists adaptation practices such as forestation programs, reforestation, and sustainable forest management that ensure sustainability and impact on poverty and inequality;
- Investing in community environmental and drought monitoring systems and improving community disaster risk reduction capacity;
- Increasing use of renewable energy such as solar energy and promoting photovoltaic technology.

56. RUFIP III can beneficially provide resources for sustainable investments and linkages with organisations providing climate change resilience services and products. The capacity building activities envisaged can promote further products and services for the beneficiaries. The sustainable investments would support the climate resilient green economy development strategy and the role of RFIs in promoting climate change adaptation and mitigation.

Part 2. Institutions and legal framework

2.1 Institutions: Most important institutions/ networks that represent potential strategic partners to help achieve IFAD's mainstreaming agenda are the following:

Gender	**Ministry of Women, Children and Youth Affairs (MoWCYA)** plays a proactive role in coordinating gender activities in the country. Coordination with civil society organizations takes place through the Government Organizations (GO) and Non-Government Organizations (NGOs) Forum bringing together the two groups working on women, children and youth issues. In addition, there are also other thematic working groups on issues of early marriage, violence against women and children, and FG- M/C that bring all the actors working along those themes together for coordination purposes. The Ministry of Women affairs also leads the coordination mechanism of the Government of Ethiopia/Joint Programme on Gender Equality and the Empowerment of Women (RWEE JP).
	The Donor Group on Gender Equality (DGGE) is the main donor coordination mechanism that coordinates the work of all donor groups, bi-lateral and multi-lateral organizations on gender equality. Among UN Agencies, there is a United Nations Development Assistance Framework (UNDAF) **Technical Working Group** whose fourth pillar is on Women, Youth and Children.
	Women's affairs directorate in the ministry of Agriculture and Natural Resources (WAD-MoANR): The MoANR's Women Affairs Directorate (WAD) as per its mandate has taken the initiative to establish, lead and coordinate a network - Ethiopian Network for Gender Equality in Agriculture (ENGEA), of all partners who have been working and are aspiring to engage and make gender one of their critical agenda in the agriculture sector. The Network is chaired by the Women's Affairs Directorate of the Ministry of Agriculture and Natural Resources.
	Women's affair directorate in the Federal Cooperative Agency (WAD-FCA): the directorate has the mandate of developing women's membership and leadership participation in cooperatives, including credit and saving Cooperatives (RuSACCOs).
Youth	The **Ethiopian Ministry of Youth & Sport** is responsible for facilitating the formation of youth organizations to support national development, monitor and support youth initiatives as well as implementing the national youth policy.
	Climate smart agriculture youth network Ethiopia CSAYN: the network serves as an open platform for Ethiopian Agropreneurs, youth farmers, environmentalists and youth advocates within the ages 18 to 35.
Social Inclusion	**Ministry of Peace (MoP):** The responsibilities of this Ministry include promoting equitable development, with emphasis on delivering special support to the developing national regional states. The main purpose of the special support is to address the inequalities that have existed between the regions over the decades, thereby hastening equitable growth and development.
	Pastoralists associations/NGOs: Several CSOs/NGOs supporting work in pastoralists areas are the following: Afar Pastoralist Development Association (APDA); Pastoralist Concern Association Ethiopia; Pastoralist Forum Ethiopia.
Nutrition	**The Ministry of Health (MoH):** The Ministry has the mandate to coordinate government sectors and development partners for nutrition. A high-level multi-sectoral and multi-stakeholder platform was established, the National Nutrition Coordination Body (NNCB), comprising ministers from seven sectors: Health, Agriculture, Water and Energy, Education, Industry, Labour and Social Affairs and Women, Children and Youth Affairs. It also includes country representatives from United Nations agencies, bi-lateral donors as well as technical and research institutions and soon will add representatives from the private sector and civil society.

	The National Nutrition Technical Committee (NNTC). It is co-chaired by the Ministries of Health and Agriculture, consists of directors and technical officers from eight ministries including the Finance & Economic Development Ministry and one representative from UNICEF. The NNTC provides guidance on the implementation of decisions taken by the NNCB. Three technical groups are working under supervision of the NNTC, one on monitoring and evaluation (MER-WG), one on food fortification and one on programme implementation.
	The Ethiopian Public Health Institute (EPHI): The organisation is chairing the Monitoring, Evaluation and Research Working Group of the National Nutrition Programme in Ethiopia, is in charge of running the NIPN, with support from the International Food Policy Research Institute (IFPRI).
Environment and Climate Change	**Ministry of Environment, Forest and Climate Change of Ethiopian**, now **Environment, Forest and Climate Change Commission (EFCCC)**. This Ministry is established to monitor environmental concerns and the right of the citizens to live in healthy environment, devise environmental policy and coordinate their implementation. Offices and or Bureaus have also been established at the regional and woreda levels.

2.2 Policy and regulatory frameworks: National strategies, policies and regulatory frameworks relevant to the project from a safeguard and IFAD mainstreaming perspectives are the following:

Gender	The Ethiopian Government is a signatory to most international instruments, conventions and declarations, and adopted international instruments such as; **the Convention on the Elimination of All Forms of Discrimination Against Women /CEDAW (1979), the Declaration on the Elimination of Violence Against Women/DEVAW (1993), the Beijing Platform for Action/BPA (1995)** including the domestication of the international instruments. CEDAW stipulates that signatories need to work on eliminating discrimination against women, and creating equality between women and men.
	The Government of Ethiopia has declared its commitment to gender equality by stipulating the rights of women in the constitution (Article 35), by adopting the **Women's Policy of Ethiopia and by formulating the National Action Plan on Gender and Development.** The Labour Proclamation and the Civil Servants Proclamation prohibit discrimination; protect pregnant women and maternity rights. The revised Pension Proclamation (2003) provides for equal rights over spouses' pension to widow and widowers[10]. The Government also revised the Family Law in 2004 and the Criminal Code in 2005 to address issues linked to women's rights.
	At the national level, the **National Policy on Women**, formulated in 1993, is the first policy formulated on women. The policy encourages equal participation of women in the political, social and economic spheres of life in the country and subsequently institutionalized the rights of women by creating the appropriate institutional mechanisms within government institutions to ensure gender sensitivity of public regulations and interventions.
	The United Nations Development assistance framework UNDAF 2016-2020 is aligned to the GTP II and contributes directly to eight of the nine GTP II pillars. These include **UNDAF pillar 5 on equality and empowerment**. Under the UNDAF (2012–2016). Collaborative programming and joint programmes on priority themes such as social protection, resilience, migration and financial inclusion are expected to continue under the UNDAF 2016-2020. The areas are expected to largely benefit women.

[10] Gender Equality and Development, World Development Report, 2012

Youth	**The National Youth Policy (2004)**: The major elements of the youth policy are: Youth, democracy and good governance; Youth and economic development; Youth and education; Youth and health; Youth and HIV AIDS; Youth and social evils; Youth, culture, sport and entertainment; Youth and environmental protection; and Vulnerable youth.
	The **Rural Job Opportunity Creation Strategy (RJOCS)** is designed to consolidate the rural job opportunity creation activities at both federal and regional levels. It recognized that rural youth are the critical labor force to ensure sustainable development of the sector at present and in the future. Enhancing the capacity of rural youth is therefore the most important task to be done towards the goal of ensuring sustainable development of agriculture that provide livelihood to majority of the Ethiopian population.
Social Inclusion	The Ethiopian Constitution recognizes the presence of different socio-cultural groups, including historically disadvantaged and underserved communities, pastoralists, and minorities, as well as their rights to socio-economic equity and justice. Article 39 of the Ethiopian Constitution recognizes the rights of groups identified as "Nations, Nationalities and Peoples".
	The Ethiopian Constitution also recognizes the rights of pastoral groups inhabiting the lowland of the country. The constitution under *article 40 (4)* stipulates **"Ethiopian pastoralists have a right to free land for grazing and cultivation as well as a right not to be displaced from their own lands".** The *Constitutions* under *Articles 41(8) also* affirms that "Ethiopian Pastoralists have the right to receive fair prices for their products, that would lead to improvement in their conditions of life and to enable them to obtain an equitable share of the national wealth commensurate with their contribution. Pastoralist regions/areas recognized by the government are: Afar; Somali; Borena Zone and Fentele *Woreda* (Oromia); South Omo Zone, Bench-Maji Zone, and parts of Decha Wereda in Keffa Zone (SNNPR); and, Nuer Zone (Gambella).
Nutrition	**National Nutrition Strategy (NNS)** launched in **2008**. The NNS in Ethiopia is now operationalised through the multisectoral National Nutrition Programme (NNP) 2015-2020 with ten stakeholder ministries.
	The Ministry of Agriculture and Natural Resources (MoANR) has developed a Nutrition Sensitive Agriculture Strategic Plan in **2016** that aims to mainstream nutrition in all programmes of the MoANR. This Strategic Plan also has a strong focus on the empowerment of women through three initiatives and related actions on increased access to resources and inputs for women; on promotion of labour and energy saving technologies to impact women's work load; on promotion of gender sensitivity in nutrition sensitive agriculture at all level.
Environment and Climate Change	**The Constitution of the Federal Democratic Republic of Ethiopia**: It is the supreme law of the country. Article 92 of the Constitution states that the design and implementation of any program and development projects shall not damage or destroy the environment, and people have the right to be fully consulted and express their views in planning and implementation of environmental policies and project.
	Environmental Policy of Ethiopia: The Environmental Policy of Ethiopia (EPE) was issued in April 1997. The overall policy goal is to improve and enhance the health and quality of life of all Ethiopians and promote sustainable social and economic development through sound management and use of natural, human-made and cultural resources and their environment as a whole, so as to meet the needs of the present generation without compromising the ability of future generations to meet their own needs. The policy seeks to ensure the empowerment and participation of the people and their organizations at all levels in environmental management activities, raise public awareness and promote understanding of the essential linkage between environment and development National Growth and Transformation Plan (GTP).
	Ethiopia's Climate Resilient Green Economy Strategy: To cope with the prevailing environmental problems such as land degradation and climatic hazards (rainfall fluctuation, increasing temperature, flooding), and speed up its socioeconomic development, the

	Government of Ethiopia has planned a climate-resilient green economy as a development strategy. This development direction promotes environmental protection, reducing fossil fuel consumption which releases greenhouse gases into the atmosphere.
	Water Resource Policy: The Ministry of Water Resource (as it was named by then) prepared water resources management policy of Ethiopia. The overall goal of the policy is to enable and promote all national efforts towards the efficient, equitable and optimum utilization of the available water resources of Ethiopia for significant socio-economic development on a sustainable basis.
	Land Tenure Policy: The Constitution of the Federal Democratic Republic of Ethiopia (FDRE) states that the right to ownership of rural and urban land, as well as all natural resources, is exclusively vested in the State and People of Ethiopia. Article 40 of the Constitution indicates that land is a common property of the Nations, Nationalities and the People of Ethiopia, and shall not be subjected to sale or to other means of transfer. The Land Tenure Policy of Ethiopia strongly supports the principle that project plans must include attractive and sustainable resettlement strategies to the people who are going to be displaced as a result of the development plan, and they have to be fully convinced, compensated and have been able to participate in all phases of the project implementation.
	National Biodiversity Policy: The National Biodiversity Policy (NBP) was established in 1998 based on a holistic ecosystem approach to conserve, develop and utilize the country's biodiversity resources. One of the objectives of the biodiversity policy is to integrate biodiversity conservation and development into Federal and Regional agricultural, health, industrial and overall national economic development strategies and plans.

2.3 Programmes and partnerships: Poverty and vulnerability reduction through Productive Safety Net Programme (PSNP):

57. PSNP is run by the Government and provides regular cash or food transfers to 8 million people; covering 4 million of them in areas affected by the drought and targeting the very poor and poor households. From the beginning the project supported the transition from the annual emergency appeal system post–crises based on food transfers to a multiannual predictable approach with the introduction of cash transfers. The second and third phases supported the Program's integration, consolidating performance and maximizing its long-term impacts on food security by ensuring effective integration and coordination with other critical interventions such as household asset building and risk financing mechanisms. The fourth phase, along similar lines, has gone beyond assets building to strengthening livelihood and supporting poor households accessing financial services as a coping mechanism against vulnerability.

58. Targeted households receiving services on improved livelihood and access to finance households can be defined as transitory poor. They are given support to secure their livelihood in the transition period where they are at risk of sliding back into poverty unless alternative livelihood strategies are developed through access to finance and ultimately through access to credit. Given the absence of a dedicated LoC within PSNP4, availability of funds depends exclusively on the RFI capacity. It is found that the lack of liquidity is the major constraint limiting the full achievements of the goal (i.e. securing all targeted households against economic and climate shocks) in securing poor peoples livelihoods.

59. **2.4 Environmental and social category:** RUFIP III may have some adverse environmental and/or social impacts on human populations or environmentally significant areas, but the impacts: (i) are less adverse than those for category A; (ii) are site specific and few are irreversible in nature; and (iii) can be readily remedied by appropriate preventive actions and/or mitigation measures.

60. Based on the justification above and the National EIA Guideline and the SECAP, the proposed project falls under Category B. The project is not expected to have any significant irreversible adverse environmental or social implications. The project will support access to financial products which are adapted to the needs of vulnerable populations and do not engender major environmental and social impact. Category B projects require an ESMP, which is incorporated in the SECAP review note in the form of a matrix, showing the output from the environmental and social Management Framework analysis. As the specific investments that will be made by the RUFIP III beneficiaries are currently unknown an Environment and Social Management Framework (ESMF) will be developed. The ESMF will include guidance and screening criteria for the selection of sub-projects for the cases that necessitate an ESMP to be developed during project implementation phase. The ESMF will be intergrated in the PIM as well, to provide appropriate guidance to implementing RFIs.

61. **2.5 Climate risk category:** Based on the preliminary design of RUFIP III and the agreed project activities in the design, screening of climate risk has been done. According to this analysis RUFIP III has moderate climate risk. The risk classification is based on the typology of investments that will be made by the RUFIP III beneficiaries. Given that most of the beneficiaries are smallholder framers and pastoralists, their livelihoods and hence investments made are exposed and sensitive to climate shocks. However, the resources accessed through RUFIP III can also be utilized for investments that can build the resilience of the beneficiaries and support the recovery following climate related shocks.

62. The following is summary of the basic climate risk analysis of RUFIP III. The trainings in financial literacy, building client capacity to use financial products, training on supervisory and regulatory subjects, strengthening technical and operational capacities of RFIs, skill and knowledge development of staff at NBE and the technical assistance to develop policy frameworks do not have any direct interaction with climate change risks. The main climate change related risks are rainfall variability, droughts, floods and rising temperatures. Therefore the climate risk for these activities is considered low. However, measures such as enhancing environmental, social and climate risk management systems in the RFIs can be beneficially included in the programme. These measures would build on the Responsible Financing for Smallholder Agriculture initiative activities in Ethiopia with resources from the Adaptation for smallholder Agriculture Programme (ASAP 2).

Part 3 - Strategic Recommendations:

Recommendations for project implementation

63. In line with national programme (GTP II), as well as with international frameworks (UNDAF 2016-2020) at country level, specific attention should be placed on strengthening access to financial services and products for vulnerable as well as economically productive rural households (men, women and youth). Given the strong nexus between gender, household food security and nutrition, it is key that IFAD engagement will consider activities aiming at enhancing women's decision making as well as nutrition education interventions at all levels, focusing on the most vulnerable and food insecure households.

64. RUFIP III will use the following entry points to address cross cutting issues: (i) improve women's access to suitable financial services/products and increase their voice in decision making; (ii) generate economic opportunities for youth through facilitating access to financial services and (iii) improve nutrition, especially for food insecure households and vulnerable categories experiencing negative environmental effects (i.e. draught).

65. **Improve women's access to suitable financial services/products and increase women's voice in decision-making:** The project will address gender disparities and the key constraints that limit women's participation in accessing financial services/ products by: (a)

ensuring that women and men have equal access to capacity building, training targeting 50% women as direct beneficiaries; (b) promoting financial products that are suitable for female clients and respond to women's needs and priorities; (c) increase women's voice in decision-making at RUSACCOs and UNIONs level by promoting leadership trainings for women leaders to achieve 50% representation; (d) increase women's access to skills and knowledge by providing women's skills in financial literacy, managing and saving money as well as business development. The types of activities are tailored to serve women from different socio-economic categories: vulnerable women interested in small IGA to complement their livelihood (subsistence level), as well as women entrepreneurs (better off) engaged in productive activities and interested to expand their businesses.

66. **Generating economic opportunities for young people through access to finance:** RUFIP III will replicate successful interventions aimed at supporting youth access to finance. The aim is to increase the % of young men and women clients of MFIs as well as RUSACCOs members following a gradual approach: from initiating young men and women to (i) finance education (targeting schools for example) to develop (ii) a saving culture and ultimately (iii) to submit business plan proposal to access small loans for alternative income generating activities (farm as well as off-farm sector).

67. The programme will closely work with existing youth groups, associations and schools in order to provide key messages about financial education and promote a saving culture; it will then engage with existing programmes supporting landless youth engaged in alternative livelihoods/off farm activities to join SACCOs/MFIs. The UNCDF supported Youth Start (YS) programme constitutes a source of evidence-based achievements for increased growth rate of youth clients (up to 70%) and good practices. The YS training modules may be taken up for replication to improve access to finance for young men and women.

68. **Improving nutrition among food insecure households**: The project recognizes that access to finance is a key element that within the household dynamics can play an important role in combatting malnutrition as long as it is accompanied by awareness creation. Limited nutrition knowledge among beneficiaries may prevent RUFIP III target groups to translate increased production and income into improved diets. The project will contribute to improved nutrition by promoting awareness at community level, with special focus/priority in areas where higher food vulnerability is registered due to environmental negative effects (i.e. draught). To support beneficiaries in addressing gaps in nutrition knowledge, the project will carry out nutrition education at the cooperatives/union levels in collaboration with other agencies as well as establishing demo-plots at SACCO/Union level.

69. **Targeting and social inclusion strategy**: The programme will provide financial services and products to clients from poor and vulnerable rural households living below the poverty line (set in 2016 at ETB 7,184 per capita annual income), as well as to those individuals defined as transitory poor, whose average income is above the poverty line but are subject to recurrent shocks and can slide back into poverty. The target groups will include the poor and transitory poor (households engaged in farm and off-farm activities) which will comprise the majority of RUFIP III clients, while the better off will be a smaller percentage. The final targets to be achieved will reflect this proportion, serving about 70% of clients belonging to the poor and transitory poor categories.

70. **Targeting criteria:** To ensure that project services will serve the intended households, the Targeting and social inclusion Strategy will prioritize drought prone areas where majority of poor are concentrated and households of smallholder farmers are highly affected by climate shocks. These will be identified, among others, through the presence of safety net programmes (i.e. PSNP 4 among others) where activities support communities to develop alternative income generating activities (IGA) and savings through RUSACCOs. RUFIP III will prioritize those

geographic areas and given the high level of malnutrition and food insecurity that characterize the households. In addition to PSNP coverage, available statistics on poverty and malnutrition levels across woredas and kebeles will inform the geographic targeting and the selection of priority areas/communities. RUFIP III will closely work with PSNP4 Project unit to define areas of intervention.

71. **The Gender and Youth Mainstreaming Strategy** will consider scaling up of best practices which have been effective for women and youth inclusion and outreach, as well as promotion of suitable products for them. RUFIP I and II have demonstrated experiences on outreach of women and data disaggregation: women account for 46% SACCO members, and 40% directors on their governance committees (exceeding the minimum required at 30%). In MFIs 44% of the clients are women. RUFIP III will continue to support implementing partners in the effort to reach at least 50% in terms of women members/board representatives and women clients in case they are below this target level. The performance tracking would also monitor whether RFIs register increases in coverage of women even beyond the 50% minimum threshold and the annual trends. Women's leadership trainings will be provided to women's representatives in the expected decision making bodies. Furthermore, implementing partners will integrate gender analysis as part of any analysis undertaken to identify suitable financial products. It is indeed expected that RFI promote suitable products for women.

72. **Youth:** The UNCDF supported Youth Start (YS) programme constitutes a source of evidence-based achievements for increased growth rate of youth clients (up to 70%) and good practices and training modules to be taken up for replication regarding young men and women access to finance. RUFIP III may consider the existing surveys as well as methodologies/training modules developed with support of YS programme and Women's World Banking (WWB), to be adapted to the different regional contexts and trainings promoted among the MFIs/FCAs staff at all levels. Technical assistance (TA) will be provided to train selected staff from the MFIs and FCA respectively.

73. Among others, proposed trainings, workshop and conferences will include: youth-targeted market research; training on product development for youth (pilots); training on youth client protection; training on monitoring and evaluating for youth participation; financial Education Training of Trainers; familiarization training on the new reporting format; Workshop on sharing best practices and knowledge among involved partners. This intervention is expected to expand finance education among youth and to catalyse the growth of young clientele of the financing institutions as a result of the suitable services/products promoted. Suitable technical institutions should be identified to build capacity of the RFI to drive this set of interventions. In each MFI a dedicated officer (nodal officer) will be identified to be able to expand the promotion of financial services for the target group, including the youth.

74. **Nutrition Interventions:** The programme will promote nutrition awareness (i.e. nutrition education and demonstration plots). Nutrition-specific trainings will be provided to members of SACCOs Unions and they will be capacitated to further train (ToT) members at primary SACCOs level. Existing training materials for nutrition (i.e. Ministry of Agriculture) will be adapted. Collaboration with Bureau of Health at Regional, Woreda and Kebele levels, along with nutrition team/focal points and extension agents from the agriculture sector, at all levels, will be explored to carry out the above mentioned activities. The win-win collaboration is foreseen given the wide outreach of RUFIP III and the opportunity to convey the intended nutrition message to about 13.5 million clients and their families using the MFIs, Unions and SACCOs as entry points.

75. **Responsibility during implementation**: Overall responsibility for the targeting strategy implementation as well as gender, youth and social inclusion and nutrition related issues will be under the **Social Performance and Customers Protection Officer** in the Project

Coordination Management Unit (PCMU). Responsibilities and modalities for implementation of the above are reflected in the ToRs attached to the PIM.

76. **Recommendations for mainstreaming environmental management and climate change adaptation and mitigation**: It is recommended to use the exclusion list from IFC, also indicated in IFAD's Guidance Statement 12 of the SECAP, as an initial screening of eligibility for access to the finance being provided through the MFIs and RUSACCOs at the time of screening project activities to be financed by RUFIP III;

77. The ESMF being developed includes capacity building at the institutional level including of the MFIs particularly in their Environment and Social Management Systems. This can be delivered through the Environment and Social Management specialists in DBE in collaboration with regional officers from the relevant Government Agencies.

78. An additional consideration is the capacity building of the MFIs with the aim of increasing access to products that will build the climate resilience of the end beneficiaries. An assessment of products readily available on the market such as insurance can be done and any adaptation of the products planned based on the needs assessment of the RUFIP III end beneficiaries and the climate risks that they face.

79. RUFIP III could also actively seek out partnerships with projects in the target areas that promote improved environmental and natural resources management and climate change adaptation. The Programme can collaborate with these projects by improving financial access for the target beneficiaries to invest in these areas and improve their livelihoods.

80. **Further studies needed**: As explained above, RUFIP III falls under category B and also has medium climatic risk. Project of this category and climate risk will need to further conduct the following studies (i) Initial environmental Impact Examination (IEA) using environmental screening format annexed in the ESMF document; (ii) ESIA and or ESMPs for small holder irrigation, animal fattening and dairy investments located near sensitive ecosystems such parks, bird sanctuaries, natural reserve and cultural heritage; (iii) Further Climate risk analysis and Free Prior and Informed Consent (FPIC) Implementing Plan for project affected communities where required; (iv) analysis estimate carbon emission at a later stage when the further investment from RUFIP III resources would warrant this.

3.3 Monitoring

81. **Poverty reduction Impact**: RUFIP III will apply a graduation approach to poverty reduction. Poverty monitoring will be conducted by applying specific methodologies and indicators (including social indicators) to enable tracking of the performance and impact of financial inclusion as an instrument for poverty reduction. The tracking will be done both at financing institution and project levels. These will consider best practice applied at country level, such as the Progress out of Poverty Index (PPI)[11] survey conducted by PEACE MFI and the lessons learned. RUFIP III will consider these methodologies for scaling up as part of the poverty monitoring system of involved MFIs and other implementing partners (i.e. FCA). The tracking system will enable to constantly re-define the financial profile of the clients and provide appropriate products and services during project implementation. The project will also carry out Annual Outcome Surveys to track changes in economic and social aspects of lives of project beneficiaries. Technical Assistance (TA) will be provided to PCMU and implementing partners to introduce and manage the tools.

82. **Youth:** Disaggregated Information on youth (15-29 as per Ethiopian Definition) is not available to determine the actual outreach. RUFIP III will use baseline information on the current

[11] Developed by Mark Shreiner and mainstreamed by Grameen Foundation.

presence of youth and will make an effort to increase the existing number of youth clients and keep track of it by providing age disaggregated data. Technical Assistance (TA) will be provided to reduce the existing data gap and capacity building for M&E will be considered. Proposed indicators will consider: # youth accessing financial services (saving/credits). # and students receiving finance education; # youth accessing finance for business plans related to on farm/off farm IGA; # youth self-employed as a result of accessing finance. (Baseline to be conducted).

83. **Gender:** proposed indicators will consider: # women access to financials services (MFIs/SACCos) and monitoring # women in leadership positions; # financial product delivered specifically suitable for women needs. (baseline to be conducted).

84. **Environment and climate**: RUPIP I and II had no monitoring mechanism to supervise proper implementation of the national environmental policies and regulations and IFAD Safeguard Policies. This is partly due to the absence of ESMF documents for RUFIP I and II and lack of awareness among the implementing institutions on the need to mitigate impacts resulting from project activities and climate change. Proposed Indicators to monitor key performance for environment and climate change during RUFIP III implementation include household income and livelihood of families and communities, frequency of drought and flooding, catchment water yield, ground water level, soil fertility, rate of deforestation, rate of soil erosion and siltation, rate of migration of people and animals.

85. **Nutrition:** Proposed indicators will consider: # nutrition promotion activities developed; # demo-plots established; # people increased dietary diversity; # households increased consumption of nutritious foods; # households starting backyard/kitchen garden as a results of the trainings received; # households investing in back yard gardening as a result of the demo-plots. (Baseline to be conducted).

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The Federal Democratic Republic of Ethiopia

Rural Financial Intermediation Programme – Phase III (RUFIP III)

Design report

Annex 6 – First Annual Work Plan and Budget

Annex 6: First Annual Work Plan and Budget (AWPB) – Draft

		USD 000	
Work allocation	**2019**	**2020 (6 months)**	**Total for 18 months**
Component I A - MFI			
Improvement of MIS			
Hardware and software upgrades	1088.50	22.45	1110.95
Training and capacity building	89.40	0.00	89.40
Total	1177.90	22.45	1200.35
Capacity Building of MFIs:			
Capacity Building of MFIs	730.90	406.90	1137.80
Research ,Knowledge Management and SPM	100.20	25.20	125.40
Exposure Visits	180.30	0.00	180.30
Total	1011.40	432.10	1443.50
Financial Literacy	110.20	30.20	140.40
Capacity Building of AMFI	185.30	100.50	285.80
Total MFI	**2484.80**	**585.25**	3070.05
Component 1B- Cooperatives			
Capacity Building of RUSACCOs/ Unions:			
TOT/ Refresher Training	3.90	13.55	17.45
Exposure Visits	36.10	18.10	54.20
Training Need Assesment	200.30	0.00	200.30
Total	240.30	31.65	271.95
Member Level development:			
Financial Literacy/Grivance Redressal and Customer protection	129.20	64.80	194.00
Social Performance management, PPI tracking tool	67.00	12.50	79.50
Impact Assessment studies of benefits - Documentation of success stories	15.00	0.00	15.00
Total	**211.20**	77.30	288.50
Support for IT infratructure (hardware, software) for RUSACCOs	805.00	673.10	1478.10
Policy and product Development Interventions:			
Studies on new new financial services/ products (e.g. . Micro –insurance products- credit life)	17.90	0.00	17.90

Annex 6: First Annual Work Plan and Budget (AWPB) - Continued - DRAFT

Linkage with digital financial Services (e.g. vouchers, insurance)	17.00	5.00	22.00
Deposit guarantee system	40.00	20.00	60.00
Pilot testing new products	75.10	0.00	75.10
Total	**150.00**	25.00	175.00
Institutional Development and Financial Integration:			
Institutional Development- Setting up 2 Apex level national/regional Bodies	7.00	0.00	7.00
Linking RUSACCOs to Unions	4.00	6.00	10.00
Setting up a training Institution of excellence at the National Level	0.00	25.20	25.20
Developing Training Institutions at Regional level for Financial Cooperatives- infrastructure Development	50.10	25.20	75.30
Setting up Certification System for professional and institutional excellence	150.30	0.00	150.30
Viability and Transformation Impact Study	50.10	0.00	50.10
Integrating Financial Cooperatives with Financial Inclusion Programme	28.00	9.00	37.00
Integrating SACCOs/Unions with Payment Systems	8.50	4.30	12.80
Integrating Unions/ SACCOs with Credit Information system	14.30	9.00	23.30
Mobility Support for Union/ RUSACCO staff	536.60	0.00	536.60
Technical Staff Support for Unions	429.20	215.40	644.60
Total	**1278.10**	294.10	1572.20
Policy Makers Development Programmes :			
Exposure Visits- Overseas	0.00	40.40	40.40
Exposure Visits- Internal	45.10	42.60	87.70
Conferences /workshops	9.00	4.50	13.50
Total	54.10	87.50	141.60
Total Cooperatives	**2738.70**	**1188.65**	3927.35
Total Component I	**5223.50**	**1773.90**	6997.40
Component 2A- Regulation of MFI and Micro Insurance - NBE			
Supervision of MFIs (NBE)			
Financial and Digital Inclusion Framework	150.30	75.40	225.70

Annex 6: First Annual Work Plan and Budget (AWPB) - Continued - DRAFT

Capacity Building Training for*	169.90	76.40	246.30
Exposure Visits for Policy Exploration/ New Learning	140.80	88.30	229.10
Conferences/ Seminars/ Workshops	10.70	3.60	14.30
Studies and documentation	500.90	188.45	689.35
IT Tools	0.00	62.80	62.80
Setting up Apex Development Bank	125.20	125.60	250.80
Appointment of long term consultant for overseeing NBE interventions	50.10	25.20	75.30
Sub total	1147.90	645.75	1793.65
Supervision of Micro Insurance (NBE)			
Exposure Visits in Micro- Insurance:	54.10	27.20	81.30
Capacity Building / Training programmes for MI	117.70	58.20	175.90
Studies related to MI	50.10	25.20	75.30
IT Tools for MI	0.00	150.80	150.80
Documentation/ Manual/ Guidelines on MI	0.00	50.30	50.30
Literacy Campaign on Micro Insurance	100.20	1.30	101.50
Conferences and seminars	0.00	14.00	14.00
Sub total	322.10	327.00	649.10
Total	**1470.00**	**972.75**	2442.75
Component 2B- Regulation of cooperatives - FCA			
Training of supervising Officers auditors and Inspecting officers of FCA	17.90	30.00	47.90
Training of internal auditors	8.90	0.00	8.90
Sensitisation of Board/ Committee members on Governance	133.70	89.45	223.15
MIS Development of Unions and SACCOs	447.20	448.80	896.00
Appointment (Recruitment) of auditors at Unions	429.20	0.00	429.20
Engaging consultant for drafting regulations and conducting studies	5.00	50.30	55.30
Development of codes of Conduct and legal framework	21.50	0.00	21.50
Total	**1063.40**	**618.55**	1681.95
Total Regulation (Component 2)	**2533.40**	**1591.30**	4124.70
Component 3			
Component 3A - Line of Credit	43291.	22000.00	65291.00

Component 3B Guarantee Fund	1500.00	0.00	1500.00

Annex 6: First Annual Work Plan and Budget (AWPB) - Continued - DRAFT

Component 3C Marketing and Insurance through Agent Insurer Model			
Total (Component 3)	44791.0	22000.00	66791.00
Component 4			
Component 4A- Programme Management			
IT - Hardware, Software and personnel	657.10	3.00	660.10
Vehicle	301.20	0.00	301.20
Programme Coordination (Recurring costs)	146.60	73.30	219.90
Operating costs	164.10	82.00	246.10
Total	1269.00	158.30	1427.30
Component 4B- Setting up Guarantee Fund	750.00	125.00	875.00
Component 4C- Managing insurance partnerships	200.00	75.00	275.00
Component 4D- Knowledge Management	75.00	75.00	150.00
Workshops	228.40	29.20	257.60
Training and study tours	400.70	201.00	601.70
Total	**2923.10**	**663.50**	3586.60
Grand total	**56941.0**	**27001.45**	83942.45

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The Federal Democratic Republic of Ethiopia

Rural Financial Intermediation Programme – Phase III (RUFIP III)

Design report

Annex 7 – Procurement Plan for first 18 months

Annex 7: Procurement Plan for first 18 months[1]

CONSULTANTS
Country/Organization: ETHIOPIA
Project/Programme: RUFIP III
Loan #:

Drafter of this PP: Mr. Frederic KAGABA

Procurement Method
ICB and LIB (Goods):
ICB (Works): TANGIBLE CONSULTANCIES e.g feasibility study REI
ICB (Non-Consultancy Services): Intangible
NCB and LNB (Goods):
NCB (Works):
NCB (Non-Consultancy Services):

IFAD prior review is required for procurement value with more than USD 50,000 for consultancies and above USD 100,000 for goods & works

						Request for expression of		Terms of Reference		Shortlist			Request for Proposal		Bid Proposal		Bid evaluations technical (T) and financial (F)						Contract Finalisation		
Description	Selection method	Lump-sum or time-based	Estimated amount in US$	Pre/Post- review	Plan vs. Actual	Date published	Closing date	Date proposed	Date no-objection	Date proposed	Date no-objection	Plan vs. Actual	Date prepared	Date no-objection	Invitation date	Submission/opening date	Submission evaluation report (T)	no-objection evaluation report (T)	Opening Financial Proposal	Submission eval. Report (T) and (F)	no-objection eval. Report (T) and (F)	Plan vs. Actual	Contract amount in US$	Contract award	Contract signature
Hardware and software upgrades	ICB/QCSBS	Time-based	1,110.95	Prio-review	Plan							Plan	01/01/20	05/01/20	15/01/20	15/02/20	06/03/20	11/03/20	16/03/20	20/03/20	N/A	Plan	1,110.95	23/03/20	30/03/20
					Actual							Actual										Actual			
Impact Assessment studies of benefits - Documentation of success stories	NCB/QCSBS	Time-based	15.00	Post-review	Plan							Plan	01/07/19	N/A	15/07/19	15/08/20	06/09/19	N/A	11/09/19	16/09/19	N/A	Plan	15.00	20/09/19	25/09/19
					Actual							Actual										Actual			
Studies on new new financial services/ products (e.g. . Micro –insurance	NCB/QCSBS	Time-based	17.90	Post-review	Plan							Plan	01/07/19	N/A	15/07/19	15/08/20	06/09/19	N/A	11/09/19	16/09/19	N/A	Plan	17.90	20/09/19	25/09/19
					Actual							Actual										Actual			
Viability and Transformation Impact Study	NCB/QCSBS	Time-based	50.10	Prio-review	Plan							Plan	05/09/19	10/09/19	15/09/19	15/10/20	20/10/19	25/10/19	30/10/19	05/11/19	11/11/19	Plan	50.10	15/11/19	20/11/19
					Actual							Actual										Actual			
Integrating SACCOs/Unions with Payment Systems	NCB/QCSBS	Time-based	12.80	Post-review	Plan							Plan	05/08/19	N/A	10/08/19	10/09/19	01/10/19	N/A	05/10/19	10/10/19	N/A	Plan	12.80	15/10/19	20/10/19
					Actual							Actual										Actual			
Integrating Unions/ SACCOs with Credit Information system	NCB/QCSBS	Time-based	23.30	Post-review	Plan							Plan	05/08/19	N/A	10/08/19	10/09/19	01/10/19	N/A	05/10/19	10/10/19	N/A	Plan	23.30	15/10/19	20/10/19
					Actual							Actual										Actual			
Studies and documentation	ICB/QCSBS	Time-based	689.35	Prio-review	Plan							Plan	01/01/20	05/01/20	15/01/20	15/02/20	06/03/20	10/03/20	15/03/20	20/03/20	25/03/20	Plan	689.35	30/03/20	05/04/20
					Actual							Actual										Actual			
Appointment of long term consultant for overseeing NBE interventions	NCB/QCSBS	Time-based	75.30	Prio-review	Plan							Plan	01/01/20	05/01/20	15/01/20	15/02/20	06/03/20	10/03/20	15/03/20	20/03/20	25/03/20	Plan	75.30	30/03/20	05/04/20
					Actual							Actual										Actual			
Studies related to MI	NCB/QCSBS		75.30	Prio-review	Plan							Plan	01/01/20	05/01/20	15/01/20	15/02/20	06/03/20	10/03/20	15/03/20	20/03/20	25/03/20	Plan	75.30	30/03/20	05/04/20
					Actual							Actual										Actual			
MIS Development of Unions and SACCOs	ICB/QCSBS	Time-based	896.00	Prio-review	Plan							Plan	01/07/20	05/07/20	15/07/20	15/08/20	30/08/20	05/09/20	01/09/20	05/09/20	10/09/20	Plan	896.00	15/09/20	20/09/20
					Actual							Actual										Actual			
Engaging consultant for drafting regulaions and conducting studies	NCB/QCSBS		55.30	Prio-review	Plan							Plan	10/07/19	15/07/19	20/07/19	20/08/20	06/09/19	11/09/19	16/09/19	21/09/19	26/09/19	Plan	55.30	01/10/19	06/10/19
					Actual							Actual										Actual			
Total			2,070																						

[1] Excel file attached for clarity

GOODS
Country/Organization: ETHIOPIA
Project/Programme: RUFIP III
Loan #:

		BASIC DATA					Bid Documents		Bidding Period		Bid evaluation report		Contract finalization		
Description	Lot Number	Issue # of invitation for bids	Estimated Amount in US$	Procurement Method	Pre- or post- review	Plan vs. Actual	Date Proposed	Date No-Objection	Bid invitation date	Bid closing/opening	Bid evaluation report	No-Objection	Contract amount in US$	Date Contract Award	Date Contract Signature
Mobility Support for Union/ RUSACCO staff	1	15/08/19	536.60	NCB	Post - review	Plan	30/08/19	N/A	01/09/19	01/10/19	21/10/19	N/A	536.60	12/11/19	15/11/19
						Actual									
IT Tools	1	10/02/20	62.80	NCB	Post - review	Plan	28/02/20	N/A	28/03/20	28/04/20	21/04/20	N/A	62.80	01/05/20	05/05/20
						Actual									
IT Tools for MI	1	15/08/19	150.80	NCB	Post - review	Plan	30/08/19	N/A	01/09/19	01/10/19	21/10/19	N/A	150.80	12/11/19	15/11/19
						Actual									
IT - Hardware, Software and personnel	1	10/02/20	660.10	NCB	Post - review	Plan	28/02/20	N/A	28/03/20	28/04/20	21/04/20	N/A	660.10	01/05/20	05/05/20
						Actual									
Vehicle	1	20/02/20	301.20	NCB	Post - review	Plan	08/03/20	N/A	08/04/20	08/05/20	29/05/20	N/A	301.20	10/06/20	15/06/20
						Actual									
Total			1,712												

WORKS
Country/Organization: ETHIOPIA
Project/Programme: RUFIP III
Loan #:

		BASIC DATA							Bid Documents		Bidding Period		Bid evaluation report		Contract finalization		
Description	Lot Number	Issue # of invitation for bids	Lumpsum or bill of quantities	Procurement method	Estimated Amount in US$	Pre- or post-qualifications	Prior- or post-review	Plan vs Actual	Date Proposed	Date no-Objection	Bid invitation date	Bid closing-opening	Bid evaluation report	no-objection	Contract amount in US$	Date contract award	Date contract signature
Developing Training Institutions at Regional level for Financial Coperatives-infrastructure Development	1	01/08/20	BoQ	NCB	75.30	Post-review	Post-review	Plan	01/08/20	N/A	10/09/20	10/10/20	01/11/20	N/A	75.30	05/10/20	10/10/20
								Actual									
Total					75.30												

IFAD
Investing in rural people

The Federal Democratic Republic of Ethiopia

Rural Financial Intermediation Programme – Phase III (RUFIP III)

Design report

Annex 8 – Project Implementation Manual

Investing in rural people

Federal Democratic Republic of Ethiopia

Rural Financial Intermediation Programme – Phase III (RUFIP III)

ANNEX 8: PROJECT IMPLEMENTATION MANUAL (PIM)

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ACRONYMS

AEMFI	Association of Ethiopian Micro Finance Institutions
AGRA	Alliance for Green Revolution Africa
ATA	Agricultural Transformation Agency
AOS	Annual Outcome Surveys
AWPB	Annual Work plan and Budget
BADEA	Arab Bank for Economic Development in Africa
CBE	Commerical Bank of Ethiopia
DBMS	Database Monitoring System
EFCMD	External Fund and Credit Management Directorate
EIB	European Investment Bank
EU	European Union
FAR	Fixed Assets Registry
FAIR	Fixed Asset Issue Registry
FCA	Federal Cooperative Agency
GoE	Government of Ethiopia
IA	Implementing Agency
ICB	International Competitive Bidding
IFAD	International Fund for Agricultural Development
IGA	Income Generating Activity
ILCUF	Irish Leauge for Credit Unions Federation
IPSAS	International Public Sector Accounting Systems
KM	Knowledge Management
LLRP	Lowlands Livelihood Resilience Project
M&E	Monitoring and Evaluation
MFI	Micro Finance Institution
MIS	Management Information System
MoFEC	Ministry of Finance and Economic Development
MTR	Mid-Term Review
NBE	National Bank of Ethiopia
PaR	Portfolio at Risk
PASIDP	Participatory Small-scale Irrigation Development Project
PIM	Project Implementation Manual
PCMU	Project Coordinaiton and Management Unit
PP	Procurement Plan
PPI	Progress out of Poverty Index
PSC	Project Steering Committee
PSNP	Productive Safety Nets Programme
RuSACCO	Rural Savings and Credit Cooperative
RCPB	Regional Cooperative Promotion Bureau
RFI	Rural Financial Institution
RUFIP	Rural Financial Intermediation Programme
TNA	Training Needs Assessment
UNCDF	United Nations Capital Development Fund
USD	United States Dollars
WA	Withdrawal Appliation

DEFINITIONS

Climate Change	In line with the Climate Resilient Green Economic Growth Plan, innovative financial mechanisms in green and climate finance may contribute to lessening the adverse effects of climate change in rural environments and reduce climate-induced vulnerability.
Customer Protection	Customer protection are measures taken by RFIs to protect the rights of their clients. This could include insurance products, protecting relatives against loan repyaments incase the client passes away, or ensuring transparent loan conditions so that customers are not trapped in continous debt repayment cycles. Some of these meausres will be enforced through the prudential regulation; a dedicated staff wull be recuirted to support policy makes to develop an enabiling environment, and to support the RFIs in implementation.
Digital Financial Services	Is defined by McKinsey Global Institute as "the use of mobile phones, computers or cards used over point-of-sale (POS) devices connecting individuals and businesses to a digitized national payments infrastructure, enabling 'seamless financial transactions'."
Financial Cooperatives	The term includes RuSACCOs, Pastoral SACCOs (PaSACCOs), RuSACCO Unions, RuSACCO apexes / federations and any other financial cooperative. In the context of this document, the term is used to describe activities that cover both RuSACCOs and Unions.
Financial Inclusion	As per the National Financial Inclusion Strategy (2015-20), financial inclusion is defined as receiving services from formal, licenses and regulated institutions. E.g. cooperatives are considered semi-formal and thus do not contribute towards formal financial inclusion of Ethiopians.
Nutrition	The project will contribute to improved nutrition by promoting awareness at community level, with a special focus in areas with higher food vulnerability due to environmental negative effects, such as drought.
Project Implementation Manual (PIM)	An annex to the Project Design Report (PDR) provides practical guidance to project implementers on key implementation aspects. It describes in detail how the programme components and activities outlined in the PDR are intended to be implemented. The PIM outlines the detailed mechanisms, processes and procedures, formats, eligibility criteria etc. which will ensure efficient programme implementation and achievement of the envisaged programme results. The PIM is a living document and may be updated at any time, as needs arise, during implementation.
Poor	The poor are members of rural households living below the poverty line (in 2016 set at ETB 7,184 per capita annual income). May be engaged in farm or off-farm activities. A direct target group for the project.

Public Expenditure and Financial Accountability Assessment	The PEFA is a tool for assessing public financial management systems. The most recent 2014 assessment indicated that the legal framework is consistent with international standards and widely understood by budget institutions. The main challenge is high turnover due to low salary.
Public Procurement and Property Administration Proclamation	The PPPAP guides public procurement in Ethiopia, but does not cover procurements by public enterprises or extra-budgetary funds, or procurements under external funding where the donor partner prefers to use different regulations.
Rural Finance Institutions	Overall term used when referring to both RuSACCOs and MFIs**.**
RuSACCO	Is a primary Savings and Credit Cooperative in the rural areas. RuSACCOs are member owned and member managed cooperative societies established by individuals on a voluntary basis to assist communities to save and lend amongst each other, and thus providing financial services under a democratically managed, locally owned, institution. RuSACCOs are the most recent entrant into the rural financial landscape of Ethiopia and are similar to the institutions known from elsewhere in the region. They contribute significantly to improved access to financial services for the lower and more rural tiers of the population. While common bond savings and loan societies have existed in Ethiopia for some decades, the outreach of credit union types of cooperative societies to rural Ethiopia was instituted by the Government only over the past decade and in collaboration with international development partners. To date, there are about 18,000 RuSACCOs operating all over the country with the Government targeting 1 RuSACCO per kebele and a 10% increase in number (to 20,000 RuSACCOs) under the Growth and Transformation Plan II (GTPII). Since these societies do not have a history of gradual build-up of a resource base, the available capital in these small rural societies does not suffice to serving the borrowing needs of the expanding agricultural sector.
Social Performance	Social performance is the extent to which an RFI manages to translate its operations in line with accepted social values, for example to ensure that the most vulnerable are also targeted; that youth and internally displaced people are able to receive financial services, and that repayment rates remain high, as dictated by Ethiopian culture. This comes in addition to, and without comprimising, financial viability and perfomrance indicators. The project seeks to support the MFI and RuSACCO sectors in improving their social performance and impact. Such principles are built into the project design througout and dedicated staff will be recruited to ensure its implemetnation.
Transitory poor	Those individuals or households whose average income is above the poverty line but subject to recurrent shocks and can slide back into poverty. May be engaged in farm or off-farm activities. A direct target group for the project.

Twinning arrangement	Twinning is the pairing of experience between developed and developing institutions, countries, etc., to reach common goals.
Vulnerability	Is defined as a condition of the poor who have been lifted above the poverty line, but may not have come out of poverty irretrievably – any shock that disturbs either the person or the livelihood makes the household slide back into poverty. These people may not have alternate risk coping mechanisms such as insurances, savings or short-term loan access, and are a target group of the project.

PART A: FRAMEWORK AND RESPONSBILITIES

A.1: PROJECT FRAMEWORK AND STRATEGIES

1. RUFIP III is the third phase on the Rural Financial Intermediation Project (RUFIP), strengthening the RuSACCO and MFI sector in Ethiopia to increase outrach to the rural poor. The project will consolidate the existing base of rural financial cooperatives; from the RUFIP Phases I to II, for example, the number of Rural Savings and Credit Coopertives (RuSACCOs) increased from 134 to 11,500 in December 2018. The project recognizes continued liquidity constraints on account of rural financial institutions (RFIs) growing at a rapid pace on the back of a robust demand for credit from hitherto excluded people.

2. The project goal is *reduction in poverty levels through improving the livelihoods and reducing the vulnerability to shocks of the rural poor.*

3. The development objective is *to increase access to a range of financial services and products to rural households. The theory of change and the logframe are provided in the annex.*

4. At the **Micro level,** the project will target 12 million clients (calculated as borrowers, see Table 1) and have nation-wide coverage, targeting interventions in the underserved areas. The project will explicitly target beneficiaries of other projects, such as projects like the Participatory Small-scale Irrigation Development Programme (PASIDP) and the Lowland Livelihood Resilience Project (LLRP), financed by the International Fund for Agricultural Dvelopment (IFAD). The expected impacts include *reduced poverty and better ability to cope with vulnerability arising from shocks.*

Table 1: Preliminary estimate of the number of beneficiaries (projection by 2025)

	MFI	RuSACCO
Savers	10.25	3.33
Borrowers	10.25	1.0

5. At the **meso level,** the project will be potentially available to existing 11,260 RUFIP-supported RuSACCOs, and their secondary structures, 140 Unions and 38 Micro Finance Institutions (MFIs), that currently focus on rural communities. The project will strengthen existing RFIs, rather than creating new ones, except in vulnerable and/or excluded regions. The project will support these RFIs to bridge their liquidity gaps through a credit fund, strengthen them through consolidation of the RuSACCO sector and enhance their institutional capacity for delivering financial services. The project will also explore setting up a guarantee fund to attached commercial banks and financial institutions to provide resources to RFIs; initiate marketing of rural client-friendly insurance products through RFIs, and continue to support automation of mangement information systems (MIS) systems to improve reporting of the entire rural finance system. The expected outcomes are *(i) strong rural finance institutions with sound operating performance; (ii) enhanced linkages of MFIs and SACCO Unions with commercial banks; (iii) secondary apexes (Unions) and regional apex organizations established/strengthened for the SACCO sector; and (iv) higher levels of IT enablement in back- and front-office operations of RFIs.*

6. At the **macro level**, the project will strengthen the regulatory capacity of National Bank of Ethiopia (NBE) and the Federal Cooperative Agency (FCA), the regulatory bodies for MFIs and the RuSACCO sector, respectively. The expected outcome is *improved regulation and supervision of MFIs and RuSACCOs.*

A.1.1: Target Groups

7. Livelihood groups in Ethiopia can be divided based on their livelihood systems (crop farming/ pastoral activities) and level of production (subsistence/surplus and commercially oriented). RUFIP III target groups can be classified as very poor and poor (subsistence households, living below the poverty and food poverty line and being often food insecure/environmentally, economically and socially vulnerable), transitory poor (households producing a surplus for marketing, being food secure but at risk of sliding back into poverty/food vulnerability due to economic or climate shocks) and better off (commercially oriented households/entrepreneurs whose livelihood is secured and are not at risk of poverty and any form of vulnerability. They are drivers of economic change). The various target groups of the project include:

- **Vulnerable communities.** Characteristics that can guide identification of those communities within a woreda relate to poverty and vulnerability levels as well as remoteness (location) and draught. Vulnerability and social inclusion are highly complex and context-related. While they do not always overlap, individuals and households who are excluded or underserved are more likely to be highly vulnerable to situations and events (for example, reduced quality of life, livelihood and educational opportunities, compromised health status and threat of disease), which compromise their well-being and compound their social exclusion. A vulnerable and underserved community within a woreda has the following characteristics: (i) higher vulnerability and poverty levels (compared to others better-off); and, due to the remote location the majority of the households, (ii) lack access to social and public services, among others issues, including financial services; and (iii) because of agro-ecologic characteristics are more vulnerable to climatic shocks.
- **Vulnerable households: Very poor and poor subsistence households and landless youth:** Men and women households in this category include: (i) landless and asset less youth; (ii) landless/near landless/asset less elderly with no or very low productive capacity (men and women); (iii) women head of households including widows, single/divorced/ women in polygamous union with no assets and no support from family members (i.e. remittances) and very low income; (iv) HIV-affected people; orphans and differently-able people showing high constraints to enter into any form of income generating activity and receiving minimum support to make a decent living. In the lowlands the poorest households of agro-pastoralists, drop outs and stockless youth make their income and living from very small-scale livestock coupled with agriculture and other incomes derived from off-farm activities (petty trade performed mostly by women, fattening, poultry, dairy etc.). They live below the poverty line; usually they are landless or near landless cultivating a limited area of land, less than 0.25 Ha and lack productive assets/means. They may be engaged in in on-farm and off-farm income generating activities such as fattening, poultry and petty trade. Households in this category can experience food insecurity and in some instances, depending on the environmental and climate shocks such as severe/moderate draught, can be recipients (permeant/transitory) of safety net type of support (i.e. PSNP). Many experience economic and social constraints, in some cases also social marginalization and exclusion due to socio-cultural biases These households are part of the communities targeted by the project.
- **Transitory poor: smallholders producing a limited surplus for marketing**: Transitory poor households are usually above the national poverty line. However, they are at risk of transient poverty. A household may be classified as non-poor since its consumption lies above the poverty/food poverty line. However, it may be classified as vulnerable if there is a higher than 50% likelihood that it could be poor in the near future (i.e. under a different scenario of risks materializing than actually

happened). Households targeted by RUFIP III are experiencing transient poverty and are at risks of sliding back due to external factors (economic/climatic). Men and women farmers/agro-pastoralists in this group are actively engage in livestock and crop production at a larger scale that their subsistence counterparts with a market purpose, although their sale are limited to primary markets. Despite better economic gains, households in this category continue to be at risk of climatic shocks, particularly in arid and semi-arid areas. Access to finance is key to cope with climatic shocks and avoid the risk of converting assets to consumption during those periods.

- **Micro and small entrepreneurs** also belong to this category: they are mostly engaged in activities such as agriculture, trade, commerce and transport. Households in this category, either on-farm or off-farm, are not vulnerable to climatic and economic shocks. They are individual clients of MFIs or strong RuSACCOs. Average saving capacity (deposit) can exceed 150,000 ETB and borrowing capacity goes from 18,000 ETB up to 100,000 ETB and above. Nevertheless, lack of liquidity into the available financial systems (SACCOs/MFIs) constrains their capacity to expand their businesses and therefore to catalyze local economic growth. They are transformation drivers and are key for the development of the local economies as well as for generating employment for the poorer and the youth.

Table 2: Example of wealth ranking criteria for identification of target groups based on livelihood strategies[1]

Wealth criteria	**Poor**		**Transitory Poor**		**Better off**
	Very Poor HHs with no surplus living below the poverty line/ chronically food insecure. They are under PSNP support/cash transfer. Includes landless/stockless youth.	Economically Active Poor HHs w/ limited surplus. Still below the poverty and food insecure are recipients of IGA support from PSNP. Landless/stockless youth can be included in this category.	Lower Middle income HHs with limited surplus and living slightly above the poverty/ food secure but at high risk of climate/ economic shocks.	Upper Middle income HHs with sufficient surplus, living above the poverty/food secure but at moderate risks of climate/ economic shocks.	Hhs with sufficient assets/ econ res. to live above poverty and purchase enough food for hh consumption Not at risks of climate /economic shocks /food insecurity. Drive economic transformation. Includes entrepreneurs.
Smallholder farmers					
# in HH	2-3	2-4	3-5	4-6	4-6
Ha cultiv.	0-0.1	0.1-0.25	0.25-0.5	0.5 – 1.5	Above 1.5
# goats	0	0-2	1-3	2-10	Above 10
# sheep	0	0-2	1-4	2-10	Above 10
# cattle	0	0	0-1	1-2	Above 2
# chicken	0-1	1-3	1-7	3-10	Above 10
Pastoralists and agro pastoralists					
# goats	0-8	9	15	25	Above 25
# cattle	0-5	6	16	22	Above 22
# sheep	0-6	7	9	18	Above 18
# camels	-	1	11	16	Above 16

[1] Characteristics of the target group's categories will be further refined by the PCMU responsible person and nodal officer/social focal persons at UNION and MFIs level. The categorization will obviously varies according to regions/woredas. It is recommended that implementing partners develop a similar matrix, which is context-based, at woreda/regional level in order to have a realistic wealth ranking criteria and estimate number of clients: poor/transitory poor/better off.

8. **Targeting Strategy.** While RUFIP II applied mostly a self-targeting approach, RUFIP III will apply a combination of self-targeting and direct targeting approach. In doing so, the implementing partners will be encouraged to focus on the most vulnerable and marginalized groups: very poor and poor subsistence households and landless youth.

9. The programme will provide financial services and products to clients from poor and vulnerable rural households living below the poverty line (set in 2016 at ETB 7,184 per capita annual income), and those defined as transitory poor: whose average income is above the poverty line but are subject to recurrent shocks and can slide back into poverty. The target groups will include the poor and transitory poor (households engaged in farm and off-farm activities) which will comprise the majority of RUFIP III beneficiaries, while the better off will be a smaller percentage. The targets will reflect this proportion, serving about 70% of clients belonging to the poor and transitory poor.

10. **Targeting criteria.** To ensure that project services will serve the intended households, the Targeting and social inclusion Strategy will prioritize draught prone areas where majority of poor are concentrated and households of smallholder farmers are highly affected by climate shocks. These will be identified, among others, through the presence of safety net programmes (i.e. the Productive Safety Nets Prgrogramme (PSNP) - Phase 4) where activities support communities to develop alternative income generating activities (IGA) and savings through RUSACCOs. RUFIP III will prioritize those geographic areas and given the high level of malnutrition and food insecurity that characterize the households. In addition to PSNP coverage, available statistics on poverty and malnutrition levels across woredas and kebeles will inform the geographic targeting and the selection of priority areas/communities. RUFIP III will closely work with PSNP Project Unit to define areas of intervention/targeted Households.

11. The project will support identification of the various target groups and directly target those who are participating in IGA interventions as part of PSNP or similar livelihood support programmes implemented by Government or other development partners. RUFIP III will ensure their mobilization and inclusion in RuSACCOs, Village Saving Groups (if eligible) as well as participation in all nutritional awareness related activities promoted.

A.1.2: GENDER AND YOUTH

12. The Project supports the Government's policy to mainstream the participation of women (both female-headed households, women in male-headed households and women in polygamous marriages) and youth to access financial services. The Project Coordination and Management Unit (PCMU) shall make the effort to respect the percentage of outreach of approximately 50% women and 20% youth. All project activities will be implemented providing equitable opportunities for women and youth in general and vulnerable segments of the population (as described above) in the project area, including equitable opportunities to access capacity building activities and finance literacy trainings, in order to assist women and youth in being fully part of decision-making at SACCOs and Unions levels. See Annex 1 for draft reporting formats.

13. **Gender Mainstreaming Strategy** will target women as an important target group for the project. The project will scale up best practices that have been effective for women, promote suitable products for them and introduce performance tracking (on an annual basis). Women are a key target group for the project.

Table 3: Targets for women inclusion

	Minimum requirement	Baseline	Target
Women RuSACCO members	30%	46%	50%+
Women membership in RuSACCO boards of directors	30%	40%	50%+
Women MFI clients		44%	50%+

14. **Youth Mainstreaming.** Youth are 15-29 year old individuals, and a key target group for the project and the Government of Ethiopia (GoE), as per the Ethiopian National Youth Policy (2004). The Rural Job Opportunity Creation Strategy (2017) also recognizes that youth are the critical labor force for rural development. The project will up-scale successful interventions, such as the United National Capital Development Fund (UNCDF) supported Youth Start programme and Women's World Banking to expand finance education amongst youth and to catalyze the growth of young clientele of the financing institutions, targeting a 70% membership. No baseline information is available.

A.2: Institutional Arrangements and Responsibilities

A.2.1: Project Governance Structures

15. Ministry of Finance and Economic Cooperation (MoFEC) is the representative of the borrower and provides the ultimate guidance for the project. It will establish a Programme Steering Committee (PSC) which will take the overall project governance responsibility including the mainstreaming of IFAD's anti-corruption policy and whistle blowing procedures. The PSC will mitigate the risks of corruption and promote effective utilization of RUFIP III resources. The PSC will be trained in social performance, customer protection and poverty tracking. The members will be MoFEC, NBE, FCA, DBE, an Insurance Company, a Commercial Bank, with the Project Director acting as Secretary. It will meet on a six monthly basis, more frequently if required.

A.2.2: Lead Agency and Project Coordination and Management Unit

16. DBE, in particular the External Fund and Credit Management Directorate (EFCMD) is responsible for implementing RUFIP III. It will ensure overall oversight for the implementation of the programme at national level, with roles reflected at regional level. This includes the provision of general policy direction for the implementation and ensuring coordination with other entities.

17. DBE will ensure that the implementation of RUFIP III will be socially inclusive of the disadvantaged groups/HHs. Specific attention will be given to ensure that inclusive, equitable, supportive, fair and equitable treatment will be given to all people including vulnerable groups. Informed consultations should be conducted to ensure that all are granted equal legal, financial and organizational opportunities under RUFIP III.

18. The PCMU is an integral part within the DBE EFCMD. It will handle operational aspects, such as Annual Workplan and Budget (AWPB) consolidation, release of funds, collection, analysis and reporting of information on a quarterly basis and financial management of the project. Some staff of the PCMU may therefore be 100% dedicated to RUFIP, while other functions are carried out by the EFCMD team in charge. For example, the

EFCMD has dedicated accountants for RUFIP, but Monitoring and Evaluation (M&E), management and safeguards functions are carried out by teams within the EFCMD.

19. DBE is resposnbile for recuritment of staff within its organization and resposnbile for assigning adequate staff to the PCMU, which also manages a number of other proejcts. In addition to the existing strcture (see Annex 3), the minimum functions / capacities required to implement RUFIP III are:

a. **A designated coordinator or deputy director.** At the moment, the EFCMD director is responsible for 8 or more projects being managed by the Unit, and also acts as the Project Director for RUFIP II. It is recommended to strengthen this function, through for example hiring a Deputy Director with at least 50% of his time dedicated to RUFIP III;

b. **A full-time, dedicate Finance Manager and at least two accountants,** with no objection guaranteeing the caliber. A full-time, dedicated accountant for RUFIP III will be recruited on competitive basis. S/he will boost financial management capacity of FCA. Draft TORs can be found in Annex 2.

c. **A strong M&E function, with at least 1 M&E officer dedicated to RUFIP III**, and possibly strengthening of the team with 2-3 additional officers. The team will integrate data collection and studies relating to targeting, social performance and customer protection to normal MIS and M&E processes. Will also take the lead in AWPB preparations and monitor contributions from other partners under the partnership activities.

d. **Procurement specialist.** The programme shall have a dedicated fulltime procurement specialist. More details can be found in Annex 2: Draft TORs. The PCMU will not be a procurement entity per say, but the procurement specialist, in partnership with the DBE procurement unit will be responsible for;

   a. Consolidating the procurement plans from IAs in the IFAD format, and monitor and report on their implementation. In monitoring of PP implementation, it will require that IAs provide quarterly reports indicating the progress on the implementation of the PP, and challenges encountered. Based on this, the procurement specialist may visit the IAs to provide support and address the identified challenges;

   b. Review procurement processes by IAs and ensure that they conform to both government and IFAD requirements. In order to ensure that this is effectively done, the PCMU will set thresholds for procurement after a risk analysis of IAs, against which No Objections will be requested by the IAs from the PCMU; and

   c. Follow up on procurement processes with DBE procurement unit and ensure that the entire procurement processes are sped up and carried out in accordance with the law.

e. **A Social Performance, Client Protection and External Linkage Officer** will oversee the trainings and work conducted by the Nodal Officers and the social focal pints from UNIONs. Furthermore, the officer will work in close collaboration with M&E person to develop specific social performance indicators and targets. He/she will also be responsible to supervise (federal level) all activities concerning consultation; mobilization and clients' outreach. The same responsibility at local level (region/woredas) will stay with nodal officer for MFIs and Social Focal Points for FCA. Draft TORs can be found in Annex 2. The Officer will ensure that woredas and kebele level staff: Social Focal Points/Nodal Officers are capacitated. At federal level, overall implementation for activities related to the environmental and social management Framework (ESMF) will follow under the responsibilities of the safeguard staff (full time) while the Social Performance and Customers Protection Officer will responsible for the cross cutting issues: gender, youth, nutrition and social inclusion. As part of external linkage responsibility, the person will facilitate other programmes and projects to gain access to finance for their beneficiaries from RUFIP supported RFIs. This would involve identification of such areas where other proejct beneficiaries operate and the RFIs with a local presence; establish procedures by which those beneficiaries can become clients of the RFIs and monitor progress of linkages. Any training required for the other project beneficiaries should be carried out by the other projects, but technical support can be given by the RFI concerned in the interest of gaining good customers.

f. **A financial sector specialist** to anchor guarantee fund and insurance marketing partnerships between Insurance cos and RFIs. The specialist will also oversee the leasing portfolio, to be managed in partnerwhip with EIB. The role will support the guarantee fund operations including creating awareness about the same with financial institutions and RFIs, explore different means of issuing guarantees of diversified instruments of MFIs for raising resources, actively pursue opportunities for RFIs to become agents of insurance companies to market rural insurance products, create awareness and knowledge in RFIs on the nature of insurance marketing, training of RFI staff with contributions from insurance companies and help the PCMU in monitoring the capacity building initiatives in relation to these aspects.

20. Annex 3 shows the current and potential future organigrams. It is at the discretion of DBE Management to dictate the organizational structure and to recruit the required staff to implement RUFIP III as well as other projects, as well as decide the overall positioning and role of the EFCMD within the DBE Organigram. The staff costs are purely counterpart financed.

A.2.3: Implementing Agencies (IAs)

21. **FCA** is the implementing agency for the financial cooperatives sector. It will undertake regulation and supervision of the financial cooperatives sector (SACCOs and their Unions), and guide the actors towards sustainability and customer-responsive performance. They will provide strategic guidance and technical support to lower level structures, including Regional Bureaus, zones, woredas and kebeles. FCA will coordinate budgeting, release of fund and be responsible for providing justification of all advances transferred for capacity building of financial cooperatives sector, and submit it to the PCMU. FCA will also route applications for funds from LOC received from Unions to PCMU with its recommendations. They will also engage with DBE, NBE and the PCMU on strategic issues concerning the sector, providing an overall direction of how the sector should develop.

22. **Regional Cooperative Promotion Bureaus (RCPBs)** are the counterparts of FCA at the regional level. They play an implementation role under the project and lead the work in their region, through zonal and woreda level presence under the guidance of FCA.

23. **NBE** will undertake regulation and supervision of the micro-finance sector and guide the actors towards sustainability and customer-responsive performance.

24. **Association of Ethiopian Micro Finance Institutions (AEMFI)** is a long-term industry partner of RUFIP and are responsible for capacity building activities within the MFI sector as supported by the project.

A.2.4: Partnerships

25. **Ministry of Agriculture** and the regional (and lower level) counterparts, provide training materials for nutrition, to be adapted if required, to suit the needs of the target groups. The Woreda and Kebele staff (Development Agents) may be engaged in outreach campaigns such as financial literacy, homestead gardening, nutrition outreach. They would also technically support farm-based production and processing initiatives in PROSEAD project areas to strengthen value chain finance.

26. **Within the sector.** Commercial banks, insurance companies and other financial institutions will partner with RUFIP to expand the resource base and widen the range of products offered to poor and marginalized. Similarly, RUFIP may learn from other countries, e.g. IFAD experiences from Uganda on financial literacy training.

27. **Financing partnerships.** The European Union (EU), EIC, Commerical Bank of Ethiopa (CBE), the European Investment Bank (EIB) and the Arab Bank for Economic Development in Africa (BADEA) are potential financiers for additional credit lines or other types of funding. The Alliance for Green Revolution Africa (AGRA) have already indicated their interest to partner around setting up a guarantee fund.

28. **Technical advisory institutions** will be required to enable the PCMU to implement various newer initiatives, such as poverty tracking, social performance and customer protection mainstreaming as well as manage the new projects such as operations of a guarantee facility and insurance product marketing. Some of these may include Grameen Foundation, ARDIATA, Ethiopian Institute of Financial Studies (EFSI) and the training institutes associated with AEMFI. Universities will also be important partners.

29. Irish League of Credit Unions Foundation (ILCUF) are recipients of an IFAD grant under a twinning arrangement. Extensive analytical work and manuals have been developed, which will be used to the extent possible under RUFIP, and further partnership could be pursued.

30. **Operational level.** The project will provide a framework ("be a hub") for beneficiaries of different projects that have a need for financial services. Projects can link with RUFIP and improve their effectiveness. Some of the partners include the Agricultural Transformation Agency (ATA), UNCDF projects; NGOs like Self Help Africa and AgraTera and larger projects and programmes like PCDP. These activities are placed under Component 3.

PART B: DETAILED IMPLEMENTATION MODALITIES

B.1: COMPONENT 1: BUILDING CAPACITY OF INSTITUTIONS AND CLIENTS

31. This component will strengthen the capacity of RuSACCOs and MFIs and the capacity of their clients (including financial literacy). The outcome is *an operationally sustainable network of MFIs and RuSACCOs.* There are two similar sub-components, one related to the MFI sector and its clients, and one related to the financial cooperatives sector and its clients.

B.1.1: MFIs

Capacity Development

32. AEMFI will lead capacity building activities in the MFI sector, in collaboration with NBE, as the regulator, when required. A capacity development plan will be developed in a participatory manner to strengthen MFIs. Some of the envisaged activities include knowledge and skill building, improving MIS and M&E systems, introduction of social performance and customer protection practices, improving the targeting of poor and marginalized and product development. The training modalities may be training of trainers for MFI staff, trainings of MFI staff, managements and boards, with particular emphasis on those in pastoralist areas and initiatives for strengthening outreach to women and youth. Further capacities of MFIs and RuSACCO unions will be strengthened to mange micro leasing portfolio in partnership with Leasing Companies.

33. While high-level training ot senior staff of MFI should be taken up by AEMFI in subjects where they have domain competence, in other, newer areas a suitable service provider may be engaged by the PCMU for training of MFIs staff. Training courses for mid- and lower-level staff of RFIs should be carried out by other agencies including in-house trainers and not directly by AEMFI as was done under RUFIP III. These trainers may be trained by AEMFI/suitable service provider. The course curriculum for training of trainers should be decided based on traning needs assessment - of what the mid and lower level staff of MFIs normally require in terms of knowledge and skills for their jobs. It is estimated that AEMFI would handle around 50% of the capacity building activites, while several desingated service providers might be recurited

34. AEMFI will undertake participatory action research on topics of relevance to the sector and spearhead knowledge management (KM) activities. They may directly hire consultants to support them in this. They will also organize exposure visits for MFI directors and management, with a particular emphasis on taking these to the underserved areas (e.g. pastoralist areas).

35. **MIS improvements.** The existing MIS project being implemented by AEMFI will be continued, with the use of a specialized service provider, managed directly by AEMFI. About USD 1 million has been set aside for this.

Strengthening of AEMFI

36. RUFIP III will continue to build capacity of AEMFI, mainly focused on strengthening the staffing, institutional structure and their products, such as certification. About United States Dollars (USD) 200,000 is set aside annually for these activities. They will be managed directly by the PCMU, with funds partially transferred to AEMFI, and some consultancies recruited directly by the PCMU.

B.1.2: FINANCIAL COOPERATIVES AND THEIR CLIENTS

Capacity Development

37. This sub-component will focus on capacity building of RuSACCO and Union staff, as well as of the members. FCA, specifically the National Training Coordinator at federal level, and the Regional Training Coordinators at regional levels, where available (e.g. Amhara, SNNP and Somali Regions), will take the lead in capacity building activities for the financial cooperatives sector. FCA and the RCPBs are responsible for training zonal and woreda level cooperative staff, who in turn provide technical support directly to the RuSACCOs and Unions. The implementation differs from RUFIP II as the RCPBs have now – to a wider extent – established presence at the woreda level. RUFIP III will therefore focus on strengthening the Union function and structure. Technically competent staff members will be placed at the Unions to support capacity development at RuSACCO levels, thereby strengthening the role of Unions. They will be a critical part of the capacity building strategy.

38. To strengthen capacity building efforts, The National Training Coordinator may establish a Standing Committee to guide the TA process. The Committee may be composed of:

a. Director, FCA (chairman)
b. Director, Ethiopian Institute of Studies
c. Director, ARDITA
d. Executive Director, AEMFI
e. 2 RCPB Directors (on rotational basis)
f. Professor of Cooperative Banking, Addis Ababa University

39. The objectives of the Standing Committee will be to: (i) review the progress, trends and impact of various capacity building interventions; (ii) guide FCA and other partners on value addition and qualitative improvement of the programmes; (iii) suggest changes in strategies of implementation and contents of the programmes, based on studies and feedback; (iv) discuss findings of the studies conducted for policy development and designing training modules; and (v) ensure that women and men have equal access to capacity building, and trainings should target 50% women beneficiaries; etc.

40. A Training Needs Assessment (TNA) – a medium-term development plan for RuSACCO / Union capacity building will be developed in 2020, following the analysis and format used by ILCUF in the 2015 TNA. The development should be participatory, based on requests received from RuSACCOs/Unions, as well as topics promoted or weaknesses identified by FCA.

41. There will be different modalities for capacity building and refresher trainings:

a. **Training of trainers (TOT).** Participants from FCA and from Regional Bureaus will be identified as potential trainers of trainers, and be trained in order for them to provide hands-on support to RuSACCO Unions (and possibly RuSACCOs directly, as required). A residential training will be conducted in the first year, to be repeated after 2 years;

b. **Exposure visits.** RuSACCO Committee members may be taken on exposure visits to well-performing SACCOs in other regions. Provision has been made for exchange visits for the Committees of around 400 RuSACCOs. Policy makers (specifically defined as FCA, RCPB and Union experts) will be sensitized on good practices in financial cooperative development, through international and internal exposure visits (with 30 and 150 experts, respectively) and annual conferences;

c. **Trainings at SACCO level.** One-on-one trainings to the RuSACCO staff and boards may be organized on a needs basis, to be conducted by the trained trainers;

d. **Leadership trainings** for women leaders to achieve 50% representation and specific training for women on financial literacy, business development and cash management and savings; and

e. **RuSACCO members** may be trained directly at each RuSACCO, either by RuSACCO staff directly, by Union staff, or by RCPBs, depending on the level or expertise available. Trainings will be continuous throughout the project implementation and cover topics like financial literacy, grievance redress, customer protection and social performance management.

f. **RuSACCOs staff,** through their unions will be able to gain insights in nutrition security and the training coordinator should link the unions with concerned local programmes and government functionaries.

42. Training needs will be identified and planned for in the AWPB development process, as identified by the RCPB and compiled by FCA. FCA will lead in undertaking regular impact assessment studies and documentation of success stories to adjust approaches and topics from year to year. Service providers may be recruited at national or local level for one or more elements of the training needs assessments and the actual trainings.

Financial Integration

43. The project will support the preparation of a road map for strengthening of financial cooperatives with within mainstream banking; this entails, on the one hand, ensuring that regulation for MFIs is up to industry standards, and on the other hand, that MFIs are able to implement the measures and modus operandi that commerical banks are expected to live up to. The project will support development of a road map on how to achieve this integration. This may include:

a. Feasibility studies on topics such as (i) prudential norms; (ii) codes of conduct; (iii) legal framework; (iv) strengthening off-site surveillance and (v) a feasibility study on FCA re-organization to separate out the financial cooperatives sectors at all levels;

b. Development and implementation of best pratice mechanisms such as work on instituting deposit safety and institutional protection mechanisms, whistle blower policies, vigilance mechanisms and fraud prevention etc.;

c. Development of new financial products, especially as relevant to women, youth and other marginalized target groups. Specific activities may include studies, feasibility studies on innovative products (such as eVouchers, ePayments, eInsurnace).

44. Each of these activities may be undertaken by the project or a service provider / consultant may be recruited by the PCMU. There may be parts of this, which can be combined with the technical assistance under Component 2.2 (see below).

Increasing Outreach

45. The PCMU will take the lead in developing specific messages for greater outreach to rural communities about savings culture and financial behavior. Promotional material (in local languages) will be developed and disseminated through the FCA structures on ground (regional, zonal, woreda) to existing youth groups, associations and schools. Communications campaings will be conducted on a regular basis sensitizing the rural public, but with particular emphasis on reaching out to the various target groups. Specific channels

may be identified during start-up towards more vulnerable and margnilized areas, such as collaboration with PSNP in development of communications materials; distributing materials at school, health or animal health facilities, as well as village-to-village campaigns in areas of particular need.

46. **Ensuring nutrition-focus.** In close collaboration with kebele nutritional focal persons, the project may (i) sensitize RuSACCO members on nutrition-sensitive agriculture, basic nutrition knowledge, and about nutritious food and adequate consumption patterns as per the agro-ecological zone; (ii) promote homestead gardening; and (iii) establish demonstration plots for vegetable growing and with water harvesting technologies at Unions or other institutions with availability of land, where clients may convene.

B.2: Component 2: Improving Regulation, Supervision and Institutional Discipline

47. The objective of the component is to strengthen the capacities of NBE and the FCA in their respective mandates to supervise and regulate MFIs and RuSACCOs (and their unions), respectively. The outcomes are: (i) enhanced regulation and supervisory capacity of NBE and FCA; (ii) strengthened regulatory and supervisory organizational structure; (iii) enhanced MIS support the supervision and regulatory environment; and (iv) timely regulatory response in the form of directives, guidelines and advisories supported by studies. There are two-components which are similar in nature, but targets NBE and AEMFI for the MFI sector, and FCA for the financial cooperatives sector, respectively.

B.2.1: NBE for microfinance regulation and supervision

48. NBE will be the target of these activities and be responsible for planning and implementing them. A long-term consultant will be recruited (by NBE) to support this process. There will be different sets of activities, each implemented in a different way:

a. **Skills and knowledge development of staff** of the MFI Supervision Department of NBE and other critical personnel will include a number of on-site trainings (through the recruitment of identified resource persons, be they national or international consultants), and participation of staff in formal training courses hosted by technical partner institutions, within or outside Ethiopia. Conferences, seminars and workshops may also be held, through the partnership with technical advisory institutions and development partners. Exposure visits may also be organized;

b. **Long term technical assistance** policy strengthening will be procured for policy and procedure development, overall support to NBE and institutional support for setting up an Apex Development Bank. Specialized long-term TA will focus on micro-insurance and facilitate the learning process for NBE including organizing exposure visits, trainings programmes and studies/product development. Shorter term technical assistance by be used to supplement the work, for example in highly specialized product development;

c. **Short term technical assistance** may be procured to undertake specialized studies and product development for MFIs, including leasing in rural areas.

d. **Training of MFI clients** will be managed and planned with the support of NBE, but be implemented by AEMFI, or other sector technical partners as time passes and needs arise. Topics may include digital financing and financial literacy, with a focus on lowlands areas where MFIs have less penetration;

e. **Financial literacy campaigns** will be planned and coordinated by NBE with particular outreach to lowlands areas, women and youth. Insurance literacy will be a key part of the campaign; and

f. **MIS strengthening at NBE** entails a number of specific IT services which will be completed one by one by outsourcing to service providers. The Core Banking project for small and medium MFIs will also continue in its current form.

B.2.2: FCA for Financial Cooperatives Regulation and Supervision

Capacity development

49. The thrust of activities under this sub-component will be trainings, carried out by FCA and RCPB internal capacity, to the extent possible. Consultants (national or local level) may be recruited to supplement the activities, for example technical experts from the partner institutions. FCA will develop a governance enrichment plan to identify interventions over the next 5 years, focusing more or less on:

a. Trainings of Supervising and Inspecting Officers of FCA, RCPBs and Woreda Staff;

b. Training of Auditors from FCA, RCPBs, Woredas and Unions; and

c. Training and exposure of both RuSACCO and Union board and committee members.

50. FCA will recruit a person with accounting and finance competence to support the review of applications for capacity building and credit from the unions, monitor the progress of work, coordinate justification of use of funds, manage receipt of regular and periodic information from the recipients of RUFIP funds and produce reports for internal review as well as submission to PCMU.

51. **MIS.** The project will continue to expand the on-going MIS project to more Unions in a phased manner (to remaining 100 Unions). This includes setting up of a central database, standardization of data, and reporting and disclosure at all levels, through a service provider, as per the RUFIP II implementation modalities. The project will pilot (amongst approx. 245 RuSACCOs) supporting RuSACCOs on IT infrastructure development (hardware, software) and in directly linking (about 12,000) to Unions (through communications infrastructure). Selected RuSACCOs may receive items like laptops, printers and software (to be procured either regionally or centrally, depending on the geographical. The implementation modalities of RUFIP II would be carried forward.

Technical Assistance

52. A partnership will be entered into with a designated service provider for at least the first 2 years of project implementation for other elements, under twinning or other types of arrangements. This will support institutional capacity development of FCA. The proposed TORs can be found in Annex 4. After the 2 year period, it will be assessed how to proceed. Some of the activities would be:

a. Classification of RuSACCOs and Unions using business parameters (e.g. audit class, business volume, profitability and clients served). This will assist the project to better target activities;

b. Strengthen the financial cooperatives sector policy framework though a consultative stakeholder engagement process;

c. Strengthening the audit framework;

d. Support setting up a National Training Institution of Excellence, as well as developing a Certification System for Professional and Institutional Excellence; and

e. Any other activities of the project which the service provider may be well placed to undertake, bulking procurements for efficient solutions.

Strengthening Unions Supervision

53. The RCPBs will identify Unions in the various regions which are deemed strong enough to intensify their work on the audit and supervision functions, gradually taking on this role from the Government systems. FCA will recruit auditors to deploy to up to 100 Unions identified. The roles of the staff would be to:

a. To supplement the efforts of the Union and affiliated RuSACCOs to rationalize, reform and strengthen book-keeping, accounting, internal audit and inspection, compliance and MIS;

b. Assume as a resource person for the Union and affiliated RuSACCOs for training, sensitization, mentoring and guidance;

c. Periodically visit the RuSACCOs under the jurisdiction of the Union and provide on-the-spot guidance to the staff and give feedback to the Union; and

d. To be the link to RUFIP II, in facilitating the interventions.

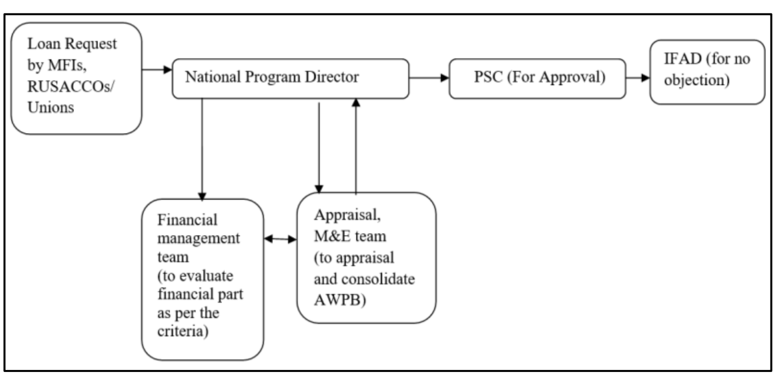
B.3: Component 3: Facilitating funds flow and diversification of businesses

54. The component will support RFIs in securing resources towards meeting the credit demand from clients. The objective is to improve financial support mechanisms to meet the financial services requirement of target groups. The outcome is *increased availability of lendable resources, capital and savings for MFIs and RuSACCOs benefitting from the credit lines.* There will be two main mechanisms to achieve this, namely (i) a lending facility and (ii) non-lending credit enhancement mechanisms.

B.3.1: Credit Line of RFIs

55. A line of credit (LOC) will be established with financing from EU, IFAD, domestic funds from GoE, Development Bank of Ethiopia, reflows from RUFIP I and II and possibly other commercial banks / financial institutions which show interest. The LOC will be managed by DBE and important decisions about its implementation are taken in the PSC. The workflow is depicted below.

Figure 1: Workflow for implementation of the LOC



56. **Eligibility Criteria for Credit Support to MFIs and Financial Cooperatives.** The PMCU will assess eligibility of RFIs to access the LOC, based on documentation submitted by RFIs, directly (from MFIs) or through FCA (for RuSACCOs or RuSACCO Unions). The PMCU will assess (1) entry level eligibility, i.e. if an RFI is eligible to access any funds at all, based on financial performance and regulatory compliance and (2) Criteria for Allocation of funds, i.e. the amount of financing the RFI may be eligible for, to ensure that the LOC equitably provides funds for minimizing regional imbalance, ensuring balanced funds flow to medium /small MFIs and Financial Cooperatives and meeting the needs of other excluded/vulnerable areas, where other projects of IFAD operate.

57. **Entry-level eligibility criteria.** The below 10 criteria will be used by the PCMU to assess if an RFI is eligible for accessing the credit line:

a. MFIs that have been in existence for three years can access LOC under RUFIP III;

b. The MFIs should have made profits in the preceding two years;

c. The MFIs should have at least 1000 active clients;

d. PaR 90 days should not exceed 5% of loans outstanding. This will be applicable to MFIs (big, medium or small), and Financial Cooperatives;

e. MFIs and Unions / RUSSACOs should have, at least, OSS of 100 %. Any RFI having OSS of 95% to 100% can avail LOC subject to providing an undertaking that it will comply with the 100% OSS requirement within one year from the date of undertaking. If the RFI does not fulfil this undertaking within the stipulated time, no further LOC should be allowed till the MFI achieves the OSS benchmark;

f. Statutory audit of MFIs and Union /RUSACCOs should be completed within 6 months from the closure of financial year;

g. The minimum paid up capital stipulated by NBE should be complied from time to time;

h. As per NBE directive in 2013, every MFI must obtain a license for renewal of its business every year. If a license is not renewed within one month, penalty provisions will be applicable. (In other countries, generally financial institutions continue until the license is not withdrawn). It implies, all MFIs, big or small, hold licenses for one year. Every participating MFI must hold a license and continue to renew periodically;

i. All the participating MFIs should comply with regulatory requirements such as CARR (12%), exposure standards, liquidity ratio (20%), loan limits (individual 1% of Capital/group 4% of capital), maximum loan repayment period (5 years except housing for 15 years), fit and Proper Criteria for board, Interest rate directives, etc.; and

j. A nodal person should be identified in the MFI to be responsible for meeting the requirements of RUFIP targeting strategy, social performance practices and customer protection aspects. The MFIs should also identify a nodal person to link clients of other projects and programmes in which access to finance is a requirement.

58. **Criteria for allocation of funds.** The below 14 criteria will be applied by the PMCU to determine the financing allocation, once an RFI has been deemed eligible for support. It is envisaged that the demand will be greater than the supply, and any RFI may get any

share of the total amount they apply for. The proposed criteria, to be continuously revised by the PCMU with approval of the PSC, are:

a. Large MFIs (with total assets exceeding ETB 4 billion at the end of previous fiscal year) will be able access funds only to the extent available from reflows of loans issued under RUFIP I and RUFIP II in respect of their existing clients;

b. The exception to the above rule would be in respect of credit expansion in underserved regions namely, Afar, Benishangul Gumuz, Gambela and Somali. Large MFIs will be able to access credit from LOC over and above the reflows. Large MFIs will also be eligible to access credit from LOC in respect of new clients acquired during the RUFIP III period from LOC over and above the reflows. This will be particularly useful in case of PROSEAD clients and other linkage projects clients;

c. The Large MFIs should secure funding from other sources (excluding networth) at least to the extent of amount drawn from RUFIP III, before applying for the next tranche of funds. The Medium MFIs should secure funding from other sources (excluding networth) at least to the extent of 25% amount drawn from RUFIP III, before applying for the next tranche of funds;

d. Two disbursements will be made each year by DBE to large and Medium MFIs, after ensuring the funds released in the previous tranche has been fully utilized and that MFI has secured funds from other sources as indicated in rule 3;

e. Of the total yearly credit line budget, RuSACCOs and Unions would be reserved a minimum of 25% during the first four years of the project. If their requirements during the year exceed 25% of the budget, the same will be prioritized;

f. The Small (less than ETB 1 billion in assets) and Medium (ETB more than 1 billion and less than 4 billion in assets) MFIs will be reserved a minimum of 10% and 15% of the budget each year;

g. The smaller MFIs and new MFIs operating substantially in rural areas will have to satisfy the following revised criteria for availing the credit line from DBE;

h. The MFIs / Financial Cooperatives operating in the excluded/vulnerable regions/ pastoral areas and other areas where other projects of IFAD are implemented will not be subjected to restriction of funds;

i. Agencies operating in the remote rural areas as compared to those concentrating in urban areas should given due advantage. The agencies should indicate the extent of their rural branches, rural clientele and rural finance to have the benefit of such funds advantage under RUFIP III;

j. All agencies need to prepare Institutional and Business Plan for 3/6 years and updated annually and submit to PCMU;

k. 20% of funds would be earmarked for financial cooperatives;

l. The unions may be classified in to A,B, and C, based on performance parameters, with a view to facilitating more equitable distribution within cooperatives, if considered necessary (as some of the Unions might become larger after 3-4 years). The classification can be reviewed annually;

m. Union/RUSACCOs should comply with regulatory prescriptions of FCA, e.g. equity not less than 20% of net assets, exposure limits, governance standards (although prudential norms yet to be implemented); and

n. Unions should comply with an obligation to link, supervise, guide and support RUSACCOs.

Procedure for application and repayment

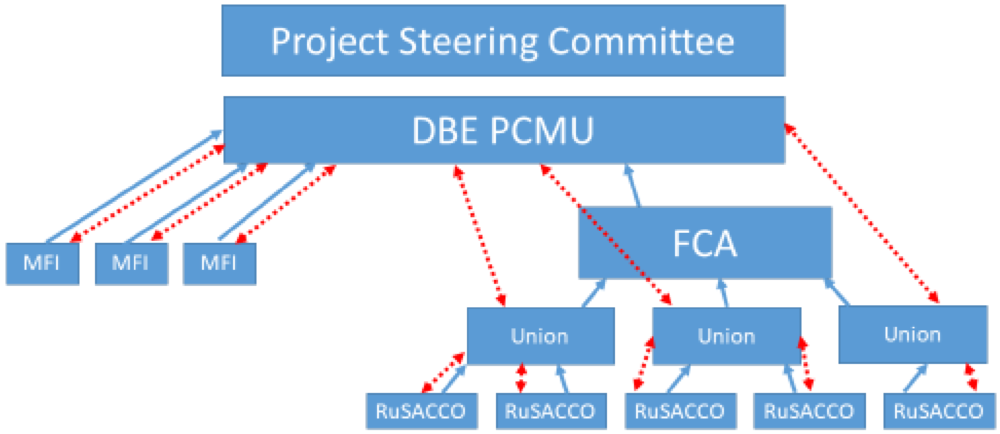
59. **Financial Cooperatives Sector.** The financial resource in the LOC will be available to both Unions and RuSACCOs, but the Unions will be responsbile for applying. This means that a RuSACCO must be a member of a Union to apply for funds from the LOC. Unions will aggregate requests from RuSACCOs, along with their possible own requests, and submit a consolidated request to FCA. The Union will be responsbile for checking eligbilitility critera of RuSACCOs and submit all the required documentation to FCA. FCA will then, again, verify validty and eligibility, before sending a joint request to DBE. DBE will perform due diligence, and, once eligibility is confirmed, and the total amount available decided upon, release funding to the Unions directly. The Union, upon receipt of funds from DBE will credit the accounts of the RuSACCOs held with it. The RuSACCOs wil be able to withdraw the funds from the same as and when needed.

60. Each Union will establish a procedure for transmitting funds to the RuSACCOs and support them to improve their financial systems, as required. In most cases, the RuSACCO manager will be required to come to the Union to collect the loanable fund, for safekeeping in the RuSACCO safe. The RuSACCO and Union may agree that the LOC is collected bit by bit, to minimize the financial risk of keeping funds at the RuSACCO. In other cases, online banking solutions may be available, in which case funds can be directly sent to the RuSACCO bank account. In again other situations, the RuSACCO may have a bank account in a commerical bank or MFI, to which funds can be transferred. The RuSACCO will on-lend to clients as per standard procedure.

61. RuSACCOS will ensure that their accopunt with the Union has adequate funds to meet the installment of repayment from time to time. The Unions will send a notice regarding the amount of instalment of repayment falling due 15 days before the due date so that the RuSACCOs can make the necessary arrangements. The Union will debit the accounts of the concerned RuSACCOs and make the payment to DBE directly.

62. **MFIs.** MFIs (currently 22-35 elibilge MFIs, with more possibly entering the sector and becoming eligible during the project period) will submit their applications directly to DBE, along with the required documentation. DBE will confirm eligibility, eligibility amount and perform due diligence. Upon approval, funds would be directly transferred to the MFI in question.

Figure 2: Application process (blue line) and flow of funds (red, dashed line) for LOC



B.3.2: Enabling Conditions of for Diversifying Funding Sources and Business Lines by RFIs

63. The PCMU will, in collaboration with AGRA, set up a credit guarantee fund to secure bank loans. A sub-committee will be established to steer the process, while DBE, in collaboration with qualified experts will develop and implement the fund. AGRA and other partners may provide technical assistance for the initial set-up and for framing operational procedures and guidelines. The structure of the fund, its operating guidelines and management would be separately finalised and maintained outside the PIM, as the fund is supposed to continue to work beyond the project period. Once the guarantee fund mechanism is finalized and operational modalities worked out, elements may be included in the PIM. Details of the Guarantee Fund can be see in Annex 8.

64. The PCMU will position RUFIP as a hub for financing other projects. These activities will be spearheaded by the Social Performance Officer in the PCMU and may include actively engaging with other projects, identifying the beneficiaries on ground (for example youth SMEs trained on business planning) and supporting the linking of the functions. A protocol for these types of linkages will be developed, specifying the requirements for selection of eligible clients and forwarding the applications to a nodal officer in the local RFI, who will then further process the credit application.

65. The PCMU will collaborate with the EU-supported PROSEAD project using the same partnership approach. PROSEAD will identify a nodal official in the project for each region to coordinate with the MFIs/RuSACCOs/Unions in the region. The MFIs and Unions will notify a nodal officer for collaboration with PROSEAD. The nodal officers from the RFIs and PROSEAD will work out a plan for getting the clients in PROSEAD areas to apply for loans. (The loan proposals will prioritise production of value chain crops and their further processing. The loans will be available not just for croping but also for enterprise and trade activities in the realted value chain). The RFIs will provide initial training for the PROSEAD clients on the loan application, service and monitoring process. The loans when given will be the loans fo the RFI and they will remain responsible for dealing with the customer and recovery. PROSEAD will ensure that the loans are applied for the stated purposes and support the RFIs in sustaining the realtionship with the borrowing clients. RFIS will maintain and report information on loans extended for PROSEAD clients and valuechain activities. This will facilitate the PCMU in monitoring the progress against the budget allocation againt credit funds to PROSEAD.

66. Initiatives on marketing of rural insurance products to the RFI clients will be undertaken. A sub-committee will be established to steer the process and anchored by PCMU.

67. MFIs will be provided capacities to act as agents of leasing companies to market leasing products in the rural areas after due regulatory approvals.

B.4: SOCIAL ASSESSMENTS

68. Each MFI implementing partners will identify a Nodal Officers/Social Focal Point who will have to conduct a self-assessment on their capacity to ensure that capacity to undertake consultation with client/potential clients/members from all socio-economic categories is in place and is undertaken correctly. In case of need, capacity building and trainings will be provided by the Social Performance and Customers Protection Officer. Special measures to ensure the implementation of the targeting strategy could also include activities such as targeted awareness campaign and consultations of communities, data collection and focus group discussions to better understand the local needs of vulnerable communities/HHs, in particular for the design of specific financial/insurance products for women as well as households in drought prone areas (i.e. Insurance products).

69. Existing Social Assessments, as well as available vulnerability studies have been conducted as part of the PSNP Work (in the past 15 years) and can be used to identify vulnerable communities/ Households at Woreda/Kebele Level. On that basis, RUFIP III PCMU will develop tools to operationalize the targeting strategy to ensure that geographic/community selection is capturing intended beneficiaries as clients/ SACCOs members.

70. A social assessment at local level will be conducted by the MFIs Nodal Officer responsible for customers' identification, as well as social focal point from UNIONs, to determine the presence of intended beneficiaries, strategy for their mobilization and final integration into the financial sector. Relevant information which will be provided and integrated into the AWPB will be, among others: (i) the list of Woredas /kebele where RUFIP III will collaborate with PSNP as well as other interventions supporting poor households; (ii) an indicative number of households belonging to the poor/transitory poor categories by regions/woredas which are graduating from safety net support to economically active poor, hence having savings to be invested and be eligible to become members/clients of RFIs. As a tool, it is recommended to use a matrix with target groups' categories to be completed by the responsible person (nodal officer MFIS/social focal point UNION) with targets to be achieved by social category and based on poverty level as first criteria. A further disaggregation should be done according to sex/age, including targets. The responsible person should conduct consolidation of different matrixes from regions at Federal level: the Social Performance and Customers Protection Officer.

71. Below is provided an example to be further defined by the responsible person in the PCMU and used as a basis to also train the nodal officers operating at clients' level.

Overview of target groups and beneficiaries by socio-economic category and estimated targets		
	Disaggregation by socio-economic classifications: poor/ transitory poor/better off	Disaggregation by sex and age

Total direct beneficiaries **Clients**	target groups can be classified as **very poor and poor** (subsistence households, living below the poverty and food poverty line and being often food insecure/environmentally, economically and socially vulnerable), **transitory poor** (households producing a surplus for marketing, being food secure but at risk of sliding back into poverty/food vulnerability due to economic or climate shocks) and **better off** (commercially oriented households/entrepreneurs whose livelihood is secured and are not at risk of poverty and any form of vulnerability.	Adult men and women (productive and reproductive age and above 30).		Young men and women (age is between **15-29**)	
		Men	**Women**	**Young men**	**Young women**
Poor and Very Poor	3 Million clients from very poor and economically active poor households of which 40% women and 10% youth (% of them are PSNP beneficiaries, graduating from safety net support).				
Transitory poor	6 Million clients transitory poor households of which approximately 50% women and 10% youth (part of them are former PSNP beneficiaries but at risk).				
Better off	3 Million clients are expected to be better off clients, of which about 30% women (including entrepreneurs).				
TOTAL					

PART C: PROJECT PROCEDURES

C.1: AWPB PROCESS

72. RUFIP III AWPB process for each year will start in September of the previous year. The AWPB commences on 7 July (as per the Ethiopian calendar), and must be submitted to IFAD for no objection every year by at last 7 April (3 months in advance). It will be prepared in a participatory manner from the ground up based on PCMU orientations and an agreed upon template. The process will start with the MFIs and RuSACCOs. The Financial Institutions will plan their annual activities under the programme and incorporate them in their respective institutional and business development plans. While MFI will transmit their budget proposals directly to DBE for review and consolidation, RuSACCOs needs will be consolidated by their respective Unions, which in turn will submit them to FCA. (FCA may require RCPBs to review and consolidate, if it feels it necessary).. FCA will consolidate the AWPB and submit to PCMU for further processing review before submission to DBE.

73. The authority to incur expenditure emanates from approved AWPB and as such, the detailed cost tables as prepared by the project are indicative of the costs to be incurred over the years. The amounts in the detailed cost tabs can be altered during the process of the AWPB. The processes of preparing the AWPB are well described in the IFAD guidelines for AWPB preparation and progress reporting. Table X indicates the critical importance of the AWPB not only as a planning tool, but also as a financial control tool, and as such the basis of financial management of the project.

Table 4: The critical importance of the AWPB in financial control

During day-to-day financial management, an approved AWPB is the most important document, and the principal guide on what to do and how to use resources. In the context of RUFIP III financial management, the AWPB is more than a guideline. It represents:

a) a commitment of RUFIP III and its implementing agencies to carry out a set of activities, produce specific outputs and achieve certain targets; and

b) Agreement by government and IFAD and other RUFIP III financiers that the planned activities are appropriate in light of the RUFIP III objectives and approval to spend the necessary money as specified in the annual budget.

c) GoE and IFAD will have provided **"prior approval"** to implementers to spend resources on the activities included in the AWPB. It should be taken so important; ***any expenditure incurred outside the AWPB will be declared ineligible for IFAD financing.***

d) The AWBP is also a performance measure, therefore, RUFIP III should set challenging targets but not ***unrealistic*** ones. RUFIP III's performance will be assessed, among other ratings, by the extent of AWPB execution.

C.1.1: PROCESS OF DEVELOPING THE AWPB

74. FCA, AEMFI and NBE will prepare their respective AWPBs, which will be consolidated by the PCMU. As AEMFI and FCA will be in charge of Capacity Building for their respective sectors, their AWPB will be prepared in consultation with the MFIs (AEMFI) and the RCPB and Unions of RuSACCOs (FCA). Stakeholders' meetings may be organized to review results to date, discuss lessons learned and agree on the priorities for the upcoming year.

75. In the planning and budgeting stage, the finance officers are expected to:

a. Identify and share with the team the status of balances by center of responsibility, by category and component. This can be obtained from the Programme Accounting Software and IFAD. The status of funds available should be adjusted by deducting commitments, withdrawal applications (Was) in the pipeline and projected expenditure for the remaining part of the current year. The adjusted information about the status of funds is provided to the budget responsibility centers so that they are aware of budget ceilings. <u>It would be poor financial management/accounting if the AWPB is cleared if it is actually not feasible in the context of available balances by category.</u>

b. Analyze other restricting factors, such as the total available funding, which may realistically be replenished in a year; The net available balance should also be broken down according to components, sub-components and major activity headings, so that planners are able to determine the relative weights for each component/ sub-component in the AWPB.

c. Support presentation and consolidation of financial data into the AWPB formats;

d. Develop a treasury plan.

76. PCMU consolidated AWPB will be validated by the National Steering Committee and sent to IFAD no later than 90 days before (7 April) the start of the implementation year (7 July). Each AWPB will also include a procurement plan and, ideally, a disbursement plan. The AWPB might be revised at least once during the implementation year, upon request by the PCMU to IFAD, or following orientations by a joint supervision mission.

C.1.2: Targeting Considerations in the AWPB

77. At the planning stage (preparation of AWPB) a key requirement will be the preparation of a strategy for meeting targeting priorities relating to poor segments, gender, youth and marginalized areas with the help of baseline data by the MFIs and the Unions. A nodal officer in each MFI will prepare a strategic plan that will outline the local context of current coverage of vulnerable customers and marginalized woredas and how these would be covered to meet the targeting requirements of the project over the six-year project period. This plan would be integrated in to the AWPB business targets so that tracking of progress of targeting gets integrated in the planning process.

78. Mobilization process to engage with communities should be conducted in close collaboration with promotion Agents from FCAS as well as MFIs. RUFIP III team and Promotion agents will work together to inform the communities about the inclusion of those vulnerable households engaged in some form of economic activity (IGA/subsistence livelihood on farm and off farm) and will consult the community to identify clients, on the basis of the characteristics related to: i.e. poverty, vulnerability, minimum economic production to have minimum savings. As a result of the consultation with the community and subsequent engagement with those vulnerable households there will be close monitoring of their inclusion and active participation as clients/SACCO Members.

C.1.3: Content of the AWPB

79. The AWPB will have three sections: (i) a narrative section (in word) describing the results of the previous year and the activities planned for the upcoming year; (ii) a detailed budget (in excel) (iii) a procurement plan. This must include as a minimum:

a. Executive Summary

b. Country context (in relation to project implementation)

c. Summary of key results of the previous year
d. Proposed Strategic Priorities for the upcoming year
e. Description of Expected results and activities (per component)
f. Implementation constraints and risks mitigation
g. Budget Summary (per financier, per component, per category)

80. AWPB should clearly indicate which items are funded from the respective financing sources. This is important as under a parallel basis of disbursement, each funding source will Finance 100% of the expenditure items allocated to it in the AWPB.

81. **Consolidating performance and reporting on achievements.** RUFIP III implementing partners will be required to report implementation progress on a quarterly basis. PCMU will integrate their inputs in their own quarterly report and submit the comprehensive quarterly progress report of the programme to DBE management and IFAD.

C.1.4: The First AWPB

82. The existing PCMU will be responsible for developing the first AWPB; which may be for less than one financial year, depending on the date of effectiveness. They will engage with IFAD to receive training on AWPB preparation during the project start-up phase. Given that this is a third phase of a well-functioning programme, readiness for direct project implementation is high. Some of the elements to be addressed in the start-up phase may include:

a. Finalization of a guarantee facility in collaboration with other agencies;
b. Finalization of the insurance agency business framework;
c. Baseline studies;
d. Recruitment of service providers for tracking client-level progress out of poverty; and
e. Procuring, installing and coding an off-the-shelf accounting software for the PCMU.

C.2: M&E, KM and Communication

83. **M&E key processes and responsibilities.** RUFIP III will develop a Results Based Management M&E System aligned to the GoE and IFAD requirements. The M&E will be built around the programme's Logical Framework (Log Frame), which will be informed and updated throughout the programme's lifetime. The M&E system will be used as a decision tool throughout the programme's life cycle, from inception to completion.

84. As the PCMU will be fully integrated in the EFCMD, RUFIP III M&E will be under the responsibility of the EFCMD's M&E team. RUFIP III will maintain the multi-level project monitoring and evaluation system of RUFIP II, with a hierarchical pyramid from the beneficiary RFIs to the EFCMD, host of the PCMU, with clear roles and responsibilities of the various actors at each level.

85. **Monitoring of project outcomes and output indicator.** Two baseline surveys (one in the MFI and one of the rural financial cooperatives sectors, and their respective customers) will be carried out during the first year of implementation to provide benchmark data for impact assessments at Mid-Term Review (MTR) and completion.

86. Due to the limited capacity to collect data and keep records on their customers, the RFI will be required to at least track outreach and repayment indicators. Additional

information will be collected periodically or whenever necessary using thematic and follow-up studies.

87. **Annual Outcome Surveys (AOS)** will be conducted in the target area every year starting from the 2nd year of implementation, in order to: (i) measure changes happening at the household level in terms of livelihoods and food security during the project life; (ii) assess targeting efficiency; (iii) provide evidence of project success or failure; and (iv) provide timely performance information necessary to undertake corrective actions.

88. RUFIP III will take advantage of studies conducted by its implementation partners (ie: impact studies, thematic studies, reports by NBE, AEMFI, and/or the major MFIs).

89. **Progress out of Povery Index (PPI)** will consider this methodology for introducing and adopting up poverty monitoring systems of involved MFIs and other implementing partners, e.g. FCA.

90. **Capacity building.** The M&E team capacity will be strengthened to collect and analyze data, identify key trends in various thematic areas and advise management on adjustments needed in project implementation.

91. In the first year of programme implementation, RUFIP III the EFCMD team in charge of RUFIP III M&E will be certified through PriME, the new M&E Training and Certification programme mandatory for IFAD-funded projects.

92. The programme overall M&E capacity building plan will include all the designated M&E agents and/or focal points of the various implementing partner agencies based on a need assessment to be conducted by the PCMU. Key areas of capacity building will include (list not exhaustive): management skills (Result Based Management and M&E project management) and areas of specialization (Statistics, Database Management, Cross-cutting issues such as Gender, Environment and Climate). The PCMU will mobilize Technical expertise to support the development and implementation of the M&E strategy, the installation of a database management system (DBMS) and training of its users, and cross-cutting issues.

93. RUFIP III will upgrade RUFIP II M&E system – which uses Excel as its core application for data collection and data treatment. A DBMS that will allow to monitor the LogFrame indicators and implementation progress of the AWPB will be introduced in the first year of project implementation. The DBMS will be linked to the Accounting Software to allow for simultaneous monitoring of both Physical and Financial execution. The application will be customized to allow for easier data collection, data analysis and reporting based on the needs of the different stakeholders.

94. The DBMS will be administered by the PCMU; it will be informed with information and data collected at the grass-roots level following the hierarchical organizational structure outlined above and using instruments developed in collaboration with the various stakeholders. For more efficiency and to foster more ownership from the RFIs, RUFIP will incorporate data collection tools commonly used by RFIs into the design of its own tools.

95. Standardization of information and reporting. In addition to RUFIP II, the EFCMD manages another eight projects, three of which are co-funded by the World Bank. IFAD will seek to harmonize reporting requirements with the Word Bank to avoid duplication and overburdening the team.

96. The flow of data and information on the RuSACCOs side will be simplified to reduce the number of actors involved in the chain of transmission and allow for easier interactions between the RuSACCOs Unions and their members with the PCMU.

97. KM and Communication. The M&E system will be complimented by a sound KM system to allow for better informed decision-making. The KM will allow to capitalize on best practices in the industry and share key information in various formats based on the different target audiences (internal and external end-users).

98. RUFIP III will streamline and scale-up RUFIP II best practices such as the publication of Case Studies in DBE Newsletter – uploaded on the Bank website, the organization of Peer Teaching Forums upon return of staff from exposure visits, and thematic researches.

C.3: FINANCIAL MANAGEMENT

99. The purpose of the module is to ensure that the key players in the RUFIP III Financial Management fulfill their Fiduciary Responsibility to ensure that proceeds from the Loan and Grant and other sources are used exclusively for intended purposes.

100. The MoFEC, as the representative of the borrower, will represent GoE on all matters pertaining to RUFIP III financial management. DBE, the Lead Executing Agency and will ensure the overall oversight for the implementation of Programme at National level with its roles reflected at Regional level. As a disbursement condition and as part of the PCMU, a full time Finance Manager and at least two accountants must have been assigned. IFAD No Objection will be needed to assure the caliber of staff assigned. As these are full time staff of DBE, counterpart funds shall be used to cover their salary costs. Terms of reference of RUFIP III Programme Accountant are presented in Annex 2.

101. FCA has been designated as a key implementing agency for the financial cooperative sector. This will involve coordinating budgeting, release of funds, justification and reporting for all Regional Bureaus as well as FCA itself. Given the current low capacity at FCA’s finance directorate, a dedicated accountant will be recruited competitively on fixed term contract basis to join the finance team for purposes of RUFIP III financial management. For each of the other implementing agencies, focal staff will be assigned to handle RUFIP III day to day financial management requirements. As there will be a small volume of transactions, these do not need to be fully dedicated.

102. The AWPB is the main critical document for budgeting and budgetary control. This has been described above.

C.3.1: RUFIP III ACCOUNTING SOFTWARE

103. Under RUFIP II, the PMU used excel to post Project books of Accounts. Whereas PCMU was able to generate financial statements and submit WAS, there were some gaps in the depth of financial reporting. Under RUFIP III, as an IFAD requirement financial data will not be managed by simple excel spreadsheets, therefore the need for off-shelf accounting package.

104. **Chart of Accounts:** There will be need to adopt a coding structure (chart of accounts) that can be used both for the accounting system and M & E purposes, this coding system should be developed jointly with the Monitoring and Evaluation Officer. The coding once agreed to should be used all the way from AWPB presentation fund requisitioning, payment vouchers, posting the accounting system etc. The coding structure will depend on the accounting package selected.

105. Some of the suggested attributes of RUFIP III accounting package will include functionality, reporting, security and support.

Table 5: Standard Requirements of accounting packages

FUNCTIONALITY	***REPORTING***

(a) User friendly (e.g windows driven) (b) Ability to account under different bases of accounting (cash, modified cash, modified accruals) (c) Budget Control features including encumbering funds at the point of commitment. (d) Capacity to track the following data: i. Actual ii. Budget iii. Life of Project (e) Ability to track/link to Physical Performance Indicators (e.g. units of output or contract completion status) as required by project) (f) Ability to track and search by specific transaction references (e.g. cheque #'s. P.O. #'s. direct payments. Voucher #'s, direct payments, Voucher #'s, etc.) (g) Dual charts of account (ability to track in accordance with or link to local reporting systems as well as donor requirements) (h) Ability to support in the generation of withdrawal applications, or at least through export into Ms excel. (i) Ability to track and report on parallel multiple funding sources.	(a) Ability to track and report on flexible reporting cycles (e.g. month, quarter, calendar year, fiscal year, project cumulative, etc.) (b) Ability to track and report by financier (c) Ability to track and report by grant/loan agreement category- with exact layout of the components, activities and expenditure categories (d) Ability to track and report by project component or activity. Capacity to customize reports (e) Ability to generate key Financial Management Review report formats with a clear audit trail (e.g. no additional revisions needed in a spreadsheet which would modify an audit trail) (f) Ability to generate reports for previous periods back as 6 years (e.g. lost report)
SECURITY	***SUPPORT***
(a) Internal Security features adequate (e.g. cannot delete posted transactions, controlled access, password protection) (b) Security includes back-up and system maintenance procedures (c) Security includes self-diagnostic checks to ensure integrity	(a) Support readily available for: i. Technical issues ii. Training

C.3.2: Disbursement and funds flow

106. **Project costs and financing.** The cost structure of RUFIP III is reflective of the Project's components and expenditure categories as per the financing agreements. RUFIP III has multiple funding sources. Financing will be on parallel basis.

107. Any payment made from the designated Bank Accounts will be replenished by IFAD at 100% net of taxes. Payment from other sources like RUFIP I & II reflows cannot be included in the withdrawal application to IFAD.

108. As per the IFAD disbursement handbook, Schedule 2 and 2A of the financing agreement can also be amended with reasonable justification submitted to IFAD by the Federal Democratic Republic of Ethiopia. It is however difficult to request for a reallocation of funds from investing activities to recurrent activities like operation costs and salaries.

109. **Co-mingling of funds.** Each funding source has a certain level of "fiduciary autonomy", thus these funds should not be comingled/mixed up. There is need to open separate Bank Accounts for each funding source. For IFAD, the loan and the grant will be administered through the same designated bank Account. The Bank Accounts required are presented in Table 6.

Table 6: Minimum Bank Accounts required

Bank Accounts	Remarks
A: DESIGNATED BANK ACCOUNTS (USD)	
IFAD Loan and grant: USD Bank Account	Monitor IFAD disbursement separately from EU grant disbursements.
EU-grant: USD Bank Account	Monitors EU disbursements separately from the IFAD financing.
B: OPERATIONAL BANK ACCOUNTS (ETB)	
DBE Level – Operating account	To receive funds from the designated account for transactions by PCMU including transfers to implementing partners
RUFIP I, II & III- Reflows Bank Account - ETB	Account already in existence and is "ring-fenced" to receive repayments of loans given out under RUFIP I & II. Such loan repayments should not be mixed-up with RUFIP III IFAD loan/grant and EU Grant funds. Any mix-up result in difficulties in reconciling the Authorised allocation to the designated bank accounts.
RUFIP III Guarantee Scheme account	Account will be administered by DBE or under oversight of DBE in accordance with GoE arrangements acceptable to IFAD
C: RUFIP II Operational Bank accounts to be opened by Implementing Institutions	
FCA Operating Bank Account - ETB	Funds that will be transferred to FCA will be for the FCA approved activities under RUFIP III and other entities under FCA supervision. Funds to the Regional Cooperative Bureaus will be channelled through this account.
AEMFI Operating Bank Account - ETB	Funds that will be transferred to AEMFI will be exclusively for the AEMFI approved activities under RUFIP III.
Each Region should open a specific Bank Account for RUFIP III specific funds.	The lowest RUFIP III bank accounts will be at regional level, there is no need to open specific bank accounts at the Unions or *Woreda* level. A system to follow-up advances made by the regions to the woredas as established under RUFIP II will continue to apply under RUFIP III.

110. From PCMU, funds will flow to FCA (MoU modality), who will be responsible for collecting justifications for all transfers to the Regional Bureaus and below. The Regional Bureaus will transfer funds to financial cooperative Unions, the last point of disbursement. There will be no disbursements to Woredas, Kebeles or directly to SACCOs.

111. The applicable disbursement methods are indicated in the Letter to the Borrower and comprise:

a. Direct Payment Method for bigger payments above USD 100,000, whereby IFAD directly pays the service provider;

b. Use of designated account, whereby IFAD transfers an amount estimated to be sufficient for a given time period (as identified in the AWPB), to a designated bank account which the project then draws upon and provides accountabilities to IFAD; and

c. Reimbursement if GoE has pre-financed any transactions.

C.3.3: WITHDRAWAL APPLICATIONS

112. The IFAD Disbursement Handbook provides all the guidance and forms needed for the preparation of withdrawal applications including replenishment applications. These have not been reproduced in this module. As stated in the Letter to the Borrower and the Loan Disbursement Handbook, four standard disbursement procedures may be used for withdrawal of financing:

i. **Procedure I.** Advance withdrawal (using imprest account or revolving funds with replenishment to the National bank of Ethiopia).
ii. **Procedure II.** Direct payment. This modality is used for eligible project expenditure to be paid directly by IFAD, generally for large contracts, to suppliers, contractors or third parties, as authorized by the borrower over USD 100,000.
iii. **Procedure III.** Special commitment. This modality is used for eligible project expenditure related to items imported by specific implementing agencies under letter of credit requiring the issuance of guarantee for reimbursement to negotiating banks by IFAD. Under RUFIP III, use of this method is not foreseen.
iv. **Procedure IV.** Reimbursement. This is applicable when eligible project expenditures, reimbursable under the financing, have been pre-financed by the borrower. Such reimbursements are expected to be claimed not later than 90 calendar days from the date of payment by the borrower.

113. The tools needed in managing a proper treasury unit:

i. The accounting software to manage the entire accounting data (production of WA, AWPB control, disbursement rate, Variance analysis etc.);
ii. Regular updating of the Cash Book (*this will prevent RUFIP III from going into Overdraft which could cause the Project to issue bouncing cheques and expose the Project*);
iii. Monthly Bank reconciliation for all currencies/accounts;
iv. Monthly Designated Account reconciliation (*as per IFAD accepted format*);
v. Regular update of the status of disbursement, commitment and un disbursement as against the global approved fund allocated by category and component for your project (*ensure to include commitments);*
vi. Monthly Financial Report for management decision making;
vii. Regular reconciliation of WA presented to IFAD by RUFIP III for reimbursement as against the payment made by IFAD to the designated account; and
viii. Cash & Expenditure forecast.

114. RUFIP III implementers must note that any delays to justify advances can clog the replenishment cycle and can result in cash flow implementation constraints. A tool to measure the efficiency of a replenishment process is the designated account reconciliation as illustrated in Annex 5.

115. Authorized allocation and submission of withdrawal application for replenishment of the designated account

i. The authorized allocation is USD ………………. as provided for in the letter to the borrower (LTB); USD ………. from the IFAD loan and grant; and USD ……………. from the EU grant taking into consideration the duration of the programme and the spread of the cost centers.
ii. The Programme shall submit withdrawal application for replenishment of the designated account once expenditure reaches 30% of the authorized allocation. If the withdrawal amount is less than 30% of authorized allocation, the programme should submit withdrawal applications once 90 days from the

submission of the last withdrawal application as provided for in the LTB: "**irrespective of their amounts, if 90 days have lapsed from the submission of a previous Withdrawal Application**".

iii. Similarly, implementing agencies shall submit expenditure justifications once actual expenditure is equal to 30% of the advance given; or expenditure justifications at least every 3 months, even if the actual expenditures did not reach the 30% threshold.

iv. In the early years RUFIP II, the lead implementing agency (DBE) would include in a replenishment application funds transferred to the implementing partners at the point of transferring the funds (before the partners had spent and justified the expenditures). At the point of submitting the replenishment application, the only supporting documents would be the remittance advice from the National Bank of Ethiopia that funds have been transferred to the partners. This practice had been picked from RUFIP I as it was acceptable to the Cooperating Institution, the World Bank BUT unfortunately it is not acceptable to IFAD.

v. While reconciling the designated accounts, in absence of bank statements, advances to the Regional Governments/implementing agencies shall be treated as funds drawn from the designated account but not yet replenished, instead of treating them as project bank balances as there shall not be any supporting bank statements. This shall be on the basis of information sent to DBE with an additional "Certification" that should be signed (as per our SOE) by 3 staff (in charge of the IFAD programme, Authorized representative, Finance Manager or the like, in the Regional Government), certifying that the funds received are still at their disposal (in effect replacing the bank balances which could be difficult to obtain on time).

vi. SOEs shall be summarized in order to reduce the huge amount of individual transactions otherwise posted in the SOEs as these shall be generated from many RUSACCO Unions and Woredas. However, each line of the summary listed in each SOE shall provide a full Audit trail to the individual supporting documents (which will need to be stamped and sequentially numbered). Therefore each line of the SOE shall have a description similar to: "Training provided to RUSACCO bookkeepers – supporting documents from say number 006 to 040".

116. **Payment Documentation.** Payments must be supported; and in the public sector there are certain minimum set of supporting documentation that should be attached to a payment/journal voucher. To ensure that the implementers' collect all the supporting documents, a checklists are provided in Annex 6; they should be ticked-off carefully and attached to each cheque payment voucher.

C.3.4: FINANCIAL REPORTING

117. The key tables in Financial Reporting under IFAD recommended International Public Sector Accounting Standards (IPSAS) cash/or accrual basis include:

i. Statement of Receipts and Payments by category by financier;
ii. Statement of Receipts and Payments by Component by financier;
iii. Statement of Comparison of Budget and Actual by category by financier;
iv. Statement of Comparison of Budget and Actual by Component by financier;
v. Statement of Designated Accounts Activities;
vi. Designated Accounts Reconciliations Statement;
vii. SoE- Withdrawal Application Statement;
viii. Explanatory notes to the financial statements including accounting policies, non-current assets schedule, listing of yearly procurements, allocation and use of loan funds.

118. **Management accounting** will depend on the information needs. It is not possible to prescribe the tables needed for management accounting as this largely depends on judgement of the Project Director and PA regarding the information needs at any given time. Management reports would include all the tables for financial reporting and in addition would include:

i. Budget Vs Actual comparison up to Individual Activity Level. This would be useful information for the M & E officer for the detailed AWPB-based progress reporting.
ii. Treasury Position and cash flow forecasts to facilitate transfer decisions and generation of withdrawal applications; and
iii. Advance aging Analysis reports to facilitate follow up and other decisions on advances.

C.3.5: Audit Arrangements

119. Internal auditing of RUFIP III is the responsibility of the Internal Audit Unit in the DBE. The internal audit unit at the DBE will review the financial transactions of the Project and submit reports which will include the:

i. Timeliness and accuracy of the update of the project accounting records;
ii. Timeliness and accuracy of the reconciliation of the bank accounts;
iii. Accuracy of project expenditure and timeliness of the preparation and submission of the WA's for the replenishment of the designated accounts;
iv. Eligibility of Loan/grant expenditure; and
v. Adherence to the approval and authorization process, internal controls and internal checks, including adherence to the FDRE Procurement process and Procedures.

120. **Statutory External Audits.** In accordance with the IFAD General Conditions and the IFAD guidelines for project audits, the RUFIP III must have its financial statements audited by an external auditor acceptable to IFAD. The Audited financial statements need to be sent to IFAD no later than 6 months after the end of the fiscal year.

i. The detailed instruction regarding project audit are outlined in the IFAD guidelines for project audits available at http://www.ifad.org/pub/basic/index.htm
ii. The Federal Auditor General [AG] is empowered by the Constitution of the Federal Democratic Government of Ethiopia, to audit all Government funds. However, because of the human resource constraints, with his/her consent, a private practice auditor can always be appointed.
iii. In addition to the audit report, the independent auditor will prepare a management letter. This will include comment and recommendations on the adequacy of the financial management system, and on the system of internal control. The management letter should also include a follow up section on the status of implementation of previous years' recommendations.

121. **Internal controls.** The key controls under RUFIP III are implementation of a properly codes accounting software with budget module for budget control, monthly reconciliations of bank accounts, compliance with approval and authorization requirements, proper filing and adhering to the credit line and guarantee mechanism implementation guidelines. Other RUFIP III internal controls are included in Annex 7.

C.4: PROCUREMENT

122. Introduction. This Section is intended to be used by RUFIP III and the related stakeholders while undertaking public procurement using RUFIP III financing. This is not a ‘stand-alone’ document, but complements the ‘Public Procurement Manual as issued by the Public Procurement and Property Administration Agency (PPPAA), IFAD's Project Procurement Guidelines, IFAD's procurement handbook and the IFAD General Conditions for Agriculture Financing.

123. National rules and regulations. Procurement for RUFIP III will be governed by the Public Procurement and Property Administration Proclamation (No. 649/2009) and the procurement Directive issued June 2010 and amended in December 2015. The proclamation, stipulates the procurement organization at federal level, the key procurement principles and operational procedures, and compliant handling system. It also re-establishes the Federal Public Procurement and Property Administration Agency (PPPAA), as an autonomous Federal Government agency under the Minister of Finance. In actual practice procurement is decentralized to public bodies or procuring entities.

124. The main functions of the PPPAA are to regulate procurement in accordance with the Proclamation and a MOFED Directive of June 2010, and to build procurement capacity of all stakeholders – procurement units, members of Bid Approval Committees, senior officers of ministries and sector agencies, internal and external audit, and finance staff. The Proclamation does not cover procurements by public enterprises or extra- budgetary funds, or procurements under external funding where the donor partner prefers to use different regulations. PPPAA is currently working on the revision of the procurement proclamation to ensure that it accommodates emerging developments and addresses gaps noted in the existing proclamation including the regulation of the procurement of State owned enterprises that was not covered under the scope of the current proclamation.

125. And, according to the IFAD General Conditions for Agriculture Financing, ‘Procurement of goods, works and services shall be carried out in accordance with the provisions of the Borrower/Recipient’s procurement regulations; to the extent that such are consistent with the IFAD Procurement Guidelines. It is further stated that each Procurement Plan shall identify procedures which must be implemented by the Borrower/Recipient in order to ensure consistency with the IFAD Procurement Guidelines’. By specifying that the borrower’s or recipient’s procurement regulations must be consistent with IFAD’s procurement guidelines, and by requiring the borrower/recipient and the Fund to agree on mandatory procedures, it ensures that there is consistency, and that the is a more predictable and coherent approach to procurement processes.

126. General principles to be followed are;

a. The responsibility for project and programme implementation and for procurement using IFAD funds lies with the Government.

b. IFAD ensures that the proceeds of any financing are used only for the purposes for which the financing was provided, after a full, fair and legitimate competition among the bidders with due attention to the principles of transparency, efficiency, effectiveness and economy.

c. IFAD may permit the adoption of the Borrower’s national procurement regulations provided that such regulations are compatible with IFAD’s guidelines.

127. Project Specific principles are;

a. Procurement is carried out in accordance with the Financing Agreement and the Letter to the Borrower (and PIM) and any subsequent amendments thereto, reflected in the Fund's Mission Reports (e.g. supervision reports, mid-term reviews, back-to-office reports, aide- memoires, and correspondence).

b. Procurement is to be conducted within the project implementation period (from the date of effectiveness to the date of completion). Procurement cannot be undertaken between the date of completion and the closing date.

c. Does not exceed the availability of funds duly allocated by the financial agreement

d. Is consistent with the approved Annual Work Plan and Budget; and

e. Provides the best value for money: Best value does not necessarily mean the lowest initial SPIU option, but rather represents the best return on investments, taking into consideration the unique and specific circumstances of each procurement activity; the balance of time, cost and quality required; and the successful overall outcome of the contract in meeting its original objectives.

128. **Internal Tender Committees.** As stated above, RUFIP III will not be a procuring entity and thus will not have a separate internal tender committee. The project, through the procurement officer, will be preparing a requisition for procuring of certain items/services, to be approved by the project coordinator, and then follow the normal DBE procurement procedures of approval up to the deputy director property facility management directorate, where the actual procurement processes begins. There are two committees; the bid opening committee and the bid approval committee. The bid opening committee is permanent, but the bid approval committee serves a maximum of a two years, and another is appointed by the director of external fund and credit management together with the director property facility management. Apart from AEMFI, the other IAs (NBE and FCA) – since they are government entities follow a similar procedure to that of DEB for constituting bid evaluation committees. AEMFI – being a private agency, was observed not to have a structure that will ensure internal control of procurement procedures, and will be required to constitute one before signature of an MoU with RUFIP III.

129. **Contract management/monitoring.** For contracts entered into by the PCMU or through financing by PCMU for services and goods, someone should be responsible for the execution of such contracts. As for goods, the relevant procurement unit has been undertaking this role, but for consultancies, this has been lacking across all Implementing Agencies (IA). Contract management is part of the responsibility of the Procurement Unit within the procuring entity, but it should be noted that the beneficiary department plays a crucial role in contract management. In corroboration with the procurement unit therefore, there is need to nominate a Project Manager with the ultimate responsibility to coordinate supervision and administration of consultancies for studies, workshops, research, and technical assistance to develop the necessary training tools. This was observed to be lacking both at CPMU and IAs.

130. **Preparation/monitoring of Procurement Plans (PPs) by IA**. As has been the case with RUFIP II, NBE, FCA and AEMFI will play a significant role in the implementation of RUFIP III. Since the IAs individually procure items/services for the project, there is need for a procurement plan specific for an IA indicating the objectives to be achieved in accordance with procurement regulations, and the timelines at different stages of procurement. To avoid operational problems leading to a rush of procurement activities towards the end of the budget year, and the need for full budget utilization IAs should prepare and update PPs to reflect achieved targets Vs planned targets. There are procurement capacity gaps observed at IAs related to: bid evaluation processes, preparation of bid documents and

adherence to IFAD procurement procedures, that have often resulted to delays of procurement processes due to back and forth communication with PCMU. It is important that all IAs are trained on IFAD's revised procurement package and that the releant IFAD procurement team monitors and collaborates closely to support the relevant implementation processes.

C.4.1: PROCUREMENT METHODS AND PRIOR REVIEW AMOUNTS

131. Procurement will be undertaken using the general methods as set out in the Public Procurement and Property Administration Proclamation (No. 649/2009) and the procurement Directive issued June 2010 and amended in December 2015. Despite the thresholds set out in the proclamation, in accordance with IFAD's Procurment Handbook and the Letter to the Borrower, the following procurment and prior review thresholds shall apply.

Procurement & Prior-review Thresholds Currency: US$				
	International competitive bidding	National competitive Bidding	National Shopping	Prior-review
Goods	≥ 250.000	> 100.000 to < 250.000	≤ 100.000	≥ 100.000
Works	≥ 1.000.000	> 200.000 to < 1.000.000	≤ 200.000	≥ 200.000
	Request for proposal (internationally)	Request for proposal (nationally)	Request for quotation (National Shopping)	
Non-Consulting Services	≥ 200.000	> 100.000 to < 200.000	≤ 100.000	≥ 100.000

132. The project will spell out the object of procurement and specify in detail in the Bidding Documents and the technical specifications the procurement method to be applied. Otherwise, procurement proceedings shall not begin until such time as the project has prepared satisfactory technical specification or bills of quantities against which bids shall be invited.

I. **Conditions for use of Restricted Bidding.** The total contract value of a procurement made by restricted bidding in accordance with article 49.2 of the Proclamation shall not exceed the following (local currency)

- For works – 2,000,000
- For Goods – 500,000
- For consultancy – 300,000
- For non-consultancy – 400,000

II. **Conditions for use of Request for Quotation.** A public body may carryout procurement by means of request for quotation with the authorization of the head of the public body or his representative without having to obtain the approval of the procurement endorsing committee if the value of such procurement falls within the threshold set forth below for each type of procurement (local currency)

- For works – 250,000
- For goods – 100,000
- For consultancy – 60,000
- For non-consultancy – 75,000

133. During implementation, the PCMU can request IFAD to modify the above thresholds. The modification will be guided by a risk assessment during supervision missions. It should be noted however that during implementation, the SPIU can request IFAD to modify the above thresholds with justification.

PART D: ANNEXES

ANNEX 1. REPORTING FORMATS FOR GENDER AND YOUTH TARGETING

134. Reporting format to capture women and youth participation in terms of accessing financial services (as clients of MFIs or SACCOs members) as well as women in leadership positions should be embedded in the reporting system (MIS). Below is an example to be taken into account:

Sex and Age disaggregation Model for reporting							
Region	Annual Plan		Achievement	% achievement	% women	% women leaders	% youth
	Male	Female					
MFIs							
Adults							
Youth							
RuSACCOs							
Adults							
Youth							

Example of Performance indicators for Youth (MIS)	
1	Total number of new youth clients as savers
2	Youth start Savings mobilized (Birr)
3	Youth saving balance
4	Total number of year to data youth savers
5	Dormant account (%)
6	Number of youth clients received loan
7	Youth loan Disbursement by sex (Birr)
8	Total value of loans outstanding for youth
9	Total number of youth Active Borrowers
10	Number of youth attended financial education (schools)
11	Number of Safe box Distributed for youth

Example of Performance indicators for Women (MIS)	
1	Total number of new women clients as savers
2	women start Savings mobilized (Birr)
3	women saving balance
4	Total number of year to data women savers
5	Dormant account (%)
6	Number of women clients received loan
7	Total value of loans outstanding for women
8	Total number of women Active Borrowers
9	Total number of women leader in SACCOs
10	Total Number of Women Leader at UNIONs

ANNEX 2. DRAFT TORS FOR PCMU STAFF

PROGRAMME ACCOUNTANT

Details and Terms of Reference for the position of the Programme Accountant
Job Purpose: The Programme Accountant will be required to design and implement the necessary accounting and financial management systems to address the programme's needs in responding to the objectives. The systems to be designed, should focus on but should not be limited to budgeting, accounting, internal control, reporting and external auditing.
Key responsibilities: 1. Develop, implement, modify, and document record-keeping and accounting systems, making use of the accounting software - implement the accounting software; 2. Prepare, examine, and analyze accounting records; 3. Perform or ensure regular reconciliations are prepared for relevant account balances for review and endorsement by the programme coordinator; 4. Prepare examine, and analyze monthly, quarterly (Quarterly Interim Financial Reports) and annual financial reports; 5. Analyze operations, trends, costs, incomes, financial commitments, and obligations, so as to prepare Programme and provide advice to the Programme Director accordingly; 6. Develop, maintain, and analyze budgets comparing budgeted costs to actual costs on periodic basis; 7. Prepare or update existing forms and manuals for accounting and bookkeeping personnel, and direct their work activities; 8. Ensure and maintain a proper filing system for Programme accounting records; 9. Ensure compliance with relevant financial procedures, guidelines and standards; 10. Initiate or conduct inventories and other relevant controls on assets; 11. Supervise the work of Accountants or any other accounting staff assigned to the Programme; 12. Compile and consolidate SOEs for the PCMU, implementing partners/agencies for approval; 13. Liaising with the Accountants and Procurement officers at PCMU and implementing partners to ensure that SOEs are prepared in a timely manner and forwarded to PCMU for consolidation and preparation of withdrawal applications; 14. Survey operations to ascertain accounting needs and to recommend, develop, and provide solutions to financial problems; 15. Advise Programme management about issues such as resource utilization and other matters pertaining to financial management; 16. Prepare the Programme for external audits within the stipulated time-frames; 17. Help build RUFIP III's capacity in accounting and financial management.
Reporting. The Programme Accountant shall be a full time member of the Programme coordination and management team and shall report to the Programme Coordinator.
Qualification and Experience: a) A Bachelor's Degree in Accounting from a recognized university; b) Additional professional qualification such as CPA, ACCA, etc. are a requirement; c) Must possess at least 7 years of experience in accounting and financial management of which at least 5 years must be working experience with donor-funded Programmes/projects; d) Must be computer literate with demonstrable proficiency in Microsoft Word and Excel and any other relevant application including accounting software; e) Must have excellent writing, presentation and interpersonal skills, excellent

analytical skills and ability to effectively communicate with a broad range of audiences

SOCIAL PERFORMANCE AND CUSTOMERS PROTECTION OFFICER

Details and Terms of Reference for the position of Social Performance and Customers Protection Officer
Job purpose: Under the general supervision and policy guidance of the Project Coordinator, the Officer will be responsible for monitoring and implementing social performance measures.
Key responsibilities: 1. Overall coordinate all the gender, youth and nutrition related activities of the project, including Trainings and supervision of the work of the Nodal Officers (MFIs) and Social Focal Points (FCA); 2. Work to sensitize all project and partners that project outcomes should be achieved with respect for the principle of gender equity and women's empowerment; 3. Identify any capacity gap from project implementers that limit achievements of gender/ youth related objectives and propose practical solutions to address the gap. 4. Review basic project implementation processes and outputs to provide feedback and suggestions when needed on how to achieve best possible project outcomes with respect to gender equity, women's empowerment, youth mainstreaming and nutrition mainstreaming. The basic processes to which the specialist should provide inputs are: a) Preparation of the Annual Work Plan and Budget; b) Design and implementation of project M&E system; c) Project Progress Reports; d) Project Supervision Reports; 5. To ensure that the M&E, Log frame is gender sensitive and reflective of the real time Review project plans and budgets to ensure that adequate attention is paid (and resources allocated) to support practical and strategic support to women, youth and vulnerable groups as in line with project design document and percentage of outreach by categories is respected. 6. Work with the M&E Officer situation. Address any gaps in the supervision reports for further follow up. Furthermore, work with M&E unit to ensure that lessons learned and success stories of women and youth are fully captured and reflected in relevant reports sections (i.e. Knowledge Management). 7. Work on emerging strategies and plan with each officer/specialist, and recommend good-practice methods relevant to the sector/issue under consideration. 8. Ensure that there are adequate communication materials on cross cutting issues, particularly for events organized at community level related to gender awareness and nutrition awareness and education; review existing training materials and evaluate whether additional information shall be included for specific sectors/issues. Ensure that the materials the project develops are gender sensitive in their language and image, considering literacy level of target groups. 9. Be available for support in related trainings/workshops preparation and follow up, particularly at the beginning of the project and in relation to mobilization strategy, identification and selection of target groups/woredas. 10. Work in collaboration with PSNP team and ensure synergies between the two interventions for what concern the target groups. 11. Be responsible for the overall supervision, in collaboration with M&E Officer of impact studies related to poverty reduction (i.e. support preparation of reporting format for impact studies on PPI);

12. Work in close collaboration with AEMFI to adapt existing methodologies to ensure youth mainstreaming strategies (i.e. UNCDF initiative) into the financial sector and ensure the approach is up taken by implementing partners (FCAs and MFIs).

Implementation level:

13. Participate actively in networks of and for women and youth and facilitate linkages among these groups;
14. Assess the implementers' capacity in relation to cross cutting issues and organize workshops and capacity building trainings (gender, youth, nutrition) for interested staff and other relevant partners based on gaps identified.
15. Ensure that the project implementation teams (at all levels) are sensitized to gender and diversity issues that they should expect and explore in their interaction with the community through regular trainings and sensitization programmes.
16. Work closely with Nodal Officers and Social Focal Points;
17. Interacting with women in communities to gain better understanding of women's' and youth perceptions and guiding implementers in approaches to better integrating women and youth into project activities;
18. Reviewing (regularly) participation of women and youth in community development activities and decision making processes and making recommendation to improve processes;
19. Guiding development of women's groups, ensuring adequate representation of women in all Project activities, monitoring impact of project activities on status of women, monitoring gender orientation of participating agencies and service providers.

Reporting.

The Officer shall report to the Project Coordinator.

Qualifications and Experience:

1. Be familiar with gender and youth mainstreaming policies of the institutions you work with including any national policies, policies of ministries, implementing institutions.
2. Have experience in implementing development project related to gender, youth, nutrition in rural development sector.
3. Serve as a channel of communications between your project and others working on cross cutting issues (gender, youth, nutrition) in government, implementing agencies, research centers, NGOs and other development projects of relevance for your assignment. This should be done in close collaboration with PCMU officer in charge for partnership.

PROCUREMENT SPECIALIST

The Head of Procurement Department will be reporting to the PCMU Coordinator. His responsibilities will include:

Specific Duties of the Position

1. Coordinate all procurement activities in PCMU;
2. Review procurement files from implementing agencies
3. Review and ensure that all procurement requests submitted for financing through are eligible and in accordance with IFAD guidelines and requirements as well as Nation Procurement Law;
4. Determine the most appropriate method of procurement;
5. Prepare annual procurement Plans in accordance with the strategic and action plans for the implementation of Program activities and ensure its implementation on a timely and efficient manner;
6. Help to identify, specify, estimate the cost of, and consolidate in packages (as

appropriate) the procurement of goods as may be required by the Rwanda Pubic Procurement authority

7. Prepare appropriate bidding documents; including specific procurement notices, standard contracts for goods and services, invitations for bids, etc.;
8. Maintain and update records of standard unit costs, technical specifications for goods, and local and international vendors and facilitators;
9. Participate in the evaluation of proposals/bids and contract negotiations
10. Review and update procurement plans on a regular basis
11. Advise the Project Coordinators, the technical staff and other relevant staff of PCMU and other agencies on guidelines and procedures for procurement of goods and services;
12. Ensure that implementing entities are trained and adhere to National procurement procedures and guidelines and to those of respective Donor Agencies;
13. Ensure good filling system of all procurement documents;
14. As necessary, assist sub-contractors in preparing bidding documents for goods, works, and services thereby ensure the most efficient use of resources;
15. Perform any other duties as assigned by his/her superior.

Qualifications and Experience Required

16. Bachelor's Degree in public administration, or similar field,
17. Five years of experience directly relevant to the area of procurement,
18. Familiarity with IFAD and National procurement procedures.
19. Proven competence in the use of computer software applications including spreadsheets and word-processing packages.

ANNEX 3. EFCMD ORGANIGRAM

Figure 3: Current organigram of the External Fund and Credit Management Directorate

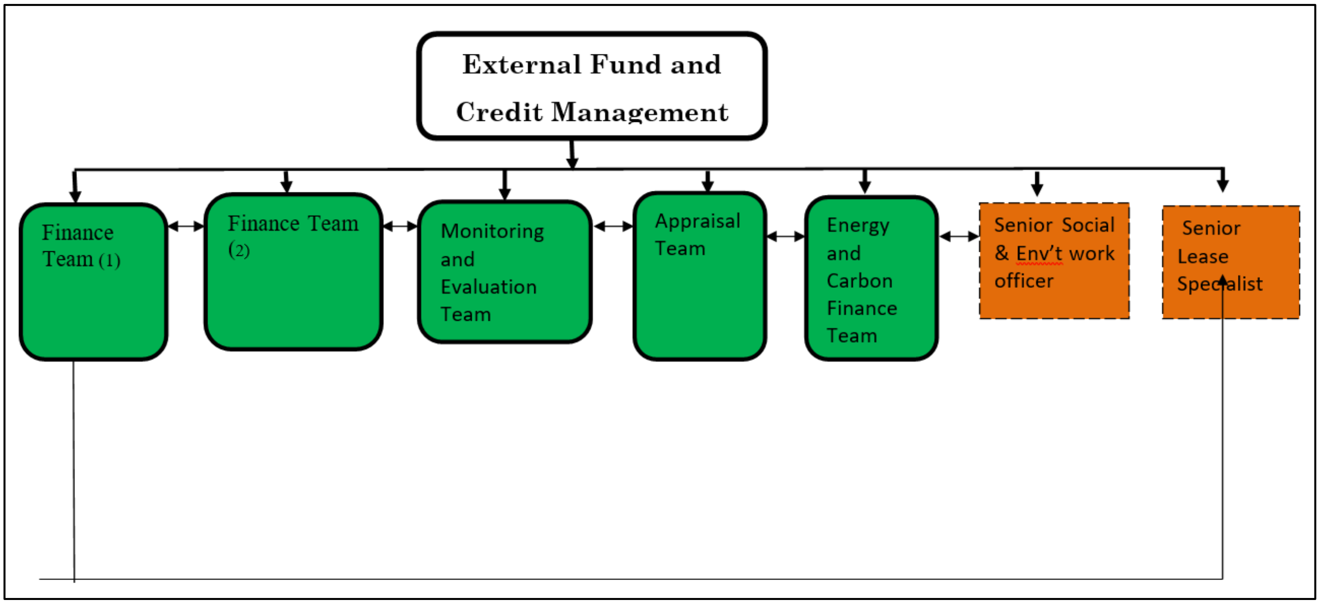
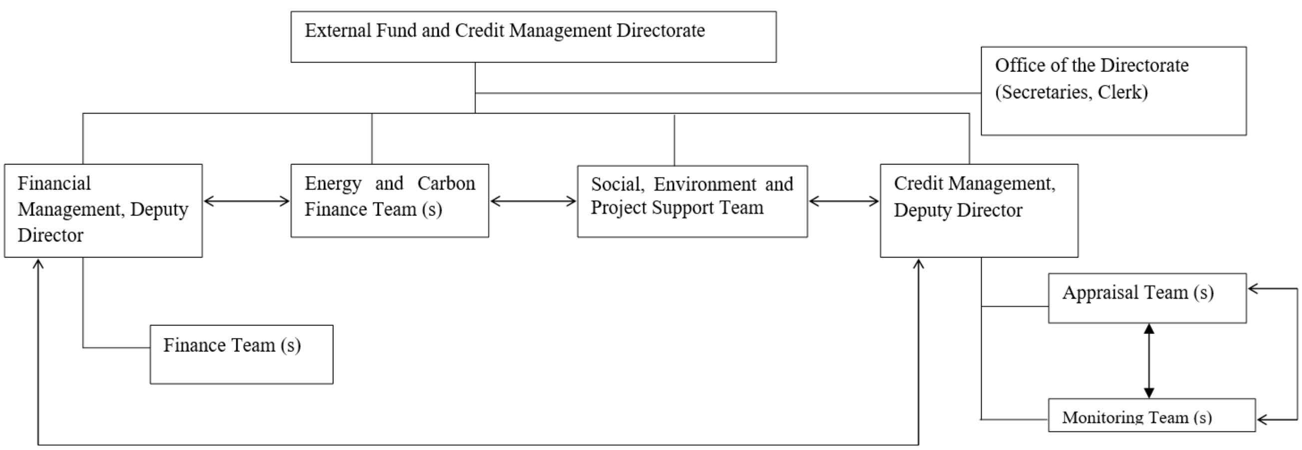


Figure 4: Possible future organigram of the External Fund and Credit Management Directorate



ANNEX 4. DRAFT TOR FOR TECHNICAL ASSISTANCE (COMP 2.2)

1. To prepare comprehensive regulations, directives and circulars on various regulatory themes to be issues by FCA/RCPBs;
2. To take exploratory and preparatory activities for setting up of the National Federation and 1-2 regional federations on a pilot basis;
3. To examine and pursue segregation of audit, inspection and supervision functions from FCA/RCPBs and entrust the same to new organizational arrangements;
4. To facilitate integration of RuSACCOs and Unions with MFIs, banks and insurance companies under the supervision of NBE for enabling the former to provide all financial services including money transfer and digital financial services;
5. To facilitate drafting of a new comprehensive Cooperative Development Policy and a new comprehensive and formal proclamation for financial cooperatives
6. To provide technical guidance to unions for expansion of MIS project and piloting MIS project in RuSACCOs;
7. To help in strengthening linking of potential RuSACCOs with potential Unions;
8. To put in place the classification of RuSACCOs and Unions, based on acceptable criteria and help in designing a transformation plan;
9. Facilitate building up training infrastructure in the form of an institution of excellence at national level and affiliated training outfits at regional level; and
10. Any other issues.

ANNEX 5. DESIGNATED ACCOUNT RECONCILIATION

	(ILLUSTRATION)	USD	Management Tips
1	Total Advanced by IFAD	**xxx**	This reconciliation should give the whereabouts of this advance and the Project Coordinator should always, on a monthly basis, be interested to know the whereabouts of the Authorized allocation.
	IFAD loan and Grant Authorized allocation	xx	
2	LESS: Amount Recovered by IFAD	**(xxx)**	
	IFAD loan and Grant Authorized allocation	xx	
3	Outstanding Advance to Designated Account		
4	Balance of Designed Account as per Bank statement	-	If less than 50% of the Authorized allocation can be traced to bank statements, this can always alert the Project Coordinator of lingering cash flow problems by looking at lines 4 and 5
5	Balance on Project Operational Accounts as per Bank Statements	xxx	
	Total of Bank Balances	**xxx**	
6	Plus Total Amount claimed in this Application No.	xxx	If this amount is substantially higher than 30% of the Authorized allocations, it points at laxity in the replenishment system. If for example, this amount is twice or more than the minimum amount for Designated account replenishment. It tells the Project Coordinator that the Accountants could have lodged a WA when expenditure reached the minimum amount of 30% of the Authorized allocation but because of laxity/inefficiency, they allow expenditure to over bulk until expenditure accumulated to this level, which causes cash flow problems.
7	Plus Total Amount withdrawn from bank accounts not yet claimed	xxx	This should cause the Project Coordinator to demand why money to this magnitude has been withdrawn but is not being included in the WA. The Programme Director should always demand for a schedule of this amount—it reflects inefficiency and results in cash flow problems to withdraw such a magnitude of money from bank accounts and take such a long time to replenish it back. Secondly care should be taken that this figure is not only inserted as a balancing figure, which would reflects that the designated account is not well managed. For implementing agencies, where there is difficulty in obtaining bank statements on a timely basis, additional certification is required.
8	Plus Amounts claimed in previous Applications not yet credited at date of Bank Statement	xxx	The WAs in the pipeline, if they take long to be processed, could reflect that IFAD raised many queries on the quality of the WAs, in which case the Project Director could request for staff training; or it could be delays on the side of IFAD and in which case the Manager would still have to initiate follow-up from IFAD. It is advisable for the Programme to always follow the status of the WA on IFAD's Withdrawal Application Tracking System (WATTS).
9	Minus Interest Earned	-	
10. TOTAL ADVANCE ACCOUNTED FOR		xxx	If this total does not equal to the outstanding Authorized allocation, the Project Coordinator should demand explanation. It is so serious to fail to reconcile the Authorized allocation

ANNEX 6: DOCUMENT CHECKLIST

Standard Goods	(Tick)
1. Complete Written Voucher, duly approved	
2. Confirmation by Procurement Officer that the Procurement was properly done in accordance with FDRE and IFAD procedures	
3. Attach Copies of relevant No Objections from IFAD, where applicable	
4. Attach Contract Monitoring form where applicable	
5. Availability of supporting documentation	
a) Contract	
b) Invoice	
c) Evidence of payment	
d) Bank guarantee, where applicable	
e) Delivery notes/reports (Make Cross Reference if bulky)	
6. Fund availability in	
a) Budget-Ensure Vote Book has been updated	
b) Category(ies)	
7. Accuracy of Computations/footings	
8. Reviewed optimality of the disbursement method?	
9. Banking instructions	
10. Correspondence bank	
11. Percentage of financing	

Workshops- Abroad	(Tick)
1. Invitations and related IFAD's No Objection	
2. Availability of supporting documentation	
a) Boarding passes reconciled DSA days taken	
b) Back to Office Reports	
3. Fund availability in	
a) Budget-Ensure Vote Book has been updated	
b) Category(ies)	
4. Accuracy of Computations/footings	

In-Country Workshops	(Tick)
1. Attendance sheets	
2. Attendance sheets should be reconciled to DSA paid	
3. Availability of supporting documentation	
a) Training report	
b) Hotel Receipts/ bills for meals and accommodation(should be reconciled to attendance sheets)	
4. Procurement record on how the venue was selected	
5. Justification for any fuel refunds and related support	
6. Fund availability in	
a) Budget-Ensure Vote Book has been updated	
b) Category(ies)	
7. Accuracy of Computations/footings	

Consultancies	(Tick)
1. Time sheets in comparison with the work done	
2. Attach Copies of relevant No Objections from IFAD, where applicable	
3. An acceptable report	
4. Availability of supporting documentation a) Contract b) Invoice c) Evidence of payment d) Bank guarantee for advances	
5. Fund availability in Budget a) Ensure Vote Book has been updated b) Category(ies)	
6. Accuracy of Computations/footings	
7. Banking instructions/ Correspondence bank	

ANNEX 7. INTERNAL CONTROLS

	Other RUFIP III Key Controls
Fixed Assets	**Fixed Assets Register (FAR):** a) RUFIP III shall maintain a consolidated FAR which is a record of fixed assets for the Programme including assets held by implementing agencies such as AEMFI, NBE and FCA. b) The RUFIP III register format includes details of assets-make, model, Specification, quality, rate, value, supplier, receipts, issues, balance, location, etc. It also has the date of receipt of the asset & the payment voucher reference. c) Each class of assets has a separate page in the FAR. d) Any alteration in the FAR must be dully authorized. e) It will reflect the book balance of a class of assets at any point of time. **Fixed Assets Issue Register (FAIR)** a) While the FAR is maintained according to class of assets, the FAIR is maintained according to the staff member who holds the asset. There will be one folio for each staff member who has custody of an asset. b) It will record the date of issue & return of each asset. c) It will bear the signatures of the employee when s/he receives the asset. d) The register has to be periodically reconciled with the FAR. All issues in the FAR should be reflected in the FAIR. e) The register helps in locating assets at the time of physical inventory taking. **RUFIP III will follow the following fixed Assets internal controls:** a) Tagging & labelling of assets- assets are labelled or tagged so that they can be easily identified & their ownership established. b) Insurance of assets- RUFIP III will insure all project assets. c) Physical inventory of assets at regular intervals. d) Log books for vehicles, the log book records the details of use vehicles & is usually maintained by the driver and checked by PA. It helps in identifying personal use of RUFIP III assets. It is also used for calculating fuel consumption appropriateness. e) RUFIP III vehicles are not available as Personal to holder. They should be packed after working hours and cannot be used for private use. f) Cross referencing of financial & fixed assets records- done to avoid payment to supplier before assets are recorded in the FAR. For internal controls purposes it is vital to reconcile the financial accounting records with assets records.
	Physical verification of fixed assets. a) Conducted by an inter-departmental team (Accounts, Procurement, M&E, etc.) b) Should be undertaken under the supervision of external / internal auditors at least once a year. c) Surprise checks during audit/supervision visits. d) Meant to existence, condition & custody of assets. e) Physical balances compared with book balances f) Variances reported

	Other RUFIP III Key Controls
	g) Variances have to be adjusted in financial records after due authorization. **Physical Asset Inventory Form (PAIF)** a) This is the form used for recording the result of physical asset verification. b) PAIF records the asset code, book balance, physical balance, condition, variance & possible reasons for variance. c) Surplus & shortage are equally serious & need further investigation. d) Should be signed by all members of the verification team. e) Preferably, it should be counter signed by the auditors.
Cash and Bank	a) Bank reconciliations prepared by the 5^{th} day after month end. b) Bank reconciliations are prepared within Programme Accounting Software and not off the system. c) Prepared by the Assistant Accountant, checked by the PA and approved by the PD with hard copies formally kept on file.
Advances	a) As described in the module, advances are not expensed they are to be monitored in Programme Accounting Software in a control account for advance takers b) Advances are aged on a monthly basis and the aging report is provided to the PD on a monthly basis c) Advances are retired after expenditure justifications have been submitted, accepted and after the journal voucher has been formally approved.
Personnel Costs	a) Formal payrolls are prepared by the Assistant Accountant, checked by PA and approved by PD. b) In preparing the payroll care is taken to recover any outstanding advances c) Staff cannot obtain loans from RUFIP III, they can be assisted to obtain loans from financial institutions d) The PA should ensure salaries included in payroll are as per the employment contracts. e) Salary adjustments necessarily require IFAD's No Objection prior to being effective f) Payroll taxes are a responsibility of employees; these taxes are deducted from employee salaries and remitted to the Tax Authority by RUFIP III only acting on agency basis

ANNEX 8. GUARANTEE FUND

1. MFIs and Rusaccos are in a position to widen and deepen financial services across Ethiopia. The number of borrowers from MFIs and Rusaccos is projected to increase from more than 5 million in December 2018 to 13.5 million In December 2025. The credit demand arising from the increased clients as also the larger loans that people aspire for is estimated to be about ETB….. Million. The gap between the credit demand on the ground the available supply from different sources including RUFIP III funds is of the order of ETB 32712 Mn (USD1167 Mn). This gap has to be filled by domestic sources. Commercial banks, insurance companies and other financial entities might be able to fill the gap, but their willingness to lend is hampered by the lack of familiarity with MFI/Rusacco business and the consequent high risk perception.

2. About eight MFIs have been able to borrow from banks in public and private sectors, some of them did so under a guarantee. The guarantees in those cases led to a lower rate of interest, making the loan to ultimate clients affordable. Taking a cue from the guarantee arrangements of the past (though selective), RUFIP III proposes to set up a guarantee fund which will guarantee repayment of loans taken by MFIs from banks and other financial institutions.

3. **Purpose.** The guarantee product/mechanism should enable MFIs and Rusaccos to access bulk funds through different modes and instruments from the rest of the financial sector.

4. **Need.** An assessment of appetite among banks to lend to MFIs/Rusaccos - and to what extent guarantee will catalyze such lending. For example, ICCO that has been working in Ethiopia for more than 10 years supporting MFIs and RuSACCOs with technical assistance on value chain financing, indicate that the MFIs (especially the private sector ones) and RuSACCOs are short of loanable funds and therefore our focus should be to find a solution for funds scarcity faced by MFIs through the guarantee facility or other ways or mechanisms.

5. ICCO Terrafina has been facilitating access to finance through guarantee mechanisms offered by Rabo bank to Commercial bank of Ethiopia (CBE) and Cooperative Bank of Oromia (CBO). However, the guarantee funds are limited due to issues of foreign exchange hence the need to use local mechanisms to avoid the adverse impact of foreign exchange.

6. **Structure.** The Credit Guarantee Scheme should be placed at the Development Bank of Ethiopia (DBE) because of its mandate as a specialized financial institution which provides financial services to agricultural and industrial development projects. This will create synergy with current RIFIP III proposed implementation arrangements and leverage on the funds that are available at the bank for that purpose.

7. The CGS should target commercial banks both public and private starting with Commercial Bank of Ethiopia (CBE) and the Cooperative Bank of Oromia because of the role they are already playing in the agricultural input and output financing. This will also be available to other banks that are interested to sign in

8. The Commercial banks would target to lend to MFIs and RuSACCOs that are providing financial services to the target farmers and SMEs who are unable to access credit because of inadequate collateral, or the inherent risks of doing agricultural business perceived by lenders see as higher risk under their current credit risk evaluation practices or need for refinancing caused by the need to grow in the market. This would augment the line of credit proposed under RUFIP III.

9. **Fund Size and potential.** The fund size should be incremental with starting amounts approximately $ 4.5 Million dollars. This fund could be sourced from AGRA funds matched by DBE at 1:2 yielding the 4.5 Million. As demand increases other sources could be brought on board to augment the funds. As explained in para 8, the potential to issue guarantees can be as high as ten times of the size of the fund, but realistically we can aim for eight times leverage. With commercial bank financing projected at USD 40 million, we might need a fund size of USD 5 Million. All this corpus need not be cash funded up-front, but can be contributed in from time to time in line with the usage level. If for example the initial corpus of USD 1.5 million is committed to issue guarantees to a level of about 65% then the next instalment of about USD 1.5 million may be added to the corpus and so on. Apart from AGRA, Rabobank is a possible partner for the fund. Since this fund will be based at DBE, there would be minimal additional costs to administer the funds under the RUFIP III implementation arrangements.

10. **What to Cover and instruments.** The fund should be flexible in what is covered and therefore will not just limited to debt instruments. It should also look at the possibility of covering the issue of debentures or bonds by the MFIs that are secured by the loan receivables in their books. These bonds and debentures can be **guaranteed** by the fund for repayment. This would shift focus from individual institutions that lend to MFIs, but the debt instrument and facilitate many institutions to provide funds to the extent of their ability. Additional ways of raising funds by MFIs would be securitize the debt receivables from their customers and sell the same to banks and financial institutions. The securitized debt obligations of MFIs can be **guaranteed** by the Fund. In both these cases, apart from the guarantee, a primary security is also available which will encourage financial institutions to provide debt funds. These would be tested as we roll this out under the existing structure.

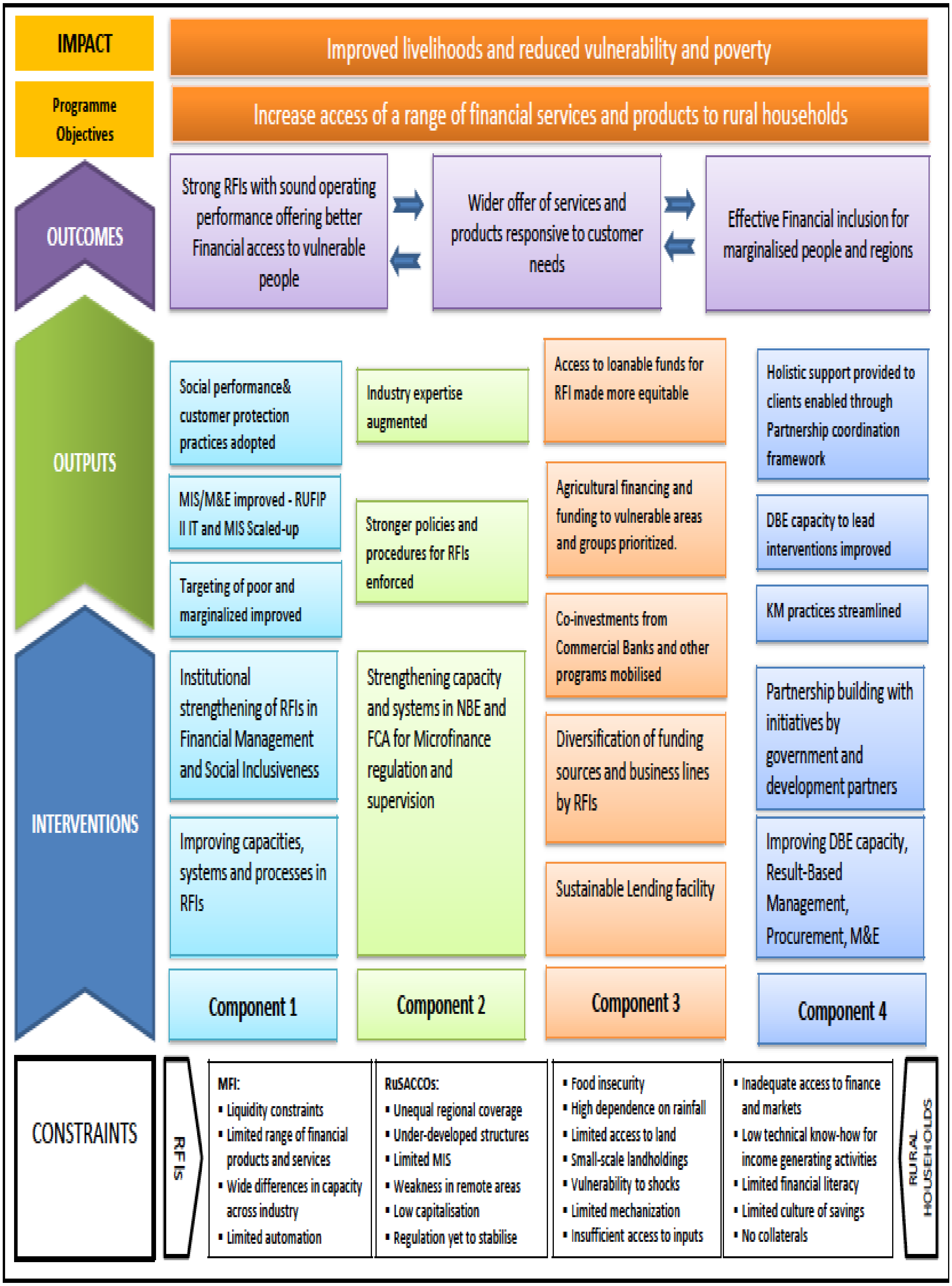
11. **Nature of cover and the underwriting risks.** Traditionally MFIs have been able to recover their loans from borrowers with a high degree of efficiency. The portfolio at risk (90 days) for the sector as a whole for the last five years has been less than 2%. With the low default risks, it should be possible to offer a "First Loss Default Guarantee" cover of up to 10% of the loan provided to the MFI by a bank or financial institution. The FLDG implies that default in repayment of the loan of upto 10% will be underwritten by the Guarantee. If the defaulted amount exceeds 10% of the loan, then the lender has to cover the excess. With FLDG limit set at 5 times of the observed default at the customer level, there should be wide acceptance among banks for this guarantee structure. FLDG at 10% of loan amount would also enable the guarantee fund to leverage the guarantee pool ten multiples. For example, if a guarantee fund pool of $ 5 million is established, it would be possible to guarantee loans of up to 50 $ million at any point of time.

12. MFIs can also float bonds and debentures that are guaranteed for repayment by the fund. This guarantee is done a variety of ways, following the same principles of FLDG. While the debt market in Ethiopia is not familiar with non-governmental entities floating bonds for raising resources, with the changes envisaged in the financial sector, it is more a question of when this will happen rather than if. Sale of securitized debt of MFIs to other financial institutions can be another source of raising funds for on-lending. Credit enhancements to securitized debt pools can be offered from the guarantee fund to provide additional collateral for those who buy the securitized debt. In short, the Guarantee fund should not be a vanilla offering, but a forward looking mechanism that can support any kind of resource raising by RFIs from the rest of the financial sector.

13. **Partnerships and Technical Assistance.** Rabobank had in the past issued guarantees to enable some MFIs raise loans from commercial banks. They might have an interest in participating in the guarantee fund. They would also be able to bring in technical expertise that might be required at DBE to rund the guarantee facility. Hence, this potential partnership should be explored.

14. It is absolutely critical that technical assistance should be provided both to the financial instructions and the demand side. While RUFIP III already captures the interventions on the demand side there is need to provide for the supply side for this to work. Possible collaboration with Rabobank and ICCO will also be explored as they are already providing services in that area. Other AGRA programmes that are working with Russaccos, Producer cooperatives and SMEs will also provide support to the system.

ANNEX 9: THEORY OF CHANGE



ANNEX 10: LOGICAL FRAMEWORK

Results Hierarchy	Indicators				Means of Verification			Assumptions (A) / R
	Name	**Baseline**	**Mid-Term**	**Project End Target**	**Source**	**Frequency**	**Responsibility**	
Outreach	**1. People receiving services and products promoted or supported by the project**				PCMU quarterly report from project MIS	Annually	PCMU	
	Total	7.000.000	10.250.000	13.500.000[2]				
Project Goal Contribution to the reduction of poverty in rural Ethiopia	**2. Annual income of participating households**				Baseline, mid & end line survey, Annual Outcome surveys	Annually	PCMU	Sustained national and r economic and political s
	% increase	*	20%	50%				
	3. Increase in ownership of assets among beneficiaries (data disaggregated by gender)				Baseline, Midline, end line surveys, Annual Outcome surveys and Poverty tracking tool results	Annually		Competent TA provider and able to offer the too RFI and PCMU staff
	%	*	**35%**	Min of 75% increase from baseline				
Development Objective Increased access for rural households by a range of financial services and products	**4. Increase in access to savings from MFIs and RUSACCOs** **5. Increase in access to credit from MFIs and RUSACCOs** **6. Increase in access to insurance through MFIs and RUSACCOs**				Baseline, mid & end line survey	Baseline, mid-term and completion	PCMU	
	% increase	*	35%	Min of 75% increase from baseline				
Outcome 1 **Strong RFIs with sound operating performance offering better Financial access to vulnerable people (Improved sustainability of RFI**)**	**7. Percentage of partner MFIs and RUSACCOs with operational self Sufficiency above 100% (95 % MFIs and 90% RUSACCO Unions to have OSS above 100%)**				NBE, FCA quarterly, annual reports	Yearly/Mid-term and completion	PCMU	Regulatory policies and environment remain fav RFIs
	%	*	8400 RUSACCOS 35 MFI	95% MFIs 90% unions				
	8. Percentage of partner MFIs and RUSACCOs with less than 5% PAR 90 days ((60 % MFIs and 90% RUSACCO Unions to have PAR 90 days less than 5%)				NBE, FCA quarterly, annual reports	Yearly/Mid-term and completion	PCMU	
	%	60 % MFIs; 90% RUSACCOs	80% MFIs; 90% RUSACCOs	90% MFIs; 90% RUSACCOs				
	9. Percentage of partner MFIs and RUSACCOs with 25% reduction in operating costs							
	%	0	75% MFIs; 50% RUSACCOs	95% MFIs; 90% RUSACCOs				
Output 1.1 Social performance& customer protection practices adopted	**10. Number of RFIs with effective social and customer protection policies**				Data from RFIs – reported by AEMFI and FCA	Yearly/Mid-term	PCMU	RFI are willing to adopt practices (A)
	%. of RFI	10%	50%	100%				
Output 1.2 MIS/M&E improved from scaling up of RUFIP-II IT and MIS	**11. Number of RFIs with industry standard MIS/M&E**							
	No RFI	50 Rusacco Unions[3] 20 MFI	100 Rusacco unions 35 MFI	140 Rusacco unions 100% MFIs				
Output 1.3 Capacity and financial resources of MFIs and LFIs to provide financial access to farmers,	**12. Percentage increase of number of farmers as clients of financial entities in the park catchment areas supported by the Project (disaggregated by sex)**				RFIs M&E and reporting on lending portfolio against targets	Yearly/Mid-term	PCMU	
	% increase	*	15%	40% (to be decided				

[2] 50% female, 10% youth
*The values are to be taken from baseline survey data.
[3] In case of RuSACCOS, IT enabled MIS is being implemented at the Union level.

Results Hierarchy	Indicators				Means of Verification			Assumptions (A) / R
	Name	Baseline	Mid-Term	Project End Target	Source	Frequency	Responsibility	
cooperatives, unions and SMEs operating in the value chains and in the AIPs are increased*** (PROSEAD).				with PROSEAD)				
Output 1.4. Industry expertise augmented	**13. Appropriate staff in place to deal with targeting, customer protection and diversified products**							
	% of RFI having expert staff	0	60%	90%				
Outcome 2 **Wider offer of services and products responsive to customer needs**	**14. New/modified services and products developed and marketed in response to customer needs**[4]				DBE quarterly reports, annual reports	Yearly/Mid-term and completion	PCMU	
	% of RFIs offering new products	0	50%	90%				
Output 2.1. Funding from financial institutions and other programs mobilised	**15. Number of RFI accessing financing from other sources**				RFIs reports, FCA, AEMFI	Yearly/Mid-term	PCMU	
	No. of MFIs	*	50%	80%				
	% increase							
Outcome 3 **Effective Financial inclusion for marginalised people and regions****	**16. Increase in clients in underserved regions**				Poverty tracking tool results, Annual Outcome surveys	Annually	PCMU	Sound industry reporting
	% increase	*	Annual increase of 25%	Annual increase of 25%				
	17. Percentage of marginalised people/households reporting using rural financial services**				Annual Outcome surveys	Yearly/Mid-term and completion	PCMU	
	% of HH	*	25% annual increase	25% annual increase				
	18. Number of marginalised woredas covered by partner rural financial services**				Outcome surveys RFIs annual reports	Yearly/Mid-term and completion	PCMU	
	No. of woredas	*		Cover 75 % of such woredas				
Output 3.1 Access to loanable funds for RFI improved and criteria made more equitable	**19. Percentage increase of medium and small RFI accessing LoC**							
	% of MFIs % of RuSACCOs	80% *	85% 50%	90% 75%				
Output 3.2 Establishment and implementation of partnerships with other government and PTF initiatives working with under-deserved regions and marginalized people	**20. Partnership coordination framework**							
	Number of Clients referred to by other partner/projects working with under-deserved regions and marginalized people	nil	1.600.000	3.200.000				
Output 3.3 **Nutrition of vulnerable households improved**	**21. Percentage of households starting backyard/kitchen garden as a results of the trainings received.**	0	25%	50%				

[4] Market research, product development, Product marketing
* The values are to be taken from baseline survey data

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Annex 9 – Integrated Risk Framework

Risk categories	Risk Probability	Risk Impact	Mitigations/comments
1. Political and governance	Medium	High	Continuous communication with governments, training on governance
2. Macroeconomic	Low	High	
3. Sector strategies and policies	Low	High	Capacity building of NBE and FCA
4. Technical aspects of project or program	Low	Low	The project features are very familiar to implementing RFIs. Design defects if any, are remediable.
5. Institutional capacity for implementation and sustainability	Medium	Low	Capacity building for RFIs, new products and processes for business diversification
6. Financial management	Medium	High	Risk: Use of MS Excel for accounting data processing and reporting poses a risk of data loss, delays in reporting, errors and fraud. Mitigation: Procure and install an off the self -accounting software with a modified chart of accounts coded to accommodate accounting and reporting needs of RUFIP III has and this will be one of the financing covenants. Risk: Many implementing agencies with wide geographical spread and limited capacities posing a risk low disbursement as a result of delays in justification and potential ineligible expenditure. Mitigation: Funds flow arrangements for the financial cooperative sector aligned to the proposed role of FCA in the implementation arrangements and last point of receipt of funds in the sector put at Financial Cooperative Union rather than Woreda level. A full time, dedicated accountant for RUFIP III, recruited competitively and on fixed contract provided for to boost financial management capacity at FCA. Risk: Poor quality AWPB often submitted late. Mitigation: RUFIP III M & E officer will take the lead in AWPB preparations and consolidations in consultation with finance staff. Common coding of chart of accounts and M & E system to facilitate common reporting and comparison of financial and physical progress IFAD will support training on AWPB preparation as part of the start-up activities to improve quality of AWPBs Risk: Poor quality audit reports characterized by insufficient disclosures, failure to follow financial reporting standards and absence of management letters. Mitigation: PCMU will have to consolidate and provide the auditors with complete set of financial statements with all the disclosures in compliance with International Public Sector Accounting Standards (IPSAS) or IFRS as appropriate at most three months following end of fiscal year to facilitate audit report submission no later than six months following end of the fiscal year. Terms of Reference for audit will clearly specify IFAD audit requirements and will be subject to IFAD No objection.

Risk categories	Risk Probability	Risk Impact	Mitigations/comments
7. Procurement	Medium	Medium	Training, hiring of a specialist
8. Stakeholders	Low	Low	With coverage of about 40% of country's population, very few complaints are likely.
9. Environment and social	Low	Medium	Awareness creation in RFIs on financing of sensitive proposals
Overall	Low	Medium	

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Annex 10 – Exit strategy

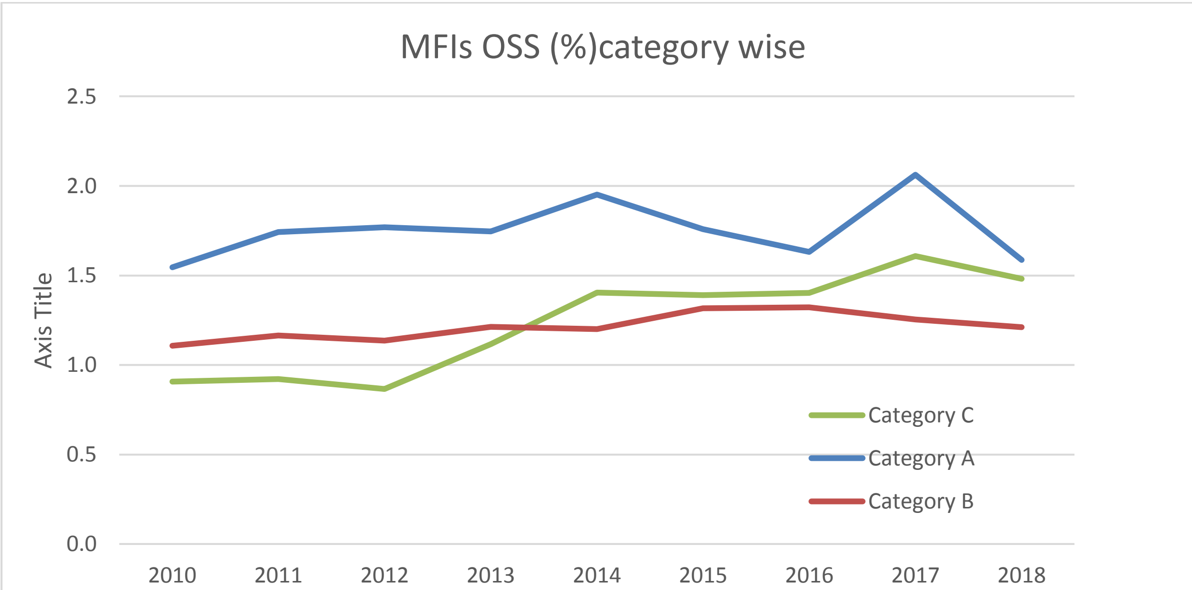
Annex 10: Exit Strategy

1. This being the third phase of RUFIP, the project will focus or orderly exit. This requires that the project interventions and supported institutions continue on their own at the end of the project. The project seeks to develop a vibrant, growing rural finance sector that can function autonomously in terms of raising resources, investing in sound systems and processes, skilling the human resources and continually changing in response to emerging needs. Since the implementing partners are financial institutions their form and business models are structured with continuous long term operations in mind. The project seeks to improve upon their long term goals and operational efficiencies and strengthen the regulators to provide, sound and enabling oversight.

2. One critical aspect for exit is the resource sustainability of RFIs. The RFIs need to secure their sources of funds over the project period to move away from dependence of externally funded credit lines. For this RFIs need to diversify sources of funds for onlending. The project will introduce a guarantee fund that will continue even after the end of the project. The fund will provide guarantees for loans (in the short-term), bonds, debentures and other instruments on behalf of RFIs, so that access funds from different domestic and foreign financial institutions. The conditions for availing LOC from RUFIP will also require some of the larger MFIs to raise more resources from outside the LOC for continuing loan business in their existing customers and branches. With the interventions both from the demand and supply sides RUFIP will influence diversification of loan sources in RFIs.

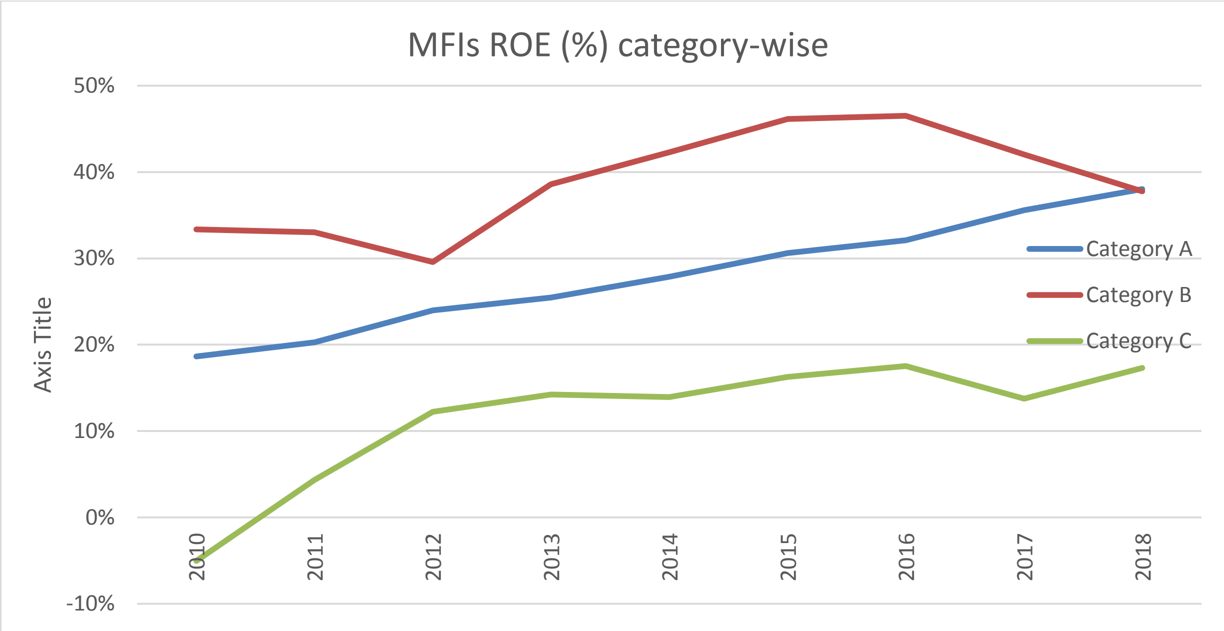
3. The second aspect at exit will be the financial sustainability of the implementing RFIs. Within RFIs, most MFIs work on profitable lines with ability to cover their costs and generates surpluses as reflected in their return on assets. Some MFIs, especially smaller ones set up recently are yet to achieve profitability. Even with operational sustainability, the MFIs can be at risk unless their systems and processes are strengthened, product portfolio is diversified, sources of funds are streamlined and technology of operations is upgraded to facilitate their entry in national payments system. The long term credit line will provide stability to operations, ensure adequate surplus is generated for retention as capital and serve as a key instrument of financial sustainability.. IT enablement that began during RUFIP II will be carried forward to cover all remaining MFIs and RUSACCOS to strengthen their operational capacities in accounting and MIS, which again is a key sustainability promoting intervention. The current operations of the MFIs are highly profitable with consolidated ROA of the sector exceeding 4%. As customer protection measures get implemented and with increased competition arising from scaling up, the interest rates to the clients are expected to decline. The project sensitivity analysis shows that the profitability and viability of MFIs will not be impacted by reduction in yield rates. While RUFIP LOC is priced at 8%, this is more expensive than the interest rate of 6% offered on savings by MFIs. This is intended to reduce reliance on LOC and increase focus on savings mobilization effort.

Operational Self sufficiency of MFIs

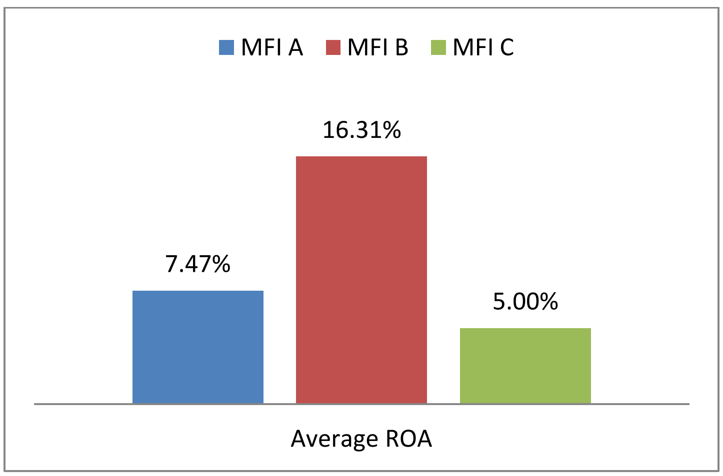


4. MFIs in the large, medium and small categories have all been achieving full operational cost recovery and posting surpluses. In the initial years, smaller MFIs have problems of profitability, but after a five year period, the MFIs are able to become operationally sustainable. Similarly in terms of Return on Equity, all categories of MFIs have posted good numbers. The following chart shows again that the smaller MFIs struggle in the initial years, but with increased business they are able to stabilize. The last chart on Return on Assets indicates the strong performance of MFIs and their ability become financially sound at the current level. With RUFIP III support when they scale up, they will be able to serve the poor and vulnerably over the long term on account of their sustainability. The capacity building measures, customer focus initiatives and diversified resource base will ensure the continuity of services. The operations of MFIs shows that the business can be profitable and with scale they achieve operational efficiency and productivity, which is not impacted significantly by fluctuations in the market.

5. In case of RuSACCOs, adequate information flow is presently lacking. The work on computerized information system at Union level during RUFIP is envisaged to be scaled up to cover all RuSACCOs. FCA will be able to access data each month/quarter and based on the computerized MIS for taking timely decisions on support initiatives needed by the RuSACCOs. RuSACCOs require much more support to become member-driven, sustainable institutions. FCA is charged with the responsibility for Cooperatives along with an adequate capacity building budget. FCA's capacity to supervise and guide the financial cooperatives has also been undermined.



Category wise comparison of last nine years average ROA of MFIs



6. The third aspect at exit is the fit, adequacy and relevance of Regulation the RFIs in the overall context of financial inclusion. RFIs can function well in a regulatory environment that is positive, encouraging innovations and seeks to balance institutional soundness with customer protection. Component 2 principally addresses regulatory capacity of NBE and FCA for RFI sector development, good market conduct of RFIs and establishing evidence based regulation that relies on improved MIS and reporting. The capacity building at FCA level will make it focus on RuSACCO sustainability through regulation, supervision and institution building initiatives. Setting up of benchmarks and handholding the RuSACCOs through their unions to achieve the benchmarks would be key approaches followed by FCA.

7. RuSACCOs will need an institutional framework at the apex level to support their future growth and stabilization. A provision for supporting creation of an apex organization for the financial cooperatives has been made, in recognition that some technical support has

already been provided by the ILCUF. FCA will continue exploring the best ways of setting up the apex organization and take necessary steps. In case of regulators (NBE and FCA) the interventions support upgrading human skills necessary for regulation, study of several aspects of financial sector where regulators need to creating an enabling environment for rural finance.

8. The fourth key aspect at exit is the customer focus and responsible finance practice by RFIs. Apart from regulatory guidance on customer sensitivity, RFIs will have capacity building initiatives supported by in-house staff ensuring that the internal processes are appropriately oriented in the right direction. Monitoring of customer protection and responsible finance is envisaged, based on a mix of targeting and business data. The capacity building measures will improve skill levels, enable introduction of new products and processes and invest in financial literacy among clients, These initiatives strengthen customer protection levels and social performance practice, thereby promoting customer sustainability. The diversification in to insurance distribution on behalf of insurance companies will introduce a new revenue stream and more importantly provide a risk mitigation facility to clients and reduce their vulnerability to shocks. The introduction of microleasing will increase product range for rural customers apart from strengthening revenue lines of the RFIs.

9. In summary, the design of the project does not create dependencies on the programme as has been evidenced during RUFIP II.

10. The design promotes sustainability of clients and RFIs from the beginning as an exit strategy. The exit strategies are built in to project design and not as a separate set of measures towards the end of the project. The progress on each of the aspects relating to sustainability is planned to be measured and reviewed either as part of the log frame or at lower levels of project review depending on the criticality and time-sensitivity for remedial actions. RUFIP will almost double the number of customers and increase access to finance manifold. While the expansion and scaling up is a natural outcome of the project, the improvements in i) customer’s interface with RFIs, ii) RFIs operational performance, iii) RFIs with regard to diversified sources of finance and iv) inclusive, supportive regulatory practice that enables RFIs to focus on customers are the outcomes valued most from the point of view of all round sustainability and orderly exit.

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Annex 11 – Assessment of Demand for Financial Services

Annex 11 Assessment of Demand for Financial Services

1. **The macro scenario**. As per the Global Findex Database (2017), only 32% of rural adults aged 15+ had accounts with financial institutions in Ethiopia. The Database further revealed that 25% of rural adults aged 15+ saved in financial institutions and only 12% borrowed from them. An additional 8% borrowed from Savings Clubs. Assuming that 79% of the population lived in rural areas, close to 30 million adults in rural Ethiopia were yet not serviced by financial institutions. Further, close to 35 million rural adult population did not have access to loans from financial institutions or savings clubs. Assuming 2.6 adults per household, close to 14 million rural households will serve as prospective borrowers.

2. In 2018, an estimated 5.13 million customers as borrowers were active with the MFIs. Even if double counting of members with multiple loans and those dealing with more than one MFI are excluded, MFIs would account for 5 million unique customers. In addition, RUSACCOs were lending to 0.15 million members. Taken together, the RFIs were lending to 5.15 million clients. Assuming that each of these clients belonged to individual households, then 5.15 million households are being financed by RFIs ,at present.

3. If 40% of the 14 million prospective borrower households are assumed to be financed during RUFIP III, then an additional 6 million households will be part of the programme. Assuming one borrower per household, an estimated 11million borrowers, representing 11 million households will have to be covered during RUFIP III. The MFIs can cover 10 million clients and RUSACCOs, the balance 1 million clients. The outreach of the programme including direct and indirect beneficiaries (including savers) will be around 62.2 million people. Indirect beneficiaries will include the borrower's family, an average household size of 5.2 is assumed for rural Ethiopia.[1]

MFIs

4. For the MFIs, from a level of ETB per capita of 4482.86 in 2014, the average loan size had increased to ETB 8769.44 in 2018 at a CAGR of 18%. If the growth rate continues to be steady, by 2025, the average loan size would reach a level of ETB 27,935. In real terms, a loan of ETB 27,935 in 2017, indexed at 10% inflation to 2018 prices, will be the equivalent of ETB 14,335 in 2010, which is about ETB 5566 more than the existing average loan.

Table1: Growth Rates of Average Loan Per Capita

	2014	2015	2016	2017	2018	CAGR	
Average Loans (ETB)	4,482.86	5,111.79	5,820.73	6,893.52	8,769.44	18%	
Average Savings (ETB)	1,444.00	1,510.00	1,467.00	1,535.00	1,874.00	7%	
	2019	2020	2021	2022	2023	2024	2025
Average Loans ETB (Nominal)	10348	12211	14408	17002	20062	23674	27935
Average Loans ETB (2018 prices)	9407	10091	10825	11613	12457	13363	14335

[1] LSMS – Integrated Surveys on agriculture Ethiopia Socioeconomic Survey 2015-16 (ESS)

5. The ideal loan size is typically for tiny enterprise activities for which the demand is likely to be from about 30%[2]of the customers that are enterprise oriented with risk- taking ability. The demand from the other customers would be at around 65% of this level. In 2018, the average loan size for enterprises is around ETB 11,615 and the average loans to other customers is around ETB 7,550.

Demand for credit

6. An analysis of the macro factors in demand, based on underserved population, banking spread and the potential for MFIs to expand provide a sufficient basis for assuming that acquisition of 5.25 million new customers by MFIs is possible. The demand projections, based on the foregoing analysis in 2018 prices (indexed to inflation rate of 10%)and on nominal terms are presented in the following tables.

Table2: Demand projections 2025(Real)

Total number of customers requiring loans (million)	10.25
Of which tiny enterprises requiring larger loans (million) (30%)	3.08
70% requiring smaller loans (million)	7.18
Loan demands for larger loans (million)(Real average loan 18,986 ETB)	58382
Loan demands for smaller loans (million)(Real average loan 12,342 ETB)	88553.85
Total demand (million ETB)	146936
Average Loan per customer (Real)ETB	14335

Table3: Demand projections 2025 (Nominal)

Total number of customers requiring loans (million)*	10.25
Of which tiny enterprises requiring larger loans (million) (30%)	3.08
70% requiring smaller loans (million)	7.18
Loan demands for larger loans (million) (Nominal average loan 36,999 ETB)	113772
Loan demands for smaller loans (million) (Nominal average loan 24,050 ETB)	172559
Total demand (million ETB)	286331
Average Loan per customer (Nominal)ETB	27935

7. Based on these projections, a loan demand of ETB 286 billion will be required to be met by the MFIs during RUFIP III. In real terms, this will be equivalent to a demand of ETB 147 billion in 2018 prices (adjusted at 10% inflation).

[2] Different studies in emerging economies have found that 25% to 40% of rural populations take up enterprise activities under development projects and credit programmes. 3.
http://www.un.org/en/development/desa/population/publications/pdf/ageing/household_size_and_composition_around_the_world_2017_data_booklet.pdf

The current position of microfinance loans in the macro context is provided in the following table[3].

Table4 : Significance of Bank Credit and Microfinance in the Macro Economy

ETB bn

	2014-15	2015-16	2016-17	2017-18
GDP – current prices (BRR-B)	1297.96	1528.1	1806.7	
Net bank credit O/S	232.82	280.3	365.6	448.9
Net bank credit O/S – other than to government	217.31	263.9	323	394.6
MFI loans O/S	16.85	21.83	25.20	32.40
Net bank credit as % of GDP	18%	18%	20%	
MFI loans as % GDP	1.30%	1.43%	1.39%	
MFI Loans as % net bank credit (other than to government)	7.75%	8.27%	7.80%	8.21%

Note : GDP data for 2017-18 needs to be updated

8. The ratio of bank credit to GDP is comparatively low in Ethiopia as compared to the Sub- Saharan country average. Several other countries in African continent, such as Namibia, Kenya, Tonga and Senegal had higher credit to GDP ratios. Microfinance loans are significant at approximately 8% of bank credit to private sector and individuals. In terms of credit outreach, the numbers of loan clients serviced by MFIs in September 2018 stood at 5.3 million, far outstripping the 246,724 borrowers serviced by the Banks.

9. The demand side analysis shows that the demand for microfinance, especially loans is large and perhaps, beyond the immediate capacities of microfinance sector, even with continuing support from RUFIP III. While the existing institutional architecture in the banking system is not in a position to meet any part of the micro and rural finance demand directly, rural financial cooperatives can meet a small part of this demand. Thus, a substantial proportion of the demand for loans from the rural sector will continue to be met by the microfinance Institutions sector in the coming years. RUFIP III, like its predecessor RUFIP II, has a critical role to play in developing the organizational, technical and financial capacities of the MFIs.

Institutional Capacity to Supply

10. The consolidated data provided by NBE depicting the actual supply position in 2018 and the projections made by the sector in terms of loans and savings is given below:

[3] Computed from basic data in NBE annual report.

Table 5: Business Projections Made by MFIs

Aspect	2018 actual	2019 projection	2025 projection - extrapolation for the sector
Outreach million (borrowers)	5.13	5.55	8.81
Saving accounts	17.72	21.62	71.3
Savings ETB mill	33,213.12	43104.13	208055.4
Loans ETB mill	43,772.36	55989.7	246245.29
Average savings	1,874.00	2007.66	3012.96
Average loan	8,769.44	10381.74	28026.07

11. The projections made by NBE are based on the actual growth trajectory of outreach, savings and loans observed during the period 2014-2018. The growth rate assumed for client expansion is 8%, while loans outstanding and savings are expected to grow at 28% and 30% respectively. The per capita loan size is expected to grow at 18%, higher than the estimated 10% inflation; indicating an increase in the real size of loans and a shift towards a higher proportion of large loans to tiny enterprises, small businesses and production credit.

12. In order to understand the capacity of microfinance institutions to meet the demand for increased credit in the coming years ,the MFIs were segregated, based on a categorisation of MFIs made by the NBE on the basis of their capital and business parameters. The average business size (Business per MFI) of the three categories of MFIs is summarised below:

Table 6: Average Business of 3 categories of MFIs

	Category A(5 MFIs)	Category B(13 MFIs)	Category C(18 MFIs)
Active borrowers per MFI	891410	29675	6838
Loans outstanding per MFI (million ETB)	7650	185	98
Savings per MFI (million ETB)	5311	90	45
Total Assets per MFI (million ETB)	11176	254	131
Capital per MFI (million ETB)	2354	84	33

13. The business projections for each category of MFIs were made to determine the size of the loan portfolio, the extent to which it can be funded by their own resources and their requirement of external borrowings to fund their portfolio. The projections for the three categories of MFIs are given below. The MFIs in all the three categories show a gap in resources of up to 60% of their net worth, which will have to be bridged to meet their expansion plans.

Table 7: Business Projection for the three categories of MFIs

	Category A		Category B		Category C	
	2018	2025	2018	2025	2018	2025
Clients	4450000	8751569	356000	1074896	116000	423529
Avg loan	8600	22000	6260	18000	14000	17500
Avg Savings	5805	14850	4226	12150	9450	11813
Total loans OS (borr client*avg loan) (Million ETB)	38270	192535	2229	19348	1624	7412
Total Savings OS (50% of assets)(Million ETB)	25832	129961	1504	13060	1096	5003
Total Assets (135% of loans)(Million ETB)	51665	259922	3009	26120	2192	10006
Capital (15% of assets)/ networth (Million ETB)	7750	38988	451	3918	329	1501
Borrowings (Million ETB)	4688	23585	273	2370	199	908
Borrowings in (Million USD)	167	842	10	85	7	32

14. The year- wise projection for the three categories of MFIs giving the growth in business during 2019-2025 and the institutional capacity to fund the expansion is given in the Annexure.(to be added). Together all the MFIs across categories would cover 10.25 million borrowers. For dispensing loans of an average size of around 21000 ETB, the MFIs would require upwards of 200,000 million ETB. Their savings and capital funds will, however, cover only 88% of their fund requirements. The borrowings required are given in the table below:

Table 8: Borrowings requirement of MFIs

	2018	2025
Clients (millions)	5	10.25
Avg loan	8588	21395
Avg Savings	5777	14441
Total loans OS (borr client*avg loan) (Million ETB)	42123	219294
Total Savings OS (50% of assets)(Million ETB)	28433	148024
Total Assets (135% of loans)(Million ETB)	56865	296047
Capital (15% of assets)/ networth (Million ETB)	8530	44407
Borrowings (Million ETB)	5160	26864
Borrowings in (Million USD)	184	959

15. Diversified sources for accessing bulk funds should be created for MFIs to meet the large needs of growth. As the sector grows very large, it may not be able to depend on sheltered borrowings guaranteed by the governments. Nor can it rely on donated equity. Market- based options for equity , loan funds ,co-financing and guaranteed funds should be created so as reduce the costs of funds and continued growth in operations. Issues relating to dividend distribution, broad -basing ownership and the connected taxability issues need to be resolved as MFIs attain mega-size. Deposit protection for savers(deposit insurance or deposit safety and institutional protection fund) is an aspect of customer protection that should be prioritised as the sector enters an aggressive phase of savings mobilisation.

Cooperatives

16. As on June 2018, there were 11,267 RUSACCOs[4] providing loans to the extent of 4750 ETB to its members. 95 percent of the RUSACCOs were concentrated in the Trigay, Amhara, Oromiya and SNNP regions, the balance 5% was spread over the regions of Afar, B/Gumuz, Gambella and Somale. The demand analysis, therefore, differentiates between the two groups of regions and analyses the growth in business over the tenure of RUFIP III.

17. In Region 1 (Tigray, Amhara, Oromiya and SNNP), the average loan rose from 2445 ETB at the end of RUFIP I to 9875 ETB in 2018; whereas in Region 2 (Afar, B/Gumuz, Gambella and Somale), the average loan rose from 567 ETB to 2707 ETB during the same period. Projecting forward, for the duration of RUFIP III, the average loan is expected to grow at a CAGR of 12% to 22006 ETB in 2025 in Region 1 and to 17348 in Region 2 at a CAGR of 30%.In real terms, a loan of 9871 ETB in 2018 in Region 1, indexed at 10% inflation, will grow to 11,498 and, in Region 2, a loan of 2707 ETB in 2018 will be 8902 ETB.
Table 9: Projected average savings and loans per RUSACCO member

Average savings (ETB Nominal)	2018	2019	2020	2021	2022	2023	2024	2025
Region 1	1838	2114	2431	2795	3215	3793	4476	5282
Region 2	1034	1179	1344	1532	1746	1991	2270	2587

Average Loan (ETB nominal)	2018	2019	2020	2021	2022	2023	2024	2025
Region 1	9871	11352	12714	14240	15948	17862	20005	22006
Region 2	2707	4061	5685	7106	8882	11103	13879	17348

Average Loan (ETB real)	2018	2019	2020	2021	2022	2023	2024	2025
Region 1	9871	10320	10507	10698	10893	11091	11293	11498
Region 2	2707	3691	4698	5339	6067	6894	7834	8902

[4] In addition there are close to 103RUSACCO Unions, but they have not been considered for the purpose of this analysis.

Demand analysis

18. The membership in RUSACCOs are expected to grow from 1.9 million in 2018 to 3.3 million in 2025. It is expected that there will be fresh demand for loans from at least 30% of the 1.4 million new members, in addition to demand for loans from existing members. Overall, the RUSACCOs are expected to service the demand for loans from close to one million members, of which 400,000 will be new members. To understand the demand from the two region groupings, the loans outstanding for the duration of RUFIP III has been projected.

Table10: Demand for Loans (in nominal terms)

Region 1	2 025
Projected Borrowers	965 160
Loan per capita(ETB)	22 006
Loans O/S	21 239 310 960
Loan O/S in million ETB	21 239
Region 2	
Projected Borrowers	32 580
Loans per Capita (ETB)	17 348
Loans O/S	565 197 840
Loan O/S in million ETB	565
Total loans O/S	21 804 508 800
Loans in million ETB	21 805
Loan in USD	778 732 457
Demand for loans (million USD)	779

Table 11 Demand for Loans (in real terms)

Region 1	2 025
Projected Borrowers	965 160
Loan per capta(ETB)	11 498
Loans O/S	11 097 409 680
Loan O/S in million ETB	9 427
Region 2	
Projected Borrowers	32 580
Loans per Capita (ETB)	8 902
Loans O/S	290 027 160
Loan O/S in million ETB	290
Total loans O/S	11 387 436 840
Loans in million ETB	11 387
Loan in USD	406 694 173
Demand for loans (million USD)	407

19. The two regions will face a demand for loans to the extent of 18170 million ETB or 648 million dollars in 2025 in nominal terms. In real terms, this will amount to 9489 million ETB 338 million dollars in 2025. This is almost four times the amount of loans disbursed in 2018 and it may be challenging for the RUSACCOs to raise the amount by mobilising the savings

of its members. The average size of loans and savings indicate a wide variation, with per capita savings in Region 1 less than 24% of the per capital loan and close to 14% of the per capita loan in Region 2, indicating difficulty in mobilising sufficient savings for meeting the loan requirement of RUSACCO members.

Institutional Capacity to supply

20. The actual supply position in 2018 and the projections made by RUSACCOs in terms of loans and savings is given below:

Table 12: Business Projections for RUSACCOs

	2018	2019	2025
Borrowers	0.59	0.63	0.998
Members/ Savers	1.96	2.11	3.33
Savings ETB Million	3560	4425	17274
Loans ETB Million	5701	7097	21805
Average Savings	1821	2093	5194
Average Loans	9718	11186	21854

21. In order to give due weightage to regional requirements in the business projection, the demand for loans and the institutional capacity to support business expansion is worked out separately for the two regional groupings. Region 1 is expected to service 0.97 million borrowers and Region 2, around 30,000 borrowers in 2025. As the net savings and capital together can only fund 79 percent of the projected loan portfolio in Region 1 and 48 percent in Region 2, the RUSACCOs will have to resort to borrowings to the tune of 162million ETB in Region 1 and 11 million ETB in Region 2 respectively.

Table 13: Borrowings of RUSACCOs- Region 1 and 2

	Region 1		Region 2	
	2018	2025	2018	2025
Members/savers(million)	1.91	3.22	0.04	0.11
Borrowers (million)	0.57	0.97	0.01	0.03
Avg loan (ETB)	9871	22006	2707	17348
Avg Savings (ETB)	1838	5282	1034	2587
Total loans OS (borrowing client*avg loan) (million ETB)	5667	21239	34	565
Total Savings OS (million ETB)	3517	16993	43	281
20% liquidity on savings (million ETB)	703	3399	9	56
Net savings (million ETB)	2814	13595	34	225
Total Assets (million ETB)	7367	27611	44	735
Capital (million ETB)	834	3101	11	46
Borrowings (million ETB)	2019	4544	-12	295
Borrowings (million USD)	72	162	0	11

22. The consolidated borrowings by RUSACCOs projected for the period 2019-2025 is given below. It is expected that RUSACCOs will increase their loaning business by 69% from the current levels. Despite the increase in total savings and capital funds by more than three times that of 2018, there would be a shortfall in meeting the demand for loans by RUSACCO members. In order to make good this shortfall, a total of 4839 million ETB or an equivalent amount of 173 USD will be required to be borrowed by RUSACCOs.

Table 14 : Borrowings for RUSACCOs

	2018	2025
Members/savers(million)	1.96	3.33
Borrowers (million)	0.59	1.00
Avg loan (ETB)	9718	21854
Avg Savings (ETB)	1821	5194
Total loans OS (borrowing client*avg loan) (million ETB)	5701	21805
Total Savings OS (million ETB)	3560	17274
20% liquidity on savings (million ETB)	712	3455
Net savings (million ETB)	2848	13819
Total Assets (million ETB)	7411	28346
Capital (million ETB)	845	3147
Borrowings (million ETB)	2007	4839
Borrowings (million USD)	72	173

(1 US$ =28 ETB)

Conclusion:

23. RUFIP III aims at providing the requisite impetus to the flow of credit to rural households through cooperatives and microfinance institutions. Access to appropriate lending products are very important for poor households to manage their seasonal cash flows, smoothen their consumption, invest in income- generating agricultural inputs, small business activities, home improvement, invest in livestock and for emergencies.[5] While the MFIs and RUSACCOs have made commendable progress in terms of outreach during RUFIPI and II, the sector continues to require support for expanding and deepening their operations. As per the demand and supply analysis, during RUFIP III, a total of 11.25 million households are expected to avail of loans by 2025, the concluding year of the programme. Total loans of the RFIs are projected at touch 19635 million ETB, for which the institutions will have to raise resources by way of savings, capital funds and borrowings. Despite a healthy growth in savings and capital, the analysis reveals a shortfall of 31703 million ETBs which the institutions will have to fill by way of borrowings. The business projections for the MFIs and Cooperatives are presented in the table below.

[5]Financial Service Market Assessment – Desk Review Report (Final Draft) by Alema Woldemariam and GetachewMekonnin, ILCU Foundation

Table 15: Business Projection of MFIs and RUSACCOs

2025	MFIs	RUSACCOs	Aggregate
Savers	10.25	3.33	13.58
Borrowers (million)	10.25	1.00	11.25
Avg loan (ETB)	21395	21854	21431
Avg Savings (ETB)	14441	5194	12172
Total loans OS (borrowing client*avg loan) (million ETB)	219294	21805	241099
Total Savings OS (million ETB)	148024	17274	165298
20% liquidity on savings (million ETB)	29605	3455	33060
Net savings (million ETB)[6]	118419	13819	131608
Total Assets (million ETB)	296047	28346	324393
Capital (million ETB)	44407	3147	47554
Borrowings (million ETB) to meet resource gap	26864	4839	31703
Borrowings (million USD) to meet resource gap	959	173	1132

[6] Net savings are arrived at after deducting liquidity requirements from total savings – i.e., 80% of total savings

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Annex 12 – Guarantee fund Facility

Annex 12 Guarantee fund facility

Credit Guarantee under RUFIP III

1. MFIs and Rusaccos are in a position to widen and deepen financial services across Ethiopia. The number of borrowers from MFIs and Rusaccos is projected to increase from more than 5 million in December 2018 to 13.5 million In December 2025. The credit demand arising from the increased clients as also the larger loans that people aspire for is estimated to be about ETB….. Million. The gap between the credit demand on the ground the available supply from different sources including RUFIP III funds is of the order of ETB 32712 Mn (USD1167 Mn). This gap has to be filled by domestic sources. Commercial banks, insurance companies and other financial entities might be able to fill the gap, but their willingness to lend is hampered by the lack of familiarity with MFI/Rusacco business and the consequent high risk perception.

2. About eight MFIs have been able to borrow from banks in public and private sectors, some of them did so under a guarantee. The guarantees in those cases led to a lower rate of interest, making the loan to ultimate clients affordable. Taking a cue from the guarantee arrangements of the past (though selective), RUFIP III proposes to set up a guarantee fund which will guarantee repayment of loans taken by MFIs from banks and other financial institutions.

3. **The Purpose:** The guarantee product/mechanism should enable MFIs and Rusaccos to access bulk funds through different modes and instruments from the rest of the financial sector.

4. **Need.** An assessment of appetite among banks to lend to MFIs/Rusaccos - and to what extent guarantee will catalyze such lending.

5. We had discussions with ICCO that has been working in Ethiopia for more than 10 years supporting MFIs and Russacos with TA to finance a number of value chains. They mentioned that the MFIs (especially the private sector ones) this and Russaccos are short of loanable funds and therefore our focus should be to find a solution for funds scarcity faced by MFIs through the guarantee facility or other ways or mechanisms.

6. ICCO Terrafina has been facilitating access to finance through guarantee mechanisms offered by Rabo bank to Commercial bank of Ethiopia (CBE) and Cooperative Bank of Oromia (CBO). However, the guarantee funds are limited due to issues of foreign exchange hence the need to use local mechanisms to avoid the adverse impact of foreign exchange.

7. **Structure:** The Credit Guarantee Scheme should be placed at the Development Bank of Ethiopia (DBE) because of its mandate as a specialized financial institution which provides financial services to agricultural and industrial development projects. This will create synergy with current RIFIP III proposed implementation arrangements and leverage on the funds that are available at the bank for that purpose.

8. The CGS should target commercial banks both public and private starting with Commercial Bank of Ethiopia (CBE) and the Cooperative Bank of Oromia because of the role they are already playing in the agricultural input and output financing. This will also be available to other banks that are interested to sign in

9. The Commercial banks would target to lend to MFIs and Russacos that are providing financial services to the target farmers and SMEs who are unable to access credit because of inadequate collateral, or the inherent risks of doing agricultural business perceived by lenders see as higher risk under their current credit risk evaluation practices or need for

refinancing caused by the need to grow in the market. This would augment the line of credit proposed under RUFIP III.

10. **Fund Size and potential.** The fund size should be incremental with starting amounts approximately $ 4.5 Million dollars. This fund could be sourced from AGRA funds matched by DBE at 1:2 yielding the 4.5 Million. As demand increases other sources could be brought on board to augment the funds. As explained in para 8, the potential to issue guarantees can be as high as ten times of the size of the fund, but realistically we can aim for eight times leverage. With commercial bank financing projected at USD 40 million, we might need a fund size of USD 5 Million. All this corpus need not be cash funded up-front, but can be contributed in from time to time in line with the usage level. If for example the initial corpus of USD 1.5 million is committed to issue guarantees to a level of about 65% then the next instalment of about USD 1.5 million may be added to the corpus and so on. Apart from AGRA, Rabobank is a possible partner for the fund. Since this fund will be based at DBE, there would be minimal additional costs to administer the funds under the RUFIP III implementation arrangements.

11. **Coverage and instruments.** The fund should be flexible in what is covered and therefore will not just limited to debt instruments. It should also look at the possibility of covering the issue of debentures or bonds by the MFIs that are secured by the loan receivables in their books. These bonds and debentures can be **guaranteed** by the fund for repayment. This would shift focus from individual institutions that lend to MFIs, but the debt instrument and facilitate many institutions to provide funds to the extent of their ability. Additional ways of raising funds by MFIs would be securitize the debt receivables from their customers and sell the same to banks and financial institutions. The securitized debt obligations of MFIs can be **guaranteed** by the Fund. In both these cases, apart from the guarantee, a primary security is also available which will encourage financial institutions to provide debt funds. These would be tested as we roll this out under the existing structure.

12. **Nature of cover and the underwriting risks.** Traditionally MFIs have been able to recover their loans from borrowers with a high degree of efficiency. The portfolio at risk (90 days) for the sector as a whole for the last five years has been less than 2%. With the low default risks, it should be possible to offer a "First Loss Default Guarantee" cover of up to 10% of the loan provided to the MFI by a bank or financial institution. The FLDG implies that default in repayment of the loan of up to 10% will be underwritten by the Guarantee. If the defaulted amount exceeds 10% of the loan, then the lender has to cover the excess. With FLDG limit set at 5 times of the observed default at the customer level, there should be wide acceptance among banks for this guarantee structure. FLDG at 10% of loan amount would also enable the guarantee fund to leverage the guarantee pool ten multiples. For example, if a guarantee fund pool of $ 5 million is established, it would be possible to guarantee loans of up to 50 $ million at any point of time.

13. MFIs can also float bonds and debentures that are guaranteed for repayment by the fund. This guarantee is done a variety of ways, following the same principles of FLDG. While the debt market in Ethiopia is not familiar with non-governmental entities floating bonds for raising resources, with the changes envisaged in the financial sector, it is more a question of when this will happen rather than if. Sale of securitized debt of MFIs to other financial institutions can be another source of raising funds for on-lending. Credit enhancements to securitized debt pools can be offered from the guarantee fund to provide additional collateral for those who buy the securitized debt. In short the Guarantee fund should not be a vanilla offering, but a forward looking mechanism that can support any kind of resource raising by RFIs from the rest of the financial sector.

14. **Partnerships and Technical Assistance.** Rabobank had in the past issued guarantees to enable some MFIs raise loans from commercial banks. They might have an interest in participating in the guarantee fund. They would also be able to bring in technical expertise that might be required at DBE to rund the guarantee facility. Hence this potential partnership should be explored.

15. It is absolutely critical that TA should be provided both to the financial instructions and the demand side. While RUFIP III already captures the interventions on the demand side there is need to provide for the supply side for this to work. Possible collaboration with Rabobank and ICCO will also be explored as they are already providing services in that area.

16. Other AGRA programmes that are working with Russaccos, Producer cooperatives and SMEs will also provide support to the system.

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Annex 13 – Insurance product mainstreaming strategy

Annex 13 – Insurance product mainstreaming strategy

Rural Insurance

1. Rural households need access to insurance products to reduce vulnerabilities arising from natural factors – such as deficient or excessive rains and life events – such as accidents, sickness and death. Further if insurance cover is available, it would enhance the ability of households to cope with risks that people face from time to time. While insurance companies have a variety of insurance products, the same are not always suited to rural households. Secondly, the insurance companies find it difficult to market insurance policies for small amounts to a large number of clients dispersed over remote areas cost effectively. Hence mainline insurance companies look to having partnerships with institutions that have a presence in the rural areas and thus able to market insurance products with low incremental costs. NBE has classified most rural insurance products under ***Microinsurance.***

> Focus groups' responses to prototypes were strong, and participants showed a strong preference for purchasing from more formal institutions such as MFIs and banks. A well-designed insurance product could draw new clients to such institutions, and potentially facilitate better access as well (e.g. by reducing collateral requirements or risk). [1]

2. Collection of the relatively small amounts of premium periodically is one of the challenges faced by the insurance companies. Secondly the lack of reach to the rural areas impedes prompt settlement of claims. If insurance companies are able to set up ground level presence that can get the applications completed and insurance premiums collected, without having to open their offices, they would be able to handle rural insurance business cost-effectively. MFIs and Financial cooperatives have a presence on the ground and continually handle money flows; thus best placed to market insurance products, collect premiums and assist the policy holder and the insurance company in case of claims. A number of emerging markets have seen insurer-MFI partnerships making available insurance products to vulnerable people.

3. In Ethiopia, some insurance companies have products suitable for rural population. Some of them have tried out pilot schemes involving crop, livestock, life and health insurance. (Nyala, Oromio Insurance, Abby insurance and Ethiopia Insurance are some examples). During the recent RUFIP III mission the possibility of insurance company marketing its products through MFIs and RUSACCO Unions was discussed with Oromio Insurance Company (OIC). The company was keen and had indicated that it has following products that are targeted at rural areas.

Multi-Peril Crop Insurance
Index Based Crop Insurance
Vegetation Index Crop Insurance
Index Based Livestock Insurance and
Multi-peril Livestock Insurance

4. Over the last eight years it has tested out products in the microinsurance space and covered over 34000 people for a sum assured of more than ETB 313 million. In a mailed response OIC had indicated " The agency arrangement can be concluded between the selected MFIs/Unions and the insurer by signing MOU. In that MOU roles and responsibility

[1] Excerpted from What People Want, Investigating insurance demand in Ethiopia – The World Bank Group 2018.

of each party will be clearly stated. The operation model can vary depending on the type of insurance product to be distributed and on the distribution channel we opt to use.”

5. Extant regulation allows Insurance Companies to utilize services of MFIs and Rusacco unions as insurance agents.

6. The MFIs and Rusacco unions would require select staff to be trained in insurance marketing as well as claims procedures. They would also look forward to a commission for marketing in line with usual industry practice. OIC already has worked with some MFIs and Rusaccos and hence familiar with partnership processes. RUFIP III would be required to support development of a framework for collaboration between insurance cos and RFIs, capacity building of MFIs and Rusaccos (with technical support from insurance companies), product customization to meet context specific requirements and insurance literacy campaign.

7. Currently credit-life insurance is offered on ‘own account’ by MFIs and Rusaccos and unions. Given the fact many MFIs and Rusacco unions are small with limited clientele, they would be not be able to manage risks (especially weather based covariant risks that impact multiple people in an area) and pay out the claims with the premia collected. Such institutions should be encouraged to either distribute credit-life product of an insurance company or avail reinsurance.

8. In terms of practical initial steps RUFIP III may start the engagement with OIC (and EIC, public sector insurer) and willing MFIs and Unions. The initial progress in this would attract other insurance companies and RFIs.

Market potential

9. The existing clients of MFIs and Rusaccos are all covered by credit-life insurance. RUFIP III aims at 11.25 million borrowing clients and more than 13 million clients including savers. Even if 25 % of these clients are covered under crop and livestock insurance, insurance penetration would have increased greatly in the country.

	No of clients for crop insurance Mn	Sum assured Crop ETB mn ETB (10000 /client)	No of clients for livestock insurance Mn	Sum assured cattle ETB (20000 per client)	
MFIs	2.5	25000	1.0	20000	About 25% of clients will take up crop insurance and 10% clients livestock insurance
Rusacco	0.30	3000	0.15	3000	About 30% and 15% of clients will take up crop and livestock insurance respectively

10. Given the climate risks and the vulnerabilities arising from natural calamities, insurance marketing is a key element in managing risks to livelihoods. Insurance marketing will not require additional manpower in RFIs to any significant extent. At best one person with insurance product and process knowledge might be required in the large and Medium MFIs; in case of smaller MFIs and credit unions, one of the staff members can be trained in insurance aspects so that she/he can take of insurance business. Agency commissions on insurance marketing introduce an additional revenue stream to MFIs and Rusaccos.

Activities

- Meeting between OIC/EIC and MFIs, FCA, Unions (with involvement of Director, Insurance of NBE)
- Development of guidelines on partnership and a draft MOU (comprising regions and *woredas* of coverage, products to be marketed, obligations of insurer and RFI, mechanism of premium collection and remittance, Claims settlement procedures and timelines, Commission payable to RFIs)
- Review of existing products and the need if any for adjustments, changes
- Training of RFI staff on insurance products to be marketed, procedures of enrolling clients, handling of premium collected, claim applications and supporting documents, periodic reporting to the insurer, etc.
- Rollout of marketing of products
- Setting targets in terms of number of persons to be covered, acreage for crop insurance, number of animals for livestock insurance and sum assured crop season-wise and year-wise
- Conduct of annual insurance workshops for MFIs and unions (by insurers with support of Director, insurance, NBE.

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Annex 14 – Line of credit eligibility criteria

Annex 14 Line of Credit – eligibility criteria

I. Eligibility Criteria for Credit Support to MFIs and Financial Cooperatives:

1) MFIs that have been in existence for three years can access LOC under RUFIP III.
2) The MFIs should have made profits in the preceding two years
3) The MFIs should have at least 1000 active clients.
4) The conditions stipulated for eligibility of MFIs and Financial Cooperatives for availing funds from Credit Component under RUFIP III can be categorized under two heads viz; (1)Based on financial performance and regulatory compliance ; (2) Rationing the funds release for minimizing regional imbalance , ensuring balanced/equitable funds flow to medium /small MFIs and Financial Cooperatives and meeting the needs of other excluded/vulnerable areas, where other projects of IFAD operate.
5) PaR 90 days should not exceed 5% of loans outstanding. This will be applicable to MFIs (big, medium or small), and Financial Cooperatives.
6) MFIs and Unions / RUSSACOs should have, at least, OSS of 100 %. Any RFI having OSS of 95% to 100% can avail LOC subject to providing an undertaking that it will comply with the 100% OSS requirement within one year from the date of undertaking. If the RFI does not fulfil this undertaking within the stipulated time, no further LOC should be allowed till the MFI achieves the OSS benchmark.
7) Statutory audit of MFIs and Union /RUSACCOs should be completed within 6 months from the closure of financial year.
8) The minimum paid up capital stipulated by NBE should be complied from time to time. 7.As per NBE directive in 2013, every MFI must obtain license for renewal of its business every year .If license is not renewed within one month, penalty provisions will be applicable. (In other countries, generally financial institutions continue till the license is not withdrawn). It implies, all MFIs-big or small holds a license for one year. We may therefore stipulate that every participating MFI must hold license &continue to renew periodically.
9) All the participating MFIs should comply with regulatory requirements such as CARR(12 %), exposure standards, liquidity ratio(20%), loan limits (individual 1% of Capital/group 4% of capital), maximum loan repayment period (5 years except housing for 15 years), fit and Proper Criteria for board, Interest rate directives,etc

10) A nodal person should be identified in the MFI to be responsible for meeting the requirements of RUFIP targeting strategy, social performance practices and customer protection aspects. The MFIs should also identify a nodal person to link clients of other projects and programmes in which access to finance is a requirement.

II Conditions for allocation of funds:

1) Large MFIs (with total assets exceeding ETB 4 billion at the end of previous fiscal year) will be able access funds only to the extent available from reflows of loans issued under RUFIP I and RUFIP II in respect of their existing clients.
2) The exception to the above rule would be in respect of credit expansion in underserved regions namely, Afar, Benishungul Gumuz, Gambrlla and Somali. Large MFIs will be able to access credit from LOC over and above the reflows. Large MFIs will also be eligible to access credit from LOC in respect of new clients acquired during the RUFIP III period from LOC over and above the reflows.
3) The Large MFIs should secure funding from other sources (excluding networth) at least to the extent of amount drawn from RUFIP III, before applying for the next tranche of funds. The Medium MFIs should secure funding from other sources (excluding networth) at least to the extent of 25% amount drawn from RUFIP III, before applying for the next tranche of funds.
4) Two disbursements will be made each year by DBE to large and Medium MFIs, after ensuring the funds released in the previous tranche has been fully utilized and that MFI has secured funds from other sources as indicated in rule 3.
5) Of the total yearly credit line budget, Rusaccos and Unions would be reserved a minimum of 25% during the first four years of the project. If their requirements during the year exceed 25% of the budget, the same will be prioritized.
6) The Small (less than ETB 100 million in assets) and Medium (ETB more than 100 million and upto ….MFIs will be reserved 10% and 15% of the budget each year.
7) The smaller MFIs and new MFIs operating substantially in rural areas will have to satisfy the following revised criteria for availing the credit line from DBE
8) The MFIs / Financial Cooperatives operating in the excluded/vulnerable regions/ pastoral areas and other areas where other projects of IFAD are implemented will not be subjected to restriction of funds.
9) Agencies operating in the remote rural areas as compared to those concentrating in urban areas should given due advantage. The agencies should indicate the extent of their rural branches, rural clientele and rural finance to have the benefit of such funds advantage under RUFIP III.
10) All agencies need to prepare Institutional and Business Plan for 3/ 6 years and updated annually and submit to PCMU.
11) 20% of funds would be earmarked for financial cooperatives
12) The unions may be classified in to A,B, and C ,based on performance parameters , with a view to facilitating more equitable distribution within cooperatives ,if considered necessary (as some of the Unions might become larger after 3-4 years). The classification can be reviewed annually.
13) Union/RUSACCOs should comply with regulatory prescriptions of FCA, e.g. equity not less than 20% of net assets ,exposure limits, governance standards (although prudential norms yet to be implemented).

14) Unions should be stipulated to comply with an obligation to link, supervise, guide and support RUSACCOs.
15) RUSACCOs/ unions will be offered loan terms and conditions similar to that of MFIs.
16) Allocation of funds for AIP catchment areas as also for leasing would be done as per the agreement with EU (PROSEAD) and EIB respectively.

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Annex 15 – Note on Impact of RUFIP on Lines of Credit

Annex 15: Note on Impact of RUFIP on Lives of Clients

1. The World Bank, in its seminal work**, Finance for All** points out that "since financial market imperfections play an important role in perpetuating inequalities, financial sector reforms that promote broader access to financial services need to be at the core of the development agenda. Indeed, if financial market frictions are not addressed redistribution may have to be endlessly repeated, which could result in damaging disincentives to work and save. …cross country data and evidence from specific policy experiments suggest that more-developed financial systems are associated with lower inequality.[1]" Ethiopia, with high poverty levels and low access to financial services for the poor and marginalized regions, required to build financial infrastructure that can sustainably serve the requirements of excluded people. RUFIP I and II were thus designed in the context of an acute need for building an inclusive rural financial sector which prioritized poor and vulnerable.

2. The performance of RUFIP over the last 15 years has been commendable in terms of providing access. While the well-organised and capitalized banking system did not focus on small clients either for loans or for savings, the microfinance sector comprising MFIs and RUSACCOs had, with RUFIP support, acquired more than 7 million clients at the end of 2018. In comparison, the commercial banks had a total borrower base of less than 0.25 million.

3. RUFIP I and II have an impressive outreach record as can be seen from the following table.

Indicator	Achievement	
	RUFIP I	RUFIP II
Number of savers million	3.3	7.09
Number of borrowers million	2.7	5.72
Amount of savings ETB bn	2.65	33.99
Amount of borrowings ETB bn	5.82	47.82
Number of MFIs	30	38
Number of RUSACCOs	5000	11267
Women clients %		45

4. Apart from achieving goals of financial inclusion RUFIP I and RUFIP II have had significant impact among the clients in terms of livelihood improvement. According to World Bank, *'Finance is at the core of the development process. Backed by solid empirical evidence, development practitioners are becoming increasingly convinced that efficient, well-functioning financial systems are crucial in channeling funds to the most productive uses and in allocating risks to those who can best bear them, thus boosting economic growth, improving opportunities and income distribution, and reducing poverty'[2].* Whether RUFIP I and II can provide evidence that supports the view of the World Bank is the subject of this note. IOE, IFAD had carried out an interim evaluation of RUFIP in 2011 as a part of which impact on clients was assessed. On poverty impact, the interim evaluation enquired in to income, assets, income generating activities, crop yields, housing and savings.

[1] Finance For All, Policies and Pitfalls in expanding access, 2008; A World Bank Policy Research Report- siteresources.worldbank.org/INTFINFORALL/ Resources / 4099583.../FFA_ch01.pdf
[2] Access to Finance and Development: Theory and Measurement, Chapter 1; Finance For All, A World Bank Policy Research Report- siteresources.worldbank.org/INTFINFORALL/ Resources / 4099583.../FFA_ch01.pdf

RUFIP impact indicators

Impact Indicators	2003 – 2010
% of households who reported an increase in income[1] (For control and treatment groups, and by gender for treatment group)	**Both genders:** Control: 48% Treatment: 65% Income increased by 76% **Treatment group, by gender:** Men:53% Women:58%
% of households who acquired assets (in the duration of the project) (disaggregated by asset) [1]	Domestic animals: 93% Modest consumer assets (e.g. radio, chairs, etc..) : 88% Agri. equipment and tools(beehives, pumps, etc..): 84% Land: 65%
Food security: % of households who are net sellers and net buyers of food (by treatment and control group)	**Control[3]:** Net buyers of food: 30% Net sellers of food: 19% **Treatment[4]:** Net buyers of food: 39% Net sellers of food: 29%
Improved food consumption (Consumption of cereals, vegetables, etc…): % of households who report improved food consumption	**Control:** 33% **Treatment:** 47%
Improved food consumption (Consumption of cereals, vegetables, etc…): % of households who report improved food consumption	**Control:** 33% **Treatment:** 47%
Improved housing	**60 to 93% in two different studies**

5. Considering the fact that RUFIP line of credit supported a small proportion of overall resources of the RFIs and the evaluation report rated the performance on household assets and income improvements as moderately satisfactory. The evaluation commented that it is not possible to directly attribute impact to RUFIP as ‘there is no mechanism to track the performance of RUFIP’s credit funds independently of other credit resources at the disposal of MFIs”. This is a specious argument as the general impacts caused by credit funds of any type would certainly be attributable to RUFIP credit funds as well. Attribution of all impacts to RUFIP might be flawed and RUFIP significance would be limited to its share of total funds flow to the RFIs. However the RUFIP had a catalytic role in galvanizing the RFIs, which led to other positive changes in products, processes and institutional systems through its capacity building efforts.

6. Several studies of the impact of MFIs, microfinance and savings services in Ethiopia had been carried out. The findings of the studies are discussed in the following paragraphs.

[3] Control = Recent MFI clients, covers client of 9 MFIs out of 19 supported MFIs of RUFIP I
[4] Treatment = Mature MFI clients; with same coverage as “control” group

7. The impact of microfinance on savings was studied among clients of ACSI by two researchers[5]. The report concluded that the client households were better off in terms of cash savings.

8. *The result of the descriptive and econometrics analysis of microfinance impact on rural household saving had shown that 70 % of the sample households practiced savings with average amount of 1,319 Birr. The remaining 30 % of the sampled respondents did not practice any form of savings. In the case of the first question of the study, the research result has showed that the impact of microfinance on total savings of rural households is statistically significant and an important in magnitude. Due to program participation, the intensity of household total savings had been increased by 436.03 Birr. In addition to program participation, variables including livestock holdings, land size, household education level (secondary education), household size and health related expenditure were found as significant explanatory variables of household total saving in the study area. Except health related expenditures, all significant variables impacted on household total saving positively. Particularly education level of household head has considerably large positive impact in magnitude. The regression result shows that the change in education level from base category (illiterate) to secondary education increases the intensity of household savings by 2261.85 Birr. This is directly related to the impact of education on financial literacy which could help households understand their saving situations better, save more, and attain higher economic status and more economic security. In the case of the second focus of this research, program participation has a positive and significant impact on household cash savings. Participation in microfinance increases the intensity of household cash savings by 283.26 Birr. However, the impact of participation on in-kind (non-financial) savings is not significant at least at 10 % level of significance. But its sign and magnitude indicates that participation in microfinance decreases the intensity of household non-financial savings by 146.83 Birr. The positive and significant impact of program participation on total household savings (cash saving plus in-kind saving) is a clear indictor for the risk aversions behavior of poor rural households through diversification of income sources (saving forms). Generally, from this research it can be concluded that rural poor households can save a considerable fraction of their income when they have access to financial institutions and there is a possibility to mobilize rural savings through financial intermediaries to narrow the resource gap which fosters capital formation of the country and accelerates economic growth.*

9. One study[6] focused on the impact of RUSACCO membership on food security and found that client households were able to improve food security. They were able spend adequately on food and other general consumption. *97% of members believe the RUSACCO helps them to improve their food security and 70% of non-members agreed that the RUSACCO improves its member well-being. In this study annual household total consumption expenditure and food expenditure are used as food security indicators. Membership is positively correlated with both indicators and significant at 99% level of confidence interval. The study results also confirm that membership has a significant and positive impact on households' food security. The overall average consumption expenditure of members is more than non-members in the range from 34.21 to 62.765 euro. The*

[5] The Impact of Microfinance on Household Saving: The Case of Amhara Credit and Saving Institution, Feres Bet Sub-Branch, Degadamot Woreda - Journal of Poverty, Investment and Development www.iiste.org ISSN 2422-846X An International Peer-reviewed Journal Vol.27, 2016 78 (https://www.researchgate.net/publication/322953380)

[6] The impact of saving and credit cooperatives on food security in the West Amhara Region of Ethiopia - Ayele Zemen Ayalew, University College of Cork, Ireland - https://cora.ucc.ie/bitstream/handle/10468/2019/Zemen's%20Thesis.pdf?sequence=1&isAllowed=y

average annual food expenditure gain due to joining a RUSACCO ranged from 28.46 to 43.98 euro.

Average Annual Food Expenditure of Households

Membership	Number of Respondents	Mean annual Food Expenditure in euro
Member	259	320.79
Non-member	253	252.78

10. A study went in to the impact of microfinance on households' incomes in Mekelle city[7], among the clients of DECSI, a large MFI funded under RUFIP. The study found that average incomes of participating households went up significantly compared to those who were not accessing credit.

11. *Participation in the micro credit service of DECSI has highly significant average effect on households' average monthly income. This is obvious that the average monthly incomes of households that get access to micro credit are fairly higher than those of households in all propensity score matching methods. Estimation results displays that ATT for households' average monthly consumption expenditure are fairly significant in all ATT estimation methods, except in the nearest neighbor method, ranging from 125.3 - 132.8. Hence, the hypothesis which says the presence of microcredit shall boost the average family consumption expenditures of borrowers is accepted at 5% level of significance. Household average monthly savings is another impact indicator used in this study. Based on the estimation results, the average effect on household average monthly savings is moderately improved in all ATT methods (from 66.4 for attnd at 10% significant level to 96.9 using attk at 5% significant level). Therefore, the hypothesis which says participation in micro credit increases savings of borrowers is accepted at 10% and 5% level of significance*

12. *The housing improvement of respondents is highly significant in all ATT methods and it is insignificant when applying the nearest neighbor method where t= 0.82 hence the average positive effect ranges from Birr 1,440 using atts to 1,499 using attk. This can be true because some of participants take the loan explicitly for the purpose of housing improvements. Thus, the researcher's hypothesis that says participation in microcredit improves the dwelling house of borrowers is accepted at 5% and 10% levels of significance.*

13. *With regard to investment in human capital development, expenditure on children education is moderately improved expressed by moderate average effect using all ATT methods but not the attk, which is insignificant. Then, the hypothesis which says participation in microcredit increases the expenditure on children education is accepted at 10% and 1% levels of significance.* The result of the study showed that participation in microcredit have had significant impact on the livelihood indicator variables such as average monthly income, consumption expenditure, savings of borrower households, expenditure on housing improvements, and investment on human capital development, particularly expenditure on children education and medical care (health) of borrower households.

[7] Impact of Micro Credit on the Livelihood of Borrowers: Evidence from Mekelle City, Ethiopia 1*Bekele Abraham Diro, 2Dereje Getachew Regasa Department of Accounting, Banking and Finance, Aksum University, Ethiopia 2Department of Cooperative Studies, Mekelle University, Ethiopia - Journal of Research in Economics and International Finance (JREIF) (ISSN: 2315-5671) Vol. 3(1) pp. 25-32, January, 2014 http://internationalresearchjournals.org/full-articles/impact-of-micro-credit-on-the-livelihood-of-borrowers-evidence-from-mekelle-city-ethiopia.pdf?view=inline

14. Impact of microfinance on incomes was also studied[8] in Oromia by a group of three researchers. They found that households with access to microfinance generated higher incomes through a combination of farm and off-farm activities. The difference in comes between MFI clients and others was of the order of 11%.

15. *The computed average treatment effect on treated result in **Table 8** indicated that microfinance credit has statistically significant effect on rural households' income. A positive value of average treatment effect on the treated (ATT) indicates that households' annual income has been improved as a result of microfinance credit intervention in the study area. Accordingly, participation in microfinance service has increased a total annual income the of participant households by ETB 2129.7 which is 11% higher than the income of non-participants. Moreover, the mean difference between participants and non-participants in terms of total annual income was significant at 1% significance level. (See following table).*

	Mean		
Variable	**Treated**	**Control**	**Difference**
Farm income	18,383.77	16,923.56	1,460.22
Non-farm income	8,216.06	6,553.87	1,662.19
Total income	21,502.11	19,372.14	2,129.97

16. Another study in Mekelle[9], indicated that most users of financial services of DECSI benefited from increased household assets, incomes and higher standard of living. The study concludes *"Debit Credit and Savings Institution (DECSI) role in Mekelle Branch has brought about positive changes in the standard of living of people who access their services. Although some of the clients have not benefited, most of the clients have benefited positively." (See following table)*

Effect of access to MFI on the household

Aspect	% of households reporting (sample size 210)
Improved standard of living	50%
Expansion of business	30%
Increase in assets	62%
Able to send to children to school	70%

17. The different studies in different geographies have concluded that there is a positive impact of microfinance on lives of clients. But as pointed out in the interim evaluation of RUFIP I, it is difficult to entirely attribute the positive impact to RUFIP as its significance to

[8] Analysing the Impact of Credit on Rural Households' Income in the Case of Cheliya District, West Shoa Zone, Oromia National Regional State, Ethiopia-Tadele Erena Geleta[1], Alelign Ademe Mengistu[1] and Solomon Amsalu Gesese[2*] - **Journal of Global Economics** J Glob Econ 2018, Vol 6(3): 304 https://www.omicsonline.org/open-access/analysing-the-impact-of-credit-on-rural-households-income-in-the-case-of-cheliya-district-west-shoa-zone-oromia-national-regional-2375-4389-1000304-105074.html

[9] The role of microfinance institutions on poverty alleviation in Ethiopia - Dr. D. Guruswamy Assistant Professor, Department of Accounting & Finance College of Business & Economics, Mekelle University, Mekelle, Ethiopia - Indian Journal of Commerce & Management Studies January 2012

overall resources deployed by RFIS is limited. But the contribution of RUFIP is important as it was catalytic.

18. Under RUFIP I and II the MIS and M&E systems had not been designed to gather periodic information on impact of the programme on clients lives. Under RUFIP III, the MIS would be geared to gather clearer targeting information. A poverty tracking tool (such as the Progress out of Poverty Index – PPI) will be deployed by MFIs to measure changes in key aspects of clients lives from which a poverty scorecard can be developed. Use of such a tool by the MFIs will provide information on what proportion of clients move up or down the poverty ladder annually. Further to this an annual outcome survey has been envisaged which will gather information from a representative sample of clients and non-clients (control group) on aspects such as savings, income, food security, housing, health, asset holding etc. This annual measurement will enable the programme to measure impact and come to conclusions both at mid-term and at the end.

IFAD
Investing in rural people

The Federal Democratic Republic of Ethiopia

Rural Financial Intermediation Programme – Phase III (RUFIP III)

Design report

Annex 16 – Environmental and Social Management Framework

International Fund for Agricultural Development (IFAD)

Rural Financial Intermediation Programme III RUFIP III)

Environmental and Social Management Framework (ESMF)
Second Draft

Addis Ababa-Ethiopia

May 2019

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List of Acronyms

AEMFIs	Association of Ethiopian Microfinance Institutions
CSA	Central Statistics Authority
DBE	Development Bank of Ethiopia
ESMF	Environmental and Social Management Framework
EA	Environmental Assessment
EMP	Environmental Management Program
EPA	Environmental Protection Authority
ESMF	Environmental and Social Management Framework
ESMP	Environmental and Social Management Plan
ESMS	Environmental and Social Management Systems
FCA	Federal Cooperative Agency
FDRE	The Federal Democratic Republic of Ethiopia
GHC	Grievance Hearing Committee
GRS	Grievance Redress Service
IFAD	International Food and Agricultural Development
Masl	Meters above sea level
NRFPSC	National Rural Finance Policy Steering Committee
EFCCC	Environment, Forest and Climate Change Commission
PAPs	Project affected Peoples
PAS	Peasant Association
PCRs	Physical Cultural Resources

PCMU	Project Coordination and Management Unit
PMC	Project Management Committee
PPE	Personal Protective Equipment
PSE	Private Sector Enterprises
RPF	Resettlement Policy Framework
RUFIP	Rural Financial Intermediation Programmme
RUSACCOs	Rural Savings and Credit Cooperation
SFA & RUFIP	Special Fund Administration and Rural Financial Intermediation Program
SNNPRS	Southern Nations, Nationalities and Peoples Regional State
TA	Technical Assistance
ToR	Terms of Reference

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Executive Summary

The overall goal of Rural Finance Intermediation Programme (RUFIP) is to contribute to the reduction of poverty in Ethiopia by providing rural households with increased and sustainable access to a range of financial services and products. RUFIP is one of the largest programmes of IFAD in Eastern and Southern Africa with Approximate cost of US $ 88.73 million for the first phase of RUFIP programme and an estimated cost of US$ 249 million for RUFIP II. The initial RUFIP Programme was implemented from 2003 to 2010 and RUFIP II started in 2012, with a completion date of June, 30, 2019.

Overall, RUFIP II, together with RUFIP I has had significant positive results in improving access to financial services to a rural population. Both programmes have contributed significantly to the development of the Ethiopian rural micro-finance sector, especially in strengthening of MFIs and RuSACCOs and their unions to remarkably improving outreach of relevant financial products and services to rural households. So far RUFIP programmes contributed in improving outreaches to approximately 7.63 million rural households by providing financial services through MFIs and RUSACCOs. Of those that received financial service 45 % of them were females and 55% males. Only 3.3 million rural households were receiving such service at the beginning of the programme.

In designing RUFIP III, issues such as improving financial literacy, creating employment to the youth, making rural finance institutions more robust, contributing inclusive rural transformation, capacity building at different government institutional levels, and programme management will be given special consideration and opportunities to link or coordinate with other IFAD and other development partners' interventions will be explored.

IFAD has availed resources for the purpose of increasing the flow of finance to the rural poor with the aim to reduce poverty and improve the quality of life of the poor people in the rural part of the country. The Development Bank of Ethiopia together with MFIs and RUSACCOs in the regions are assigned to implement RUFIP III.

Project Objective

RUFIP III is expected to scale up achievements and lessons learned from the two previous RUFIP programmes in order to increase outreach and results in rural poverty reduction of the targeted rural households. The primary objective of RUFIP III is to promote effective delivery and efficient, demand-driven financial services responsive to the needs of the rural poor including smallholder farmers.

Objective of the ESMF

RUFIP III could have limited adverse environmental and social impacts and climate related risks on the surrounding environment. This impacts and risks necessitated the preparation of ESMF that meets the requirements of the national guidelines and safeguard policies of IFAD.

The general objective of the Environmental and Social Management Framework (ESMF) is to indicate processes and guiding principles for assessing potential environmental and social impacts and climate risks when implementing RUFIP III. ESMF provides a comprehensive framework for environmental and social impact screening, assessment, and monitoring, consultations with concerned stakeholder groups and capacity building measures.

Study Methodology

Relevant information/data useful for the preparation of ESMF has been obtained from both primary and secondary sources. The methodologies adopted for the preparation of this ESMF include literature review; consultations and focal group discussions with key institutions, stakeholders, and beneficiaries. An account of the existing biophysical and social environment conditions were assembled from secondary sources and from physical observation and discussion with stakeholders and project beneficiaries and this information has been used to analyze impact of RUFIP III. The outcomes of the consultations with stakeholders and beneficiaries are summarized discussed under consultation section of this report.

Project Description

RUFIP III is aimed to develop a vibrant rural financial sector by providing financial support to rural institutions such as DBE, MFIs and RUSACCOs. RUFIP III has the following four components. Component 1 is dealing with capacity building of institutions and customers. Similarly, component 2 is dealing with the improvement of institutions, regulation and supervision, component 3 in building RFIs to enhance their business and component 4 on project management. Each of the components has sub components and these sub components are described in the project description section of this report.
RUFIP III is a national sector-wide investment that has been carefully conceptualized and enhanced through subsequent stages of formulation and appraisal and it seeks synergy with the country's national development policy in general and poverty reduction strategies in particular as well as and with other donors' initiatives working on similar projects. The project is prepared in line with IFAD's comparative advantage that focuses on 'enabling poor rural people to access the assets, services and opportunities they need to overcome poverty'. Besides providing support to the financial institutions and improving regulation and supervision part of the budget it will also be used to implement the following project activities.

- Enhancement of animal production such as animal breeding poultry and animal fattening
- Traditional abattoir practices
- Enhancement of food crop production using irrigation fertilizers and pesticides
- Agro processing /value addition on animal and crop products such as meat, and milk, fruits and vegetables.

Relevant National Policy, Legal and Administration Framework

According to Environmental, legislation and guideline development projects should be assessed in order to ensure that project activities are as much as possible in harmony with the environment. Relevant national policies as well as legal and administration framework have been reviewed and included to the ESMF report of RUFIP III.

IFAD's Social Environmental and Climate Assessment Procedure (SECAP)

According to SECAP guideline of IFAD all projects entering the pipeline are subject to an environmental, social and climate risk screening, and are assigned a risk category for environment and social standards (A, B, C) and for climate vulnerability (high, moderate, low).

- **Category B projects** must have a SECAP review note, including a matrix of the Environmental and Social Management Plan (ESMP) at the design stage. The identified social and environmental risks and opportunities management measures must be reflected in the project design and the project design report. The ESMP matrix must be integrated into the project's implementation manual or developed as a stand-alone guidance document for the project management unit late in the design stage or early in implementation.

- **Category A projects** must have an Environmental and Social Impact Assessment (ESIA) at the design stage (or relevant stage of implementation). The draft and final ESIA reports and other relevant documents must be disclosed in a timely and accessible manner at the quality assurance stage (or other stages during project implementation)
- **For all projects with a "moderate" climate risk classification**, a basic climate risk analysis must be conducted during the project design stage and included in the SECAP review note. Adaptation and mitigation measures must be mainstreamed into the project design and project design report.
- **For all projects with "high" climate risk classification**, an in-depth climate risk analysis must be conducted during project design and adaptation, and risk-mitigation measures must be mainstreamed into the project design and project design report.
- **For all projects with a "moderate" climate risk classification**, a basic climate risk analysis must be conducted during the project design stage and included in the SECAP review note. Adaptation and mitigation measures must be mainstreamed into the project design and project design report.
- **For all projects with "high" climate risk classification**, an in-depth climate risk analysis must be conducted during project design and adaptation, and risk-mitigation measures must be mainstreamed into the project design and project design report.
- **All projects entering the pipeline** are subject to an environmental, social and climate risk screening, and are assigned a risk category for environment and social standards (A, B, C) and for climate vulnerability (high, moderate, low) These findings, along with subsequent analysis and assessments, must be reflected in the project's SECAP review note. Projects with environment and social category "C" and climate risk "low" do not require any further analysis.

In line with good practice, SECAP ensures early consultation with communities and stakeholders that must be maintained throughout the life of the project, especially in high-risk projects.

Environmental Setting

Ethiopia is a landlocked country situated between 30 N and 150 N latitudes and 330 E and 480 E longitudes with a land mass of 1.13 million km2. It has a diverse topography ranging from 110 m below sea level in the Danakil depression in Afar Region to the Ras Dashen peak at 4,620 m high in the Simien highlands of North Gonder in Amhara Region.

Climate: The highlands generally have a temperate climate and cover about 50% of the total land area. The rest of the land is arid or semiarid. The highlands are the home of nearly 90% of Ethiopia's population that supports 75% of the national livestock herd; and, this account for 95% of the area under cultivation. More than 95% of agricultural production is based on dry-land farming and only 1.7% of the land classified as “arable land” is under permanent cultivation by the help of irrigation. Rainfall varies throughout the country, not only spatially but also temporally. Some areas of the south western highlands experience rainfall for most of the year (March to October), while rainfall in most of the rest of the country is during the main rainy season (Kiremt - July to September) and also during the short rains (Belg – March to May). Mean annual precipitation ranges from more than 2,200 mm in the south western highlands to less than 200 mm in the east and south east lowlands. Variation in temperature is mostly due to variation in elevation.

Population: Ethiopia is the second most populous country in Sub-Saharan Africa (SSA) with over 110 million people and a population growth rate of around 2.7% per year. Women account for about 48% of the population. Approximately 20% of households are headed by women. Almost 50% of the population is under 20 years of age. 85% of the population lives in rural area and they solely dependent on subsistence agriculture.

Agriculture is the mainstay of the economy accounting for about 42% of GDP, employing 80% of the labor force, and contributing about 90% of export earnings. Smallholder farmers account for about 96% of total agricultural production. Agriculture is dominated by a rain-fed (95%) with low-input and low-output subsistence farming system. Low agricultural productivity can be attributed, *inter alia*, due to severe land degradation, poor farming practices, de-forestation causing severe erosion, population pressure (human and livestock), perceived insecurity of land tenure, and variable rainfall.

Agricultural landscapes are critical sources of ecosystem services required by people. Within a watershed, people living upstream and downstream are interdependent on resources such as water. In their efforts to secure their livelihoods, farmers may mine soils, leading to declined productivity, soil erosion, and increased greenhouse gases. The deteriorating resource base ultimately push farmers into poverty. Water continues to be a critical basic resource for improved productivity. Soils can contain water and are a main buffer against drought and floods and also climatic change through sequestration of atmospheric carbon. Soil and groundwater are natural reservoirs that hold more water than all existing or conceivable man-made reservoirs. Good husbandry of soil, water and crops (soil and water conservation measures), enhances agricultural productivity, increases groundwater recharge and base flows in streams.

Most of the country is increasingly affected by over-cultivation/over-grazing and improper conversion of forests, woodlands and rangelands to farmland, rapid urbanization, excessive exploitation of fuel wood resources and land degradation. Environmental issues in Ethiopia include deforestation, soil erosion, desertification, water shortage and degraded water quality, poaching, and domestic and industrial pollution. Water resources are under pressure from agricultural chemicals and urban and industrial wastes. Water-quality problems in lakes, including water hyacinth infestation in Lake Tana and lakes in the Rift Valley for example, have contributed to a substantial decline in fishing output and endangered fish species. Output from forestry also has declined because of resource degradation and over-exploitation. Overexploitation in the past three decades has reduced the country’s timber resources by one-half. At present, only 2 per cent of the land remains forested, and an estimated 50 square kilometers of forest are lost each year. This loss of forest aggravates erosion, the silting of dams and flooding, and the loss of biodiversity.

Consultation with Stakeholders and Communities

The Team of experts assigned to prepare the project design report made field visit to SNNPR and Amhara Region and have carried out consultation and discussion with relevant stakeholders and beneficiaries. The field visit was conducted from 4 to 10 March 2019. In the course of the consultation process, objective of the project including likely positive and negative impacts and mitigation measures to minimize impacts been discussed with stakeholders and beneficiaries.

The study team made Consultation with the key stakeholders beneficiaries at the national, regional, and Woreda levels. Consultation was made with DBE, AEMFI and FCA at the federal level. At the regional level consultation was made with AEMFI, Amhara Regional Cooperative Agency, ACSI, RUSSACO of Soser RUSSACO Union, Reb RUSACCOS Union and with the project beneficiaries at Addis Zemen Town and with Soser RUSSACO Union at Dangla Town in Amkara region as well as with the SNNPR Cooperative Agency, SIDAMA CHALAL RUSSACO Union and SIDAMA MFI at the regional level.

During the consultation the issue that was repeatedly raised by the officials and beneficiaries in the two regions is lack of adequate finance to further expand and diversify the businesses and requested the team to allocate more funds in RUPIF III to meet their needs.

Project Impacts

Project impact will not arise from the subcomponents of the project itself but from the project activities funded by RUFIP III such as for example, livestock and agricultural production (small scale irrigation) dairy production and processing, livestock rearing and fattening and food crop production. Summary of Impacts and proposed mitigation measures are shown in the table below.

Impacts	Proposed Mitigation Measures
Socio-economic Impacts	
Health Impact due Malaria Intensification	-Avoid mosquito breeding sites by draining ponds and standing waters; -Wear clothing such as long-sleeved shirts and pants when working outdoors; Spraying clothing with repellents containing permethrin; -Use impregnated mosquito net during night;
Power shortage due to Establishment of small agro-processing plants	The local administration should plan in advance to get additional power that will adequately meet power demand of the agro processing plants and the communities.
Impacts due to misuse of Fertilizers and Pesticides	Provide Training to farmers on proper application and storage of agrochemicals
Impact on air quality due to poultry, animal rearing and fattening	-Clean animal wastes and remove feed remnants regularly; -Remove dead animals and dispose them promptly; -Avoid excess moisture in stacking sheds since excess moisture increases the amount of odor generated due to anaerobic decomposition;
Problem of over grazing to increase in animal population	-Avoid grazing too early so that there will be enough grass in the dry season; -monitor rainfall pattern and growth of pasture;
Occupational health and	-Availability and proper use of PPE by the project

safety and Child labour	beneficiaries, contractors, laborers who are engaged in the construction, installation and operation and maintenance of the proposed project activities shall be in place and regularly monitored by the project coordination unit at all phases of the project. -National labor law should be respected to avoid child labor
Impact on Cultural Heritage	Due attention should be given to the preservation of cultural heritage during screening of the project activities in consultation with relevant institutions In the case of chance finds the contractor has to immediately contact the office responsible for cultural heritage for guidance
Land Expropriation	Prepare RAP and pay appropriate compensation to the project affected population
Social Conflicts	Encourage and consider the employment of local labor for semi-skilled and unskilled people including women and also ensure that criteria is set to give priority to poor and family head households.
Impact Due to Lack of Consultation with the Community	Create awareness among the communities on the benefits, adverse effects and their roles to minimize impacts and sustainably managed project
Impact on the biophysical environment	
Ground water pollution due to misuse of chemical fertilizers and Pesticides	Create awareness among the farmers health effects of these inputs when misuse and encourage to use manure (organic fertilizer) and also apply integrated Pesticide management to fight pests.
Soil Erosion due to expansion of agricultural activities to marginal land and steep slopes	-Steep slopes or erodible soils can be alternatively used for forage production or grazing and steeply sloped lands under cultivation can be converted to perennial plantation to minimize soil erosion - Wooded areas with poor soils and steep slopes should be left in their natural state.
Loss of soil fertility	Provide training to farmers on how soil fertility can be maintained by changing cropping pattern, growing nitrogen-fixing crops and composting of crop residues
Excessive exploitation of ground water due to irrigation activities	-Avoid over pumping of ground water beyond recharge-discharge balance of the catchment areas.
Shortage in animal fodder and overgrazing	-Avoid grazing too early so that there will be enough grass in the dry season and monitor rainfall pattern and growth of pasture
Deforestation due to expansion of Agricultural land	Sensitized and informed farmers of the benefits of conserving forest to maintain balance of the ecosystem
Impact due to the lack of proper waste Management of agricultural residues	Properly collect, transport and dispose such wastes on a site designated for this purpose.

Climate Change Induced Impacts and Shocks	Rehabilitation of degraded lands by Introducing soil and Water conservation techniques such as such as terracing, tree planting and the development of various techniques to minimize impact due to climate change.
Impact on Biodiversity	Avoid cutting of indigenous trees and preserve tree species of biodiversity importance
Cumulative Impacts of the Project	Mitigation of the impacts of individual businesses supported by RUFIP III and of other development activities that are currently operating in the project area.

Project implementation Arrangement

The environmental and social management process during implementation of RUFIP III starts with the project activity planning and demand creation process. This include identification of project activities based on beneficiaries' demands and subsequent technical support and advice received from MFIs to prepare their proposal and loan request application documents to be benefited from RUFIP III . Based on the type and scale of project activities selected by the beneficiaries, loan applications/proposals will be submitted to DBE for approval. The DBE and MFI with the support from regional and Woreda offices, if required will conduct desk appraisal on the proposal/request loan document, prior to commencing the loan eligibility and screening against the national environmental regulations and IFAD safeguard policies.

The screening process will be carried out against the pre-set criteria for eligibility of the project activities and environmental and social safeguards compliance by staffs/team of experts from DBE at national level and from MFI Branch offices at regional and Woreda level using the screening checklist (Refer annex 2.2). Once DBE and MFI have completed the initial screening process, the safeguards officers will verify the screening process. The loan request proposal and screening reports will be complied and send to the environmental offices for further review and approval.

EBE will also review the plan of activities and screening results from MFIs and provide decisions if any design modifications or additional safeguards instruments are required. If program activities of any significant environmental concerns are included, then the plan document will be directed to the attention of the DBE or MFIs. The final clearance and approval of the plan document will be referred to the respective institutions with all the enclosed environmental and social screening documents and final decision reports.

As stated above various institutions have responsibilities to manage and complete the overall process of environmental management and implementation of the ESMF. In this regard, DBE, Regional and Woreda bureaus and offices, Regional and Woreda Environmental offices, Woreda administrations, other relevant line ministries are major actors for the implementations of the proposed programme in an environmentally sustainable way. Duties and responsibilities of various institutions to implement the ESMF prepared for RUFIP III s have been discussed in detail the main body of this report.

One of the key elements in the framework is the importance of the development and implementation of cost effective and accessible grievance handling mechanism. Grievances from the beneficiaries will be actively managed and tracked to ensure that the right actions are taken in an appropriate and timely manner, with corrective actions being implemented and the complaints handled as early as possible to address specific concerns raised by the project-affected persons.

The ESMF also outlines that the successful implementation of the project activities will require dynamic and multi-disciplinary professionals. Therefore, regular short and tailor made training courses and workshops will be required to reinforce the capacity and skills of the direct implementers, stakeholders and beneficiaries during the entire project cycle. The existing capacity of the implementing institutions, particularly DBE, MFI, PSE, and sector ministries to implement the ESMF and other environmental and social safeguard instruments also require assistance to independently carry out screening and appraisal on the proposed project activities and supervise the implementation of the Environmental and Social Management Plan (ESMP) that are included in the ESMF.

Capacity building and technical assistance to all relevant implementing agents at the national, regional and woreda levels is needed to fill the capacity gaps to implement RUFIP III. The capacity building needs to properly implement the ESMF of RUFIP III is discussed in chapter 12 in detail.

Disclosure of documentation

The IFAD policy on the disclosure of documents, approved in 2010, adopted the principle of "presumption of full disclosure" The sharing of draft and final ESIAs and other relevant documents with programme and project stakeholders and interested parties will be subject to the above-mentioned principle. As such, the documents will be disclosed, when available, in a timely manner prior to project appraisal at the quality assurance stage on IFAD's website and in an accessible place in the programme or project-affected area, in a form and language understandable to project-affected parties and other stakeholders, for the purposes of keeping them informed and obtaining their meaningful feedback.

Grievance and redress mechanism

IFAD has established a complaints procedure to receive and facilitate resolution of concerns and complaints with respect to alleged non-compliance of its environmental and social policies and the mandatory aspects of its Social, Environmental and Climate Assessment Procedures in the context of IFAD-supported projects. The procedure allows affected complainants to have their concerns resolved in a fair and timely manner through an independent process. IFAD may be contacted by e-mail at SECAPcomplaints@ifad.org or via its website In addition, IFAD will require the borrower to provide an easily accessible grievance mechanism, process or procedure to facilitate resolution of concerns and grievances of project-affected parties arising in connection with the project (on a case-by-case basis for projects that pose special risks). Grievance redress will use existing formal and informal grievance mechanisms, strengthened or supplemented as needed with project-specific arrangements, and will be proportionate to the risks and impacts of the project. Although IFAD normally addresses risks primarily through its quality enhancement/quality assurance process and by means of project implementation support, it remains committed to: (i) working proactively with the affected parties to resolve complaints; (ii) ensuring that the complaints procedure and project-level grievance mechanism are easily accessible to affected persons, and (iii) maintaining records of all complaints and their resolutions.

ESMF Implementation budget

The budget earmarked to implement ESMF is about 540,000 US$. This includes training on various topics, annual review and end-program-evaluation of the impacts of the ESMF by a consultant. Apart from the allocation of money, integration and coordination of various actors both at federal, regional and woreda levels has of paramount importance for the successful realization of the proposed project activities.

1 Introduction

1.1 Background

IFAD has been engaging the rural financial institutions that provide financial services to the poor and marginalized people through the Rural Financial Intermediation Programme (RUFIP) I and II since 2003. More than seven million people are estimated to have accessed savings and credit products as a result of these interventions. The poverty levels in Ethiopia declined from 38.7% in 2005 to 23.5% in 2016 as a result of RUFIP I and II and other similar interventions. A significant proportion of these people are emerging out of the poverty trap and have been able to do so with increased financial access to improve their livelihoods.

However, close to 35 million rural adults do not have access to loans from financial institutions. RUFIP III will seek to strengthen livelihoods of the poor, enabling them to attain higher income and assets that will improve their quality of life. RUFIP III will strive to capacitate about 12 million clients by managing risks through financial and non-financial measures, including savings, credit, insurance, peer support mechanisms and financial literacy. RUFIP III will ensure that fledgling Rural Savings and Credit Cooperatives (RUSACCOs) and their unions get merited attention and rise to their full potential and respond to members' needs. The building of Micro Finance Institutions (MFIs) and financial cooperatives in to sustainable institutions that their clients can rely on will be a core outcome that will be targeted. RUFIP III aims to address the constraints in availability of and access to financial services to poor households and marginalized areas.

The proposed RUFIP III is expected to contribute and scale up achievements and lessons learned from the two previous phases of the programme in order to increase outreach and results in rural poverty reduction among the targeted rural households. Design considerations will be given to such issues as improving financial literacy, youth unemployment, making rural finance institutions more robust, contribution to inclusive rural transformation, capacity requirements at different government institutional levels and programme management. Opportunities to link or coordinate with other IFAD and other development partners' interventions will also be explored.

1.2 Objective of the Proposed Programme

RUFIP III will seek to strengthen livelihoods of rural poor, enabling them to attain higher income and assets required to improve the quality of life. The proposed programme will strive to capacitate about 13.5 million clients[1] of RFIs (of which 6.5 million would be new entrants) in improving their livelihoods and managing risks through financial and non-financial measures, including savings, credit and insurance. RUFIP III will address the constraints in availability of and access to financial services to poor households and marginalized areas; adopt programmatic approach that builds on positive past experiences; introduce innovations, consolidate and scale up achievements and lessons learned so far. The overall goal of RUFIP III is improved livelihoods and reduced vulnerability and poverty through increased incomes and better ability to manage risks at household level. The objective of the programme is to increase access to a range of financial products and services to rural households through sustainable rural financial institutions.

RUFIP III will directly contribute to achievement of the **COSOP (2017-21)** Strategic Objective 1 (SO1), enhanced resilience and productivity of ecosystems and livelihoods through the provision of sustainable financial services and Strategic Objective 2 (SO2), improved market linkage and access to finance and technology, through its focus on rural and agricultural finance and the associated asset build up, income improvements and better and continuous market integration. It is also aligned with the **IFAD Strategic Framework (2016-2025)**. RUFIP III is aligned to IFAD mainstreaming priorities relating to youth, women and pastoralists and also contribute to developing partnerships with public and private sector entities. RUFIP III will support achievement of three (3) Sustainable Development Goals (SDG).

RUFIP III will be achieved through a nationwide network of more than 11,000 RUSACCOs and their secondary structure (the Unions), and 38 MFIs that currently focus on rural communities. Improved access to finance will also be available to beneficiaries of other IFAD funded projects such as PASIDP and LLRP in order to enhance the overall impact of IFAD portfolio in Ethiopia. The programme will support eligible rural financial institutions (RFIs) to bridge their liquidity gaps through a credit fund; strengthen them through consolidation of the RUSACCO sector and to enhance their institutional capacity for delivery of financial services through capacity building activities; explore setting up a guarantee fund that would attract commercial banks and financial institutions to provide resources to RFIs, initiate marketing of rural client friendly insurance products through the RFIs, continue to support ongoing automation of RFI's MIS systems; and strengthen the regulatory and supervisory capacity of regulators, National Bank of Ethiopia (NBE) and the Federal Cooperative Agency (FCA).

The key **impacts** envisaged include reduced poverty and better ability to cope with vulnerability arising from shocks. The programme should lead to: (i) strong rural financial institutions that offer financial services to vulnerable people; (ii) Wider offer of services and products responsive to customer needs; iii) diversified and expanded business in RFIs; and, (iv) Effective Financial inclusion for marginalised people and regions.

RUFIP III is expected to scale up achievements and lessons learned from RUFIP I and II. It will reduce poverty levels through strengthening of livelihoods of the poor and reducing vulnerabilities by making the rural people resilient to shocks by increasing access to a range of financial products and services to rural households.

1.3 Objective of the ESMF

This environmental and social management framework (ESMF) defines the steps, processes and procedures for screening, scoping, assessment and monitoring to be undertaken during different phases of the programme. The framework is also designed to present a sample Environmental and Social Management Plan (ESMP), outlining the measures that will be taken to avoid the potential adverse environmental and social impacts, or if avoidance is not possible, to minimize/mitigate them to acceptable levels. It contains measures and plans to enhance positive impacts, provisions for estimating the costs of such measures and identify the relevant institutions responsible for implementing and monitoring project impacts. In addition, it assesses capacity building needs to implement the ESMF.

Implementation of RUFIP III is expected to generate positive and negative environmental and social impacts on biophysical and social environment. To manage environmental and social issues and climate risks of the project, it is essential to prepare the pertinent environmental and social safeguards instruments, including this ESMF.

The ESMF will help to establish a mechanism to systematically identify, predict, evaluate, and manage beneficial and adverse environmental and social impacts of the project, designing enhancement measures for beneficial impacts, and recommend and implement mitigating measures for adverse impacts. The sites where specific project activities will be implemented are not yet clear at this stage and their impacts cannot be determined until planning begins in collaboration with beneficiaries at the grass root level.

The specific objectives of ESMF include the following:

- To develop/establish clear procedures and tools (including checklists, guidelines) for environmental and social impacts assessment, review, approval, implementation and monitoring of project activities to be financed under the Program interventions;
- To specify appropriate roles and responsibilities of various institutions/actors in different tiers, and outline reporting procedures and mechanisms for managing and monitoring environmental and social concerns related to the programme
- To prepare an ESMP which, among others, constitutes the specific likely negative impacts, mitigation measures along with indicators to be monitored, specific responsible institutions and the required budget;
- To determine the capacity building components (including training and technical assistance) for the successful realization of the provisions stated in the ESMF; and
- To indicate implementation strategies of the major issues outlined in the ESMF and ESMP.

1.4 Study Methodology

The ESMF has been prepared in accordance with applicable National policies and IFAD's Social, Environment and Climate Assessment Procedures (SECAP). The task has been conducted by using both primary and secondary sources. The methodologies adopted for the preparation of this ESMF include literature review; consultations and focal group discussions with key institutions, stakeholders and beneficiaries; and site visits. An account of the existing biophysical and social environment conditions were assembled and discussed under the baseline information section of this ESMF and used in the impact assessment of the proposed project activities.

Literature Review

Review on the existing baseline information and relevant literatures were undertaken that helps in obtaining further and deeper understanding of the proposed programme. A desk review of the national policies and legal framework and IFAD's SECAP was conducted. Among the documents that were reviewed were ESMF documents prepared for similar projects and final supervision report of RUFIP II 2018.

Review on the existing baseline information and relevant literature materials were undertaken that helps to obtain further and deeper understanding of the proposed programs. A desk review of the national policies and legal framework and IFAD environmental and social safeguards policies and procedures were also reviewed to get relevant information. Among the documents that were reviewed include Constitution of the Federal Democratic Republic of Ethiopia, Environmental Policy of Ethiopia, Environnemental Impact Assessment Proclamation (FDRE 2002), Environnemental Pollution Control Proclamation (FDRE 2002), Proclamation to Provide for the Expropriation of Land Holdings for Public Purposes and Payment of Compensation (FDRE,2005), Ethiopia's Climate-Resilient Green Economy Strategy (FDRE,2011), Growth and Transformation Plan(National Planning Commission (December 2015), and the SECAP of IFAD.

Field visit

The RUFIP III design mission to which the ESMF consultant was a member was fielded to the project areas from 25 February till 15 March 2019. The mission met different organizations, stakeholders in Addis Ababa and have made field visit to Amhara and SNNPR regions. During the field visits the mission interacted with four MFIs, two cooperative unions and three RUSACCOs. In addition the mission held meetings with eight MFIs and had extensive discussions with Development Bank of Ethiopia (DBE), National Bank of Ethiopia (NBE), Federal Cooperatives Association (FCA), Association of Ethiopian MicroFinance Institutions (AEMFI) and the World Bank. The mission team members shared their preliminary findings in a meeting on 15 March 2019 with DBE and implementing partners of RUFIP II. The field mission enabled the study team to understand the environmental and social settings of the proposed project area and identify some of the existing conditions and gaps during the implementation of RUFIP I and II.

Stakeholder Consultations

A series of stakeholder consultations have been carried out with key resource persons, beneficiaries, institutions at the national, regional, and local levels. The discussions were facilitated by the programme coordinator of DBE. Discussions have also been made with officials and farmer beneficiaries of Hawassa Zuria Woreda of the SNNPR and Addis Zemen Woreda office of the Amhara region. The project beneficiaries that participated in the discussions were farmers who are and have been obtaining credit from RUFIP I and II.

The list of institutions consulted during the field work is provided in Annex 11. During consultations and focus group discussions, the major objectives of the project were explained by the study team and various issues including the likely positive and negative impacts and the respective mitigation measures have been raised and discussed by the stakeholders/beneficiaries.

Questionnaire was also distributed by AEMFI to the MFIs to gather information on climate related shocks in the proposed prgramme areas and four MFIs replied to the questionnaire. The MFIs in their response identified areas and trends in the rates of clients defaulting during the time of climate related shocks, measures taken by institutions to maintain the loan portfolio and specific requests made by the client during climate related shocks. Refer to Annex 12 for the details of their responses to the questions raised using the questionnaire.

2 Project Description

2.1 Review of RUFIP II

During RUFIP II, the focus was on strengthening of MFIs, building and improving the rural financial cooperatives (RUSACCOs) and their unions, capacity building of staff of FCA, NBE and others. These capacity building and institution building interventions were accompanied a credit line for providing loan funds for Rural Financial Institutions, helping them to offer credit products to customers. RUFIP II is estimated to have successfully reached more than 8 million clients, mostly first time users of formal financial services. The studies carried out from time to time and the field mission interactions reveal that a significant proportion of the clients have come out of poverty and generate viable incomes. The study carried out by Peace Microfinance brought out that apart from livelihood improvement, there were significant social payoffs arising from RUFIP II. Two studies conducted on RUFIP II in 2017 indicated there is income and asset gains besides improving the quality of life of the project beneficiaries' . But there are some continuing challenges. The challenges that were raised during the consultation meetings with RUSSACOs, MFIs and the beneficiaries include gaps in funding projects activities, the absence of monitoring system and data base of IFAD projects, the need for co-financing to fill the gaps, means of handling drought and climate change shocks, means of filling the liquidity gap, availability of insurance to reduce shock during death, payment extension or exemptions during drought, loan loss provision, synergy with ongoing projects by different institutions, frequency of drought, promotion of certain financial products for diversifying business to improve livelihood and promoting saving as risk mitigation.

During the consultation meetings issues such as gaps in funding projects activities, the absence of monitoring system and data base of IFAD projects, the need of co-financing, synergy with ongoing projects by different institutions, means of filling the liquidity gap were raised by the RUSSACOs and MFIs whereas the availability of insurance to reduce shock during death, payment extension or exemptions during drought and loan loss provision was raised by the project beneficiaries. To fill the financial gaps it was proposed to create synergy and cooperation with other institutions such as the World Bank for co-financing some of the project activities relevant to their manadate.Despite the considerable gender disparity in financial institution outreach in the country, RUFIP II has enabled both women and men to participate in the programme and benefit from the incremental credit. Of the 5.7 million households that RUFIP II has supported in outreach, 45% are females and 55% males.

RUFIP II enhanced increase in climate resilience as it enables households to engage in adaptive interventions. Linkages have been developed between RUFIP II and other IFAD-funded initiatives promoting micro- insurance innovations, with the objective to increase resilience, strengthen capacity to manage risks and improve the livelihoods of poor rural households who depend on off-farm and on-farm income.

The support given to RUFIP II clients by Development Agents who have been trained in natural resource management contributed to the moderate improvement in the environment and the natural resources of the project target areas. RUFIP II clients who are mostly farmers are generally aware of natural resource management.

2.2 Description of RUFIP III

2.2.1 Project objectives, geographic area and target groups

RUFIP III will seek to strengthen livelihoods of rural poor, enabling them to attain higher income and assets required to improve the quality of life. The proposed programme will strive to capacitate about 13.5 million clients[2] of RFIs (of which 6.5 million would be new entrants) in improving their livelihoods and managing risks through financial and non-financial measures, including savings, credit and insurance. RUFIP III will address the constraints in availability of and access to financial services to poor households and marginalized areas; adopt programmatic approach that builds on positive past experiences; introduce innovations, consolidate and scale up achievements and lessons learned so far. The overall goal of RUFIP III is *improved livelihoods and reduced vulnerability and poverty through increased incomes and better ability to manage risks at household level.* The objective of the programme is *to increase access to a range of financial products and services to rural households through sustainable rural financial institutions.*

RUFIP III will directly contribute to achievement of the **COSOP (2017-21)** Strategic Objective 1 (SO1), enhanced resilience and productivity of ecosystems and livelihoods through the provision of sustainable financial services and Strategic Objective 2 (SO2), improved market linkage and access to finance and technology, through its focus on rural and agricultural finance and the associated asset build up, income improvements and better and continuous market integration. It is also aligned with the **IFAD Strategic Framework (2016-2025)**. RUFIP III is aligned to IFAD mainstreaming priorities relating to youth, women and pastoralists and also contribute to developing partnerships with public and private sector entities. RUFIP III will support achievement of three (3) Sustainable Development Goals (SDG) as explained in Para 4.

RUFIP III will be achieved through a nationwide network of more than 11,000 RUSACCOs and their secondary structure (the Unions), and 38 MFIs that currently focus on rural communities. Improved access to finance will also be available to beneficiaries of other IFAD funded projects such as PASIDP and LLRP in order to enhance the overall impact of IFAD portfolio in Ethiopia. The programme will support eligible rural financial institutions (RFIs) to bridge their liquidity gaps through a credit fund; strengthen them through consolidation of the RUSACCO sector and to enhance their institutional capacity for delivery of financial services through capacity building activities; explore setting up a guarantee fund that would attract commercial banks and financial institutions to provide resources to RFIs, initiate marketing of rural client friendly insurance products through the RFIs, continue to support ongoing automation of RFI's MIS systems; and strengthen the regulatory and supervisory capacity of regulators, National Bank of Ethiopia (NBE) and the Federal Cooperative Agency (FCA).

The key **impacts** envisaged include reduced poverty and better ability to cope with vulnerability arising from shocks. The programme should lead to: (i) strong rural financial institutions that offer financial services to vulnerable people; (ii) Wider offer of services and products responsive to customer needs; iii) diversified and expanded business in RFIs; and, (iv) Effective Financial inclusion for marginalised people and regions.

In terms of **geographic coverage**, RUFIP III will continue to be a nationwide initiative with increased focus on marginalized areas (drought prone areas, pastoral areas and areas with low penetration of financial services) and achieve goals of GTPII and the national financial inclusion strategy.

The proposed **target group** consists of 13.5 million rural people (about 6.5 million would be new clients, 50% will be women and 10% youth) with financial services requirements for asset build up and productive utilization of loans for agricultural development and other rural enterprises, especially youth-led and women-led enterprises. People in marginalized areas would be served through savings, credit and insurance products. Beneficiaries of other IFAD supported investment projects – PASDIP II, PCDP III, LLRP – will be targeted as well. RUFIP III also aims to facilitate access to finance by rural communities in programmes and projects financed by other development partners where technical capacities are being built among rural communities for improving livelihoods and enhancing economic performance.

RUFIP III **target groups can be classified** as very poor and poor (subsistence households, living below the poverty and food poverty line and being often food insecure and vulnerable), transitory poor (households producing a surplus for marketing, being food secure but at risk from economic or climate shocks) and better off (commercially oriented households with secure livelihoods is and able to cope with shocks). RUFIP III estimates to target about 3.25 Million clients from very poor and poor households 7 Million transitory poor households and 3.25 million better off clients. Thus 75% of RUFIP direct benefits are expected to reach the poorest and most vulnerable groups and regions in Ethiopia.

Targeting and social inclusion strategy: While RUFIP II had a self- targeting approach driven by the RFIs, RUFIP III will apply a combination of self-targeting and direct targeting approach. While client enrolment decisions are left to the RFI, they will be capacitated and incentivised (through resources access criteria) to focus on the most vulnerable and marginalized groups. RFIs will be required to track and report coverage of clients of different categories as defined in the targeting strategy. Some of the capacity building interventions and LOC will be utilized for incentivizing RFIs to implement the programme's targeting strategy. A key requirement for RFIs will be the preparation of a strategy for meeting targeting priorities relating to poor segments, gender, youth and marginalized areas with the help of baseline data. This plan will be integrated in to the AWPB targets. Asdetailed in the PIM, the mobilization process will be conducted in close collaboration with Unions/FCA as well as MFIs. RUFIP III team and Region/Woreda Promotion agents will work together to bring about the inclusion of vulnerable households.

Targeting criteria: To ensure that project services will serve the intended households, the targeting and social inclusion strategy will prioritize drought prone areas where majority of poor are concentrated and where smallholder farmers are highly affected by climate shocks. These will be identified, among others, through the presence of safety net programmes (i.e. PSNP 4) where communities are supported to develop alternative income generating activities (IGA) and savings through RUSACCOs. In addition, the available statistics on poverty and malnutrition levels across Woredas and Kebeles will inform the geographic targeting and the selection of priority areas/communities.

Improving nutrition among food insecure households: The project recognizes that access to finance is a key element that can play an important role in combatting malnutrition if it is accompanied by awareness creation. Limited nutrition knowledge among beneficiaries may prevent RUFIP III target groups to translate increased production and income as a result of access to finance into improved diets. The project will contribute to improved nutrition by promoting awareness at community level, through nutrition education and demonstrations, with special focus in areas where higher food vulnerability is registered due to negative environmental effects (i.e. drought).

The Gender Mainstreaming Strategy will consider scaling up of best practices which have been effective for women and youth inclusion and outreach, as well as promotion of suitable products for them. RUFIP I and II have demonstrated experiences on outreach of women and data disaggregation: they account cumulatively for 46% RUSACCO members, whose board of directors include 40% women representatives (exceeding the minimum required at 30%) and 44% of MFIs clients. RUFIP III will require implementing partners to reach a level of at least 50% women clients and in RuSACCO boards. The performance of RFIs' in gender coverage will be tracked.

The youth mainstreaming strategy recognizes the relevance to scale up successful interventions and results such as the UNCDF supported Youth Start (YS) programme. It constitutes a source of evidence-based achievements for increased growth rate of youth clients (up to 70%) and good practices and training modules to be taken up for replication regarding young men and women access to finance. RUFIP III will consider the existing surveys as well as methodologies/training modules developed with support of YS programme and Women's World Banking (WWB)[3], to be adapted to the different regional contexts and trainings for MFIs/FCAs staff at all levels. This intervention is expected to expand finance education among youth, catalyse the growth of young clientele of RFIs and enhance investment in viable enterprises.

2.2.2 Components/outcomes and activities

Description of Components and Activities

RUFIP III is a national sector-wide investment that has been carefully conceptualized and enhanced through subsequent stages of formulation and appraisal and it seeks synergy and complementarities with the country's national development policy in general and poverty reduction strategies in particular as well as and with other donors' initiatives working on similar projects. The programme is prepared in line with IFAD's comparative advantage that focuses on 'enabling poor rural people to access the assets, services and opportunities they need to overcome poverty'

The proposed Programme will be implemented over a 6-year period and consist of four components: (i) Building capacity of institutions and clients; (ii) Improving regulation, supervision and institutional discipline (iii) Facilitating funds flow and diversification of RFI business, and (iv) Programme Management.

Component 1: Building capacity of institutions and clients

Component 1 focuses on building the capacity of RFIs (RUSACCOs and MFIs) and more importantly their clients. The objectives of this component are to enhance financial literacy among the rural population to enhance uptake of financial products and to strengthen the institutional capacity of RFIs to better serve the target groups. The anticipated outcome is an operationally sustainable network of MFIs and RUSSACOs to serve poor.

Training in financial literacy in more remote Woredas of the country is of critical importance. Client capacity to use financial products and services will be built up through structured courses, and delivered by the RFIs. Greater financial literacy, combined with wider institutional presence, will increase membership in RFIs, enhance uptake of financial products and services, strengthen client relationship and improve consumer protection. IFAD's experience with promoting financial literacy trainings of immediate use to low income rural people will be drawn upon from IFAD-supported

SACCO development programmes in Uganda and other countries in the region. Client training will also consider investment aspects, especially for youths to enhance their ability to invest in productive enterprises. The IFAD financed trainings will be embedded in the annual training calendars of MFIs and RUSACCOs and will utilize training materials developed under RUFIP II.

The technical and operational capacities of the RFIs would be strengthened through training and exposure to good practices/institutions. High level training courses would be carried out for senior management of RFIs with involvement of AEMFI and other competent service providers. Training of trainers from the RFIs would be carried out on key operational aspects which would then be used by RFIs to train mid and junior level staff. Training on supervisory and regulatory subjects specified by the regulators (NBE and FCA) would be provided from time to time to address emerging needs. RFIs will be supported for improved internal systems and processes, higher levels of information technology adoption, introduction new products, services and financial sector partnerships. Some of the IT adoption related work that commenced during RUFIP II (Enabling RFIs to acquire IT systems and customized software) would be continued and brought to a fruitful conclusion.

Component 2: Improving regulation, supervision and institutional discipline. This component will deal with regulatory capacities for ensuring best performance outputs from RFIs and improved client protection. The objective of this component is to strengthen the capacities of National Bank of Ethiopia and the FCA in their mandates to supervise and regulate MFIs and RUSSACCOs (and their Unions), respectively in a manner that improves client confidence in financial services and affords protection from risks and losses in use of RFIs' services. Regulatory and supervisory support under this component will directly enhance the operational sustainability of MFIs and RUSACCOs. With RUFIP support, NBE has implemented a number of measures to strengthen its supervision over MFIs, including capacity building of staff, development of policy framework, covering areas such as micro-insurance, and consolidation of MFI sector through mergers, acquisitions and liquidation, agent banking and leasing for rural areas. NBE will continue to be supported for policy development for RFIs, in aspects such as fit and proper criteria for diversification of business, governance, advanced risk management, customer protection and social performance practices. Need based support for improving MIS at NBE to enhance supervision rigor will continue.

<u>FCA for RuSACCOs</u>: The process of separating the legal, as well as regulatory and supervisory responsibilities between financial and non-financial cooperatives and setting up dedicated financial cooperatives regulation wing in FCA will be supported. A twinning arrangement as well as an IFAD-financed technical assistance has produced useful recommendations that will be the basis of a roadmap for orderly separation of these functions between financial and non-financial cooperatives. Supervision and regulation capacity of FCA will be developed further.

Component 3: Facilitating funds flow and diversification of business will support the RFIs in securing resources required to meet the credit demand. Apart from the line of credit from IFAD and EU, domestic funds from Government of Ethiopia, Development Bank of Ethiopia (DBE) and other commercial banks and financial institutions is envisaged. The objective of this component is to improve financial support mechanisms to meet the financial services requirement of IFAD target groups. The anticipated outcome is increased availability of lendable resources, capital and savings for MFIs and RUSSACOs benefitting from the line of credit. The proposed financial instruments consist of a **lending facility (Line of Credit -LOC)**, and non-lending credit enhancement mechanisms. RUFIP III would utilize a lending facility with a number of innovative features: (i) the lending ratio between the MFI and RUSACCO sector would be monitored regularly to equitably allocate resources between the RFIs; (ii) access to loan fund resources would be based on performance and client targeting criteria so that different types of RFIs can avail of the LOC. (criteria proposed: such as size of the RFI, financial performance indicators, region/woreda of operation, inclusion of target client base from among women, youth, etc.,) and (iii) coverage of clients from other partner projects. The criteria for availing funds from credit line will level the field for small and medium MFIs and prioritize the needs of pastoral and other underserved regions. RUSACCOs would have an adequate allocation of credit resources so that they can meet the needs of their members more effectively. Out of the LOC, an amount of $ 32.14 million would be utilized in financing MFIs and Unions in the PROSEAD catchment areas for undertaking AVCF activities. Out of the co-financing contribution of EIB, about $ 25 million would be utilised to develop and strengthen leasing portfolio for rural enterprises. The modalities of leasing will be worked out in detail before the start of the programme.

To attract interest of commercial banks and other financial institutions in funding of RFIs, a **guarantee fund** in collaboration with AGRA and other partner institutions is envisaged. The guarantee fund will make access to loan resources easy from commercial banks for small and medium MFIs, Cooperative Unions and also reduce the cost of borrowing. The guarantee fund would examine different alternatives for guaranteeing different instruments issued by RFIs and expand the range of possibilities.

In view of the multitude of different lines of credit currently in the market and also the need to put domestic support funds under a unified and professional management, stakeholders expressed the desire to IFAD for creating a more sustainable loan fund structure and use RUFIP III as an anchor and launch platform. To achieve this, RUFIP III will provide linkages and access to finance for clients of other development projects that need credit, savings or insurance products. The LOC will be used by RFIs for on-lending to clients of other projects for which linkage protocols will be in place.
In a bid to improve risk mitigation capacity of clients, initiatives on marketing of **rural insurance products** to the clients of RFIs will be taken. The MFIs and RUSACCO Unions would be linked to willing insurance companies to train their staff to market insurance products (life, health, crop, livestock, etc.) that are suitable to their clients. In collaboration with EU supported PROSEAD project, access to finance for farmers, primary cooperatives and Unions operating in the catchment areas of Agro Industrial Parks (AIP) promoted by the GoE will be supported.

Component 4: ***Programme Management****:* This component will support the management of the project implementation through Programme Steering Committee and Programme Coordination and Management Unit (PCMU) in DBE. The PCMU will be strengthened with appropriate expertise to address the technical needs of RUFIP III, such as expertise in social performance, customer protection and poverty tracking to fully reflect the focus of RUFIP III on poverty outcomes and also mainstreaming IFAD priorities. Based on experiences from RUFIP II's PCMU capacity on financial management, procurement, MIS and core banking system, as well as product development will be strengthened. The weaknesses in MIS and Monitoring and evaluation, information flow and quarterly reporting experienced during RUFIP II will also be addressed under RUFIP III, with appropriate training, staffing and systems. Given the two decades involvement in RUFIP by 2025, knowledge management will be a key part of programme management. The lessons would be documented in the form of cases, best practices and tools utilized and made available in public domain.

3 Relevant Policies, Legal and Administrative Framework

3.1 National Policy and Legal Frameworks

The effects of the proposed programme on the environment should be assessed in order to ensure that the programme is in harmony with the natural and socio-economic environment and also ensure sustainability of the resulting development. The following section provides a summary of IFAD's SECAP and the national policies, legislative frameworks, guidelines and standards relevant to the proposed programme.

3.1.1 The Constitution

The Constitution of the Federal Democratic Republic of Ethiopia was issued in August 1995 with several provisions, which provides basic and comprehensive principles and guidelines for environmental protection, and management in the country. The relevant articles and environmental provisions of the constitution among others are the following:

Article 35- Rights of Women

- The historical legacy of inequality and discrimination suffered by women in Ethiopia taken into account, women, in order to remedy this legacy, are entitled to affirmative measures. The purpose of such measures shall be to provide special attention to women so as to enable them to compete and participate on the basis of equality with men in political, social and economic life as well as in public and private institutions;
- Women have the right to full consultation in the formulation of national development policies, the designing and execution of projects, and particularly in the case of projects affecting the interests of women;
- Women have the right to acquire, administer, control, use and transfer property. In particular, they have equal rights with men with respect to use, transfer, administration and control of land. They shall also enjoy equal treatment in the inheritance of property; and,
- Women shall have a right to equality in employment, promotion, pay, and the transfer of pension entitlements.

Article 40- The Right to Property

- The right to ownership of rural and urban land, as well as of all natural resources, is exclusively vested to the State and in the peoples of Ethiopia. Land is a common property of the Nations, Nationalities and Peoples of Ethiopia and shall not be subject to sale or to other means of exchange.

Article 43- The Right to Development

- The Peoples of Ethiopia as a whole, and each Nation, Nationality and People in Ethiopia in particular have the right to improved living standards and to sustainable development; and,
- Nationals have the right to participate in national development and, in particular, to be consulted with respect to policies and projects affecting their community.

Article 44- Environmental Rights

- All persons have the right to a clean and healthy environment; and,
- All persons who have been displaced or whose livelihoods have been adversely affected as a result of State programs have the right to commensurate monetary or alternative means of compensation, including relocation with adequate State assistance.

Article 90- Social Objectives

- To the extent the country's resources permit, policies shall aim to provide all Ethiopians access to public health and education, clean water, housing, food and social security; and,
- Education shall be provided in a manner that is free from any religious influence, political partisanship or cultural prejudices.

Article 92- Environmental Objectives

- Government shall endeavor to ensure that all Ethiopians live in a clean and healthy environment;
- The design and implementation of programs and projects of development shall not damage or destroy the environment;
- People have the right to full consultation and to the expression of views in the planning and implementations of environmental policies and projects that affect them directly; and,
- Government and citizens shall have the duty to protect the environment.

3.1.2 Relevant Policies

The following policies are relevant to RUFIP III since it will give policy guidance to prevent or mitigate environmental impacts of RUFIP III that may arise due to prgramme implementation.

(a) Environmental Policy of Ethiopia

The first comprehensive statement of Environmental Policy of Ethiopia (EPE) was approved by the Council of Ministers in April 1997 that was based on the policy and strategic findings and recommendations of the Conservation Strategy of Ethiopia. The policy is aimed at guiding sustainable social and economic development of the country through the conservation and sustainable utilization of the natural, man-made and cultural resources and the environment at large. The overall policy goal is to improve and enhance the health and quality of life of all Ethiopians and to promote sustainable social and economic development through the sound management and use of natural, human-made and cultural resources and the environment as a whole so as to meet the needs of the present generation without compromising the ability of future generations to meet their own needs.

The specific Policy objectives seek to, among others:

- Ensure that the benefits from the exploitation of non-renewable resources are extended as far into the future as can be managed, and minimize the negative impacts of their exploitation on the use and management of other natural resources and the environment;
- Incorporate the full economic, social and environmental costs and benefits of natural resource development into the planning, implementation and accounting processes by a comprehensive valuation of the environment and the services it provides, and by considering the social and environmental costs and benefits which cannot currently be measured in monetary terms;
- Prevent the pollution of land, air and water in the most cost-effective way so that the cost of effective preventive intervention would not exceed the benefits;
- Conserve, develop, sustainably manage and support Ethiopia's rich and diverse cultural heritage; and,
- Raise public awareness and promote understanding of the essential linkages between environment and development.

(b) Ethiopian Water Resources Management Policy

The overall goal of the Ethiopian Water Sector Policy is to enhance and promote all national efforts towards the efficient, equitable and optimum utilization of the available water resources of Ethiopia for significant socio-economic development on sustainable basis. The objectives of Water Resources Policy are the following:

- Development of the water resources of the country for economic and social benefits of the people, on equitable and sustainable basis;

- Allocation and apportionment of water based on comprehensive and integrated plans and optimum allocation principles that incorporate efficiency of use, equity of access, and sustainability of the resource;
- Managing and combating drought as well as other associated slow on-set disasters through, inter-alia, efficient allocation, redistribution, transfer, storage and efficient use of water resources;
- Combating and regulating floods through sustainable mitigation, prevention, rehabilitation and other practical measures; and,
- Conserving, protecting and enhancing water resources and the overall aquatic environment on sustainable basis.

(c) National Health Policy

Ethiopia has a low level of health coverage even in comparison with other Sub-Saharan countries. This is largely related to low levels of income and widespread poverty, low levels of education, nutritional deficiencies, poor environmental conditions, and inadequate access to health services. The Government has therefore assigned a very high priority to significantly improve health care and, in 1998, issued a health policy.

(d) Land Tenure Policy

The Constitution of the Federal Democratic Republic of Ethiopia (FDRE) states that the right to ownership of rural and urban land, as well as all natural resources, is exclusively vested in the State and People of Ethiopia. Article 40 of the Constitution indicates that land is a common property of the Nations, Nationalities and the People of Ethiopia, and shall not be subjected to sale or to other means of transfer.

The Land Tenure Policy of Ethiopia strongly supports the principle that project plans must include attractive and sustainable resettlement strategies to the people who are going to be displaced as a result of the development plan, and they have to be fully convinced, compensated and have been able to participate in all phases of the project implementation.

(e) National Biodiversity Policy

The National Biodiversity Policy (NBP) was established in 1998 based on a holistic ecosystem approach to conserve, develop and utilize the country's biodiversity resources. One of the objectives of the biodiversity policy is to integrate biodiversity conservation and development into Federal and Regional agricultural, health, industrial and overall national economic development strategies and plans.

(f) National Social Protection Policy of Ethiopia

The main objectives of Social Protection Policy of Ethiopia are the following:

- Protect poor and vulnerable individuals, households and communities from the adverse effects of shocks and destitution;
- Increase the scope of social insurance;
- Increase access to equitable and quality health, education and social welfare services to build human capital thus breaking the intergenerational transmission of poverty;
- Guarantee a minimum level of employment for the long term unemployed and under-employed;
- Enhance the social status and progressively realize the social and economic rights of the excluded and marginalized; and,
- Ensure the different levels of society are taking appropriate responsibility for the implementation of social protection policy.

(g) Energy Policy of Ethiopia

Ethiopia's energy policy document drafted in 1994 encourages the use of indigenous resources and renewable energy. The general objectives of the Energy policy are:

- To ensure a reliable supply of energy at the right time and at affordable prices, particularly to support the country's agricultural and industrial development strategies adopted by the government;
- To ensure and encourage a gradual shift from traditional energy sources use to modern energy sources;
- To stream-line and remove bottlenecks encountered in the development and utilization of energy resources and to give priority to the development of indigenous energy resources with a goal toward attaining self-sufficiency;
- To set general guidelines and strategies for the development and supply of energy resources;
- To increase energy utilization efficiency and reduce energy wastage; and,
- To ensure that the development and utilization of energy is benign to the environment.

Currently, this National Energy Policy is under review to identify the gaps between what is stated in the 1994 National energy policy and the existing status, as well as the anticipated energy resource development. The potential areas that are considered in updating the Ethiopia National Energy policy (1994) include: among others are current technological levels, bottlenecks in the energy development including cross cutting issue, etc.

3.1.3 Strategies

The following strategies are relevant in one way or another to RUFIP III since it will provide strategy to prevent or mitigate environmental impacts of RUFIP III that may arise due to programme implementation.

(a) Conservation Strategy of Ethiopia

The Conservation Strategy of Ethiopia, which was approved by the Council of Ministers, provided a strategic framework for integrating environmental planning into policies, programs and projects. With regard to development of alternative energy resources and their utilization, the relevant strategies include the following:

- Develop alternative energy sources (e.g. solar -power, wind, biogas, agricultural bio-fuel, liquid bio-fuel or small hydroelectric plants) for towns and villages remote from the national grid;
- Acquire, develop, test and disseminate appropriate and improved energy use technologies (e.g. improved stoves, charcoal kilns, -powered cookers and heaters); and,
- Demonstrate and support the use of other energy sources (e.g. geothermal, solar, etc.) in the various economic sectors where it is currently little used such as in transportation, irrigation, crop-drying, food processing, fish drying, and thermal heating.

(b) Ethiopia’s Climate-resilient Green Economy Strategy

The Government of the Federal Democratic Republic of Ethiopia has initiated the Climate-Resilient Green Economy (CRGE) initiative to protect the country from the adverse effects of climate change and to build a green economy that will help realise its ambition of reaching middle-income status before 2025.

Ethiopia’s green economy plan is based on the following four pillars:

- Improving crop and livestock production practices for higher food security and farmer income while reducing emissions;
- Protecting and re-establishing forests for their economic and ecosystem services, including as carbon stocks;

- Expanding electricity generation from renewable sources of energy for domestic and regional markets; and,
- Leapfrogging to modern and energy-efficient technologies in transport, industrial sectors, and buildings.

(c) Growth and Transformation Plan (GTP) II

The GTP consists of qualitative and quantitative targets in the spheres of macro-economic performance, performance of economic and social sectors (including energy) and crosscutting sectors (including environment and climate change). The GTP aims at building a 'Green Economy' and implementing the existing environmental laws as part of the key strategic directions to be pursued during the plan period.

3.1.4 Proclamations, Regulations and Procedural Guidelines

(a) Environmental Impact Assessment Proclamation (Proclamation No. 299/2002)

This Proclamation (No 299/2002) aims primarily at making the EIA mandatory for categories of projects specified under a directive issued by the EPA. The law specifies the projects and activities that will require an environmental impact assessment (EIA

Environmental guidelines are among the tools for facilitating the consideration of environmental issues and principles of sustainable development and their inclusion in development proposals. To put this Proclamation into effect EPA, now restructured and named as Environment, Forest and Climate Change Commission, issued EIA guideline documents, which provide details of the EIA process and its requirements. According to this EIA guideline projects are categorized into three schedules:

Schedule 1: Projects which may have adverse and significant environmental impacts thus requiring a full Environmental Impact Assessment

Schedule 2: Projects whose type, scale or other relevant characteristics have potential to cause some significant environmental impacts but are not likely to warrant a full EIA study, and therefore an initial environmental examination is required (IEE).

Schedule 3: Projects which would have no impact and do not require an EIA

Institutions responsible to monitor and supervise proper implementation of the national environmental policies and regulations at the federal level are the Ministry of Environment, Forest and Climate Change of Ethiopian, now Environment, Forest and Climate Change Commission (EFCCC). This Ministry is established to monitor environmental concerns and the right of the citizens to live in healthy environment, devise environmental policy and coordinate their implementation. Offices and or Bureaus have also been established at the regional and woreda levels to ensure environmental sustainability of projects such as that of RUFIP III.

The Ethiopian Government have already prepared framework for environment and climate including nationally determined contribution (NDCs), Nationally Appropriate Mitigation Actions (NAMAs, National Adoption Plans (NAPs), Strategies /Action Plans. Moreover it has ratified r the UN Convention on Biodiversity (CBD), UN Convention to Combat Desertification (UNCCD) and RAMSAR.

(b) Environnemental Pollution Control Proclamation (Proclamation No. 300/2002)

This proclamation is aimed at eliminating or, when not possible, to mitigate pollution as an undesirable consequence or social and economic development activities. It has also an objective of protecting the environment and safeguarding of human health, as well as the maintaining of the biota and the aesthetic value of nature are the duty and responsibility of all citizens. The Proclamation, among others has considered control of pollution; management of hazardous waste, chemical and radioactive substances; management of municipal wastes; the importance and need to respect environmental standards; and punitive and incentive measures.

(c) Proclamation to Provide for the Establishment of Environmental Protection Organs (Proclamation No. 295/2002)

The first objective of this proclamation is to assign responsibilities to separate organizations for environmental development and management activities on the one hand, and environmental protection, regulations and monitoring on the other, which is instrumental for the sustainable use of environmental resources. The second objective is to establish a system that fosters coordinated but differentiated responsibilities among environmental protection agencies at federal and regional levels.

(d) Proclamation to Provide for the Expropriation of Land Holdings for Public Purposes and Payment of Compensation (Proclamation No. 455/2005)

The major objectives/rationales for the formulation of this proclamation were the need of the government to use land for development works it carries out for public services; to provide land through redevelopment schemes for the construction of dwelling houses, infrastructure, investment and other services and supply of land for development works in rural areas and to define the basic principles that have to be taken into consideration in determining compensation to a person whose landholding has been expropriated. For the specific proposed project activities at hand, expropriation of land holdings for public purposes is not expected as the installation/construction is supposed to be conducted in one's premises.

(e) Water Resources Management Proclamation (197/2000)

The purpose of the Proclamation is to ensure that the water resources of the country are protected and utilized for the highest social and economic benefits of the people of Ethiopia, to follow up and supervise that they are duly conserved, ensure that harmful effects of water are prevented, and that the management of water resources is carried out properly.

(f) Proclamation on Research and Conservation of Cultural Heritage (No. 209/2000)

The Authority for Research and Conservation of Cultural Heritage (ARCCH) has been established by Proclamation No. 209/2000 as a government institution with a legal personality. The Proclamation has also provisions for management of cultural heritages in part two, exploration, discovery and study of Cultural Heritages in part three and miscellaneous provisions in part four.

Article 41 of the Proclamation deals on Fortuitous Discovery of Cultural Heritages and Sub-Article 1 states that, any person who discovers any Cultural Heritage in the course of an excavation connected to mining explorations, building works, road construction or other similar activities or in the course of any other fortuitous event, shall forthwith report to the Authority for Research and Conservation of Cultural Heritage (ARCCH), and shall protect and keep it intact, until the Authority takes delivery thereof. Sub-Article 2, on the other hand states that, the Authority shall, upon receipt of a report submitted pursuant to Sub- Article (1) hereof, take all appropriate measures to examine, take delivery of and register the Cultural Heritage so discovered.

(g) Labor Proclamations

Ethiopia has issued proclamations in the effort to improve employment relations and outcomes, protect against child labor exploitation, and maintain proper occupational health and safety. The transitional government of Ethiopia has issued Labor Proclamation No. 42/1993. This proclamation was amended and replaced with Labor Proclamation No. 377/2003. The Labor Proclamations have had detailed provisions pertaining to workers' suspension and protects their rights. Besides, there are other labor related proclamations such as the provisions of the Employment Exchange Service Proclamation (Proclamation No. 632/2009) and the Right to Employment of Persons with Disability (Proclamation No. 568/2008) enacted to govern the relations between employers and employees.

The Labor Law protects Children against Child Labor abuse. Under the provisions of the Revised Family Code (2000), a child or minor is defined as "a person of either sex who has not attained the full age of eighteen years". Proclamation No. 377/2003, Article 89 prohibited employment of less than 14 years. The proclamations states "It is prohibited to employ persons under 14 years of age". It is also prohibited to employ young workers which on account of its nature or due to the condition in which it is carried out, endangers the life or health of the young workers performing it. "Young worker" means a person who has attained the age of 14 but is not over the age of 18 years (Article 89 Sub-Article 3).

The Labor Proclamation mandates employers to protect occupational safety, health and create better working environment for their workers. Article 92 states that "An employer shall take the necessary measure to safeguard adequately the health and safety of the workers…" The proclamations have details about the safety and health of workers. For instance, it forces employers to i) take appropriate steps to ensure that workers are properly instructed and notified concerning the hazards of their respective occupations and the precautions necessary to avoid accident and injury to health; ii) ensure that directives are given and also assign safety officer; establish an occupational, safety and health committee of which the committee's establishment, shall be determined by a directive issued by the Minister; iii) provide workers with protective equipment, clothing and other materials and instruct them of its use; etc.

3.1.5 Administrative/Institutional Framework

(a) Environment, Forest and Climate Change Commission

As per proclamation 916/2015, The Ministry of Environment, Forest and Climate Change has been bestowed among others with the following powers and duties:

- Coordinate activities to ensure that the environmental objectives provided under the Constitution and the basic principles set out in the Environmental Policy of the Country are realized;
- Establish a system for evaluating and decision making, in accordance with the Environmental Impact Assessment Proclamation, the impacts of implementation of investment programs and projects on environment prior to approvals of their implementation by the concerned sectoral licensing organ or the concerned regional organ;
- Coordinate actions on soliciting the resources required for building a climate resilient green economy in all sectors and at all Regional levels; as well as provide capacity building support and advisory services; and,
- Establish an environmental information system that promotes efficiency in environmental data collection, management and use.

The Commission has the mandate of overseeing to ensure the basic environmental principles of the Constitution such as for example, the right to live in a clean environment is realized;

(b) The Ministry of Water, Irrigation and Electricity (MoWIE)

According to Proclamation no. 916/2015, the mandates of The Ministry of Water, Energy and Electricity include promoting the development of water resource and electricity and promoting the growth and expansion of the country's supply of electric energy. The Ministry has an Environment and Climate Change Directorate so as to manage issues related to environment and climate change of the sector.

(c) Regional Environmental Organs

At regional level there are environmental bureaus to implement environmental related issues including the preparation of directives within their respective regions. RUFIP III is proposed to be implemented in all the 9 regional states and the regional office responsible for environment is responsible for reviewing and approving ESIAs and ESMPs of this programme.

(d) Development Bank of Ethiopia (DBE)

The DBE's new organizational structure takes in to account the business nature of the Bank, which are intended to improve the service efficiency, effectiveness and create value for customers and stakeholders and is also expected to facilitate smooth execution of the five years strategic targets.

IFAD and DBE have a successful track record of partnership. DBE was selected for the RUFIP and energy related projects (Market Development) based on its track record of managing lines of credit and on its management commitment to the project.

Under the Vice President for Credit Management, there is Special Fund Administration and Rural Financial Intermediation Program (SFA & RUFIP) Coordination Directorate having seven teams, one of which is named as Energy Coordination Team. This Team is the focal entity for supporting, follow-up and monitoring of ongoing RUFIP and energy related projects.

DBE has strengthened its Internal Audit process and Compliance and Risk Management Process and has a well-established risk management policy framework and internal audit function that will conduct an audit and review of the pertinent energy programs.

Microfinance Institutions

Microfinance institutions are institutions that provide suitable financial and other services using innovative methodologies and systems at low cost to meet the need of low-income sections of the Population and act as financial intermediaries.

Association of Ethiopian Microfinance Institutions (AEMFI)

The Association of Ethiopian Microfinance Institution (AEMFI) was registered under the Ministry of Justice of the Federal Democratic Republic if Ethiopia on June 28, 1999. The strategic goal of AEMFI includes, among others, creating institutional structure to serve as a national/industry forum and network for microfinance institutions (MFIs). The Association of Ethiopian Microfinance Institutions (AEMFI) was formed as a non-for-profit, non-governmental association of the Ethiopian microfinance institutions as defined by **Proclamation No**. 40/1996 under which microfinance institutions in Ethiopia are regulated by the National Bank of Ethiopia.

AEMFI has a well defined ownership and governance structure. The supreme decision making organ is the General Assembly of the member MFIs. The general assembly comprises of 58 member MFIs which represents two from each member MFIs on an equal basis. It has a board of directors which elected by the general assembly to serve for three years. The vision of AEMFI is to see reduced poverty level through efficient and sustainable delivery of financial services by member MFIs to the poor in Ethiopia.

AEMFI in conjunction with its members sets out to identify and promote "good practices" through a number of key programs and activities, these include:

- Training: to coordinate and ensure that appropriate technical and skill training is delivered to the board, management and all other personnel of the MFIs and also the clients of the MFIs.
- Performance Monitoring: In consultation with the National bank of Ethiopia (NBE), AEMFI seeks to monitor the financial performance of the MFIs and Produce periodic performance indicator.
- Advocacy: to liaise with federal and local governments, NGOs and other relevant organizations in the financial sector to promote the services of the microfinance industry in all appropriate media.
- Technical Assistance: to assist members with the provision of MFIs, marketing, financial management and preparation of business plans

- Research: To carry out, coordinate, publish and disseminate the results of the research projects that are relevant and related to the future success of the microfinance industry.
- Support is provided by AEMFI through training, technical support, research, and performance monitoring of (SACCOs/RUSSACOS)
- Networking: AEMFI, together with its members, seek to liaise with all organizations, networks (SEEP, AFMIN, INFAFI, MAIN and AFRACA) and individuals who share a common interest, in promoting and delivering financial services to the economically active poor.
- Exposure visit: To build and maintain a resources center providing a collection of books and reports, relevant to the microfinance industry, available to all interested individuals and groups.
- Fund raising: To seek out and identify potential donors and lenders who are interested in developing, building and enhancing the services of the microfinance industry and providing loan and equity funds.

Cooperatives

Currently Cooperatives in Ethiopia are governed by the comprehensive and multi-sectoral cooperative Promotion Proclamation No. 147/1998. This Proclamation was based on internationally accepted cooperative principles. It laid the ground for the development of all kinds of cooperative societies at different levels, and is comprehensive in its coverage. According to this Proclamation, a minimum of ten individuals can form a cooperative society. Individuals are eligible for membership at age fourteen. A member is allowed to hold a maximum of 10 percent of the total paid up share capital of the society. The Proclamation stipulates that cooperative societies can borrow from members based on their bylaws and at rates not exceeding the prevailing interest rate of the commercial banks. Cooperative lending is restricted to members only. However, the law permits a cooperative to lend to another society. While lending, cooperatives are not restricted with regard to the interest rate they charge. Saving and Credit Cooperatives (SACCOs) in Ethiopia are semi-formal financial institutions in the sense that they are registered entities and subject to all general rules, but are not subject to the same prudential standards applicable to formal financial institutions. Unlike the commercial banks and MFls, savings and credit cooperatives are not subjected to the rigorous supervision and regulatory rule of the NBE. The Cooperative Proclamation allows SACCOs to operate as self-regulated entities with a few restrictions such as the allocation of profits and the maximum shareholding to a single member. Internal monitoring and controlling generally provides the checks and balances of the operation of the cooperatives.

The Government has set-up cooperative promotion bodies at Federal, Regional, City administrations, Zonal and Woreda (district) levels. At the Federal level, the Federal Cooperative Agency (FCA) is responsible,among others, for cooperative promotion, institutional capacity building and human resource development, and registration and supervision of societies organized at the national level. It is headed by a Director General assisted by a deputy. There are also Cooperative Promotion Bureaus/Departments in each of the nine national regional states and in Addis Ababa and Dire Dawa city administrations. In addition, there are Woreda Cooperative Promotion Desks and in some regions zonal Cooperatives Promotion desks. Such an extensive structure is intended to ensure that cooperatives societies are widely promoted and properly supervised.

RUSSACO/SACCOS

SACCOs seems to be the most successful types of cooperatives among the different types of cooperatives established in both urban and rural areas of Ethiopia for a number of reasons. SACCOs have many desirable properties than other types of cooperatives. Members participate continuously in the business activities of the cooperative and the amount of members' money continuously grow over time, hence, members develop strong ownership feelings on their cooperatives and they actively participate in any matters of the cooperative. The cooperatives provide credit services at zero default risk. The types of business activities are few, simple, predetermined and periodic. Hence, it puts small burden on management committee. In sum, RuSACCOs primarily improve the saving behaviour of members and also encourage them to enter into profitable business activities. Thus, it increases savings and enables them to increase their income which in turn increases the saving capacity and enable them to diversify and expand their business activities which further increase income and saving capacity and so on. It thus leads to an upward spiral saving-income growth.

MFIs

The development of MFI in Ethiopia is a recent phenomenon and known by its fast-growing according to Ebisa Deribie, et al., (2013) and aggressive drive to achieve a large scale of geographic location in the country, a dominance of government-owned MFIs, an emphasis on rural households, promoting both credit and saving products, a strong focus on sustainability and in fact, it is Ethiopian owned and driven sector. After the Ethiopian government proclamation no. 40/1996 of MFI was issued, this paved the way for establishment of MFIs to provide financial service to the communities who suffered lack of financial service from the formal banks, various MFIs have legally been registered and started delivering service of microfinance like other countries and they can mobilize savings once they got registered and legally empowered to supervise the activities MFIs by the NBE (Wolday Amha, 2000). According to Getaneh (2005), in Ethiopia MFI spread across urban and rural areas to offer deposit, withdrawal and accept a draft to the public and to manage the microfinance business funds which are allowed by low. The Ethiopian deposit-taking MFIs provide different financial services such as; savings, micro-insurance, loan, remittance, and payment such as collecting taxes, pension payment, and another related service charge. Consequently, a progressive transition has been seen in Ethiopian MFIs from microcredit to microfinance and finally to financial inclusion (Wolday and Anteneh, 2015).

The Ethiopian five-year growth and transformation plan (GTP) and the micro and small enterprise development agency (MSEDA) strategy has given more emphasis on the saving behavior of household and saving mobilization and this is why all MFIs in Ethiopia offer both compulsory and voluntary savings. The financial performance of this sector shown a remarkable achievements and the sector outreach is impressive, according to AEMFI's 2016 annual report, the Ethiopian MFIs has shown a remarkable progress in terms of outreach and performance, the sector outreach or the number of active borrowers is 3.9 million in which out of these borrowers 1.7 million were women .RUFIP III budget is expected to be channeled to the programe beneficiaries though the RUSSACOs and MFIs and Federal Cooperative Agency (FCA) is responsible for cooperative promotion, institutional capacity building and human resource development, registration and supervision of societies organized at the national level.

3.2 IFAD Policies and Procedures

IFAD's Social, Environmental and Climate Assessment Procedures (SECAP) endeavor to ensure that the goal of enabling poor rural people to improve their food and nutrition security, increase their incomes and strengthen their resilience, particularly to climate change, is done in an environmentally and socially responsible manner. The procedures set the minimum standards for the assessment of social, environmental and climate change risks of IFAD funded projects to be applied throughout the project cycle. The procedures aim to: (i) Provide information and analysis that strengthen the social, environmental and climate change risk management dimensions of projects and programmes; (ii) maximize social, environmental and climate change adaptation benefits and avoid or minimize negative impacts; and (iii) increase the consistency, transparency and accountability in decision making concerning these dimensions...". SECAP provides a step-wise description of the processes to assess risk at each phase of the project or programme cycle.

IFAD Relevant Policies

The following are IFAD policies relevant to RUFIP III.

Rural Finance Policy
To foster financial inclusion for poor people in rural areas, IFAD's Rural Finance Policy requires compliance with the following six guiding principles in IFAD-financed rural finance interventions:

- support access to a variety of financial services;
- promote a wide range of financial institutions, models and delivery channels;
- support demand driven and innovative approaches, including providing a full range of financial services to poor families who live in degraded areas, which may, for example, support natural resource management practices and alternative livelihoods that are less harmful to the ecosystem;
- encourage, in collaboration with private sector partners, market-based approaches that strengthen rural financial markets, avoid distortions in the financial sector and leverage IFAD's resources;
- Develop and support long-term strategies focusing on sustainability and poverty outreach;
- participate in policy dialogues that promote an enabling environment for rural finance;

Any deviation from these principles requires clear justification and approval by management; As a financing institution, IFAD has no tolerance for Sexual Exploitation and Abuse (SEA) in its supported operations, requiring that precautionary and remedial measures to safeguard against SEA risks and remedy any occurrences be addressed.

Gender equality and women's empowerment Policy

The policy goal is to deepen the impact and strengthen the sustainability of IFAD- supported development initiatives. The purpose is to increase IFAD's impact on gender equality and strengthen women's empowerment in poor rural areas. This will be achieved through three strategic objectives:
• Strategic objective 1: Promote economic empowerment to enable rural women and men to have equal opportunity to participate in, and benefit from, profitable economic activities.
• Strategic objective 2: Enable women and men to have equal voice and influence in rural institutions and organizations.
• Strategic objective 3: Achieve a more equitable balance in workloads and in the sharing of economic and social benefits between women and men.
The *Policy on Gender Equality and Women's Empowerment* will be central to the attainment of the overarching goal of the *IFAD Strategic Framework 2011-2015*:enabling poor rural women and men to improve their food security and nutrition, raise their incomes and strengthen their resilience.
The policy will reinforce IFAD's position as a leader in promoting gender equality and women's impowerment in agricultural and rural development. It builds on IFAD's experience and achievements in field operations and in the broader policy arena in promoting gender equality and women's empowerment. The policy will provide IFAD with strategic guidance in systematizing, intensifying and scaling up its efforts to close gender gaps and improve the economic and social status of rural women in rapidly changing rural environments. The preparation of a gender policy was recommended by the 2010 corporate-level evaluation of IFAD's performance with regard to gender equality and women's empowerment.

Indigenous Peoples Policy

This Policy on Engagement with Indigenous Peoples aims to enhance IFAD's development effectiveness in its engagement with indigenous peoples' communities in rural areas. It sets out the principles of engagement IFAD will adhere to in its work with indigenous peoples, and the instruments, procedures and resources IFAD will deploy to implement them. The Policy is consistent with international standards, inparticular the United Nations Development Group Guidelines on Indigenous Peoples' Issues, and with IFAD's mandate and Strategic Framework 2007-2010.

IFAD's Strategic Framework identifies indigenous peoples as an important target group because they face economic, social, political and cultural marginalization in the societies in which they live, resulting in extreme poverty and vulnerability for a disproportionate number of them. To reach them requires tailored approaches that respect their values and build upon their strengths. IFAD's targeted and participatory approach to grass-roots rural development and its experience in empowering poor people and communities give the Fund a comparative advantage in working with indigenous peoples, even in the most remote rural areas. In its engagement with indigenous peoples,IFAD will be guided by nine fundamental
principles: (a) cultural heritage and identity as assets; (b) free, prior and informed consent;(c) community-driven development; (d) land, territories and resources; (e) indigenous peoples' knowledge; (f) nvironmental issues and climate change; (g) access to markets; (h) empowerment; and (i) gender equality.IFAD will implement these principles in the formulation of country strategies, in policy dialogue and throughout the project cycle, and will update its operational guidelines accordingly. In addition, IFAD will strengthenthe Indigenous Peoples Assistance Facility,will establish new learning and knowledge sharing instruments, and will further develop dialogue with indigenous peoples through the creation of an indigenous peoples' forum.

ENRM Policy

The ENRM policy goal is to enable poor rural people to escape from and remain out of poverty through more-productive and resilient livelihoods and eco-systems.The purpose is to integrate the sustainable management of natural assets across the activities of IFAD and its partners. ENRM policy is build on and strengthens commitments made in other IFAD policies in particular, the Climate Change Strategy (2010), ESAP (2009), Policy on Improving Access to Land and Tenure Security (2008), Policy on Engagement with Indigenous Peoples (2009) and Rural Poverty Report 2011, which all acknowledge the key role natural assets play in the livelihoods of poor rural people. The present policy also owes much to learning from best-practice ENRM experiences at other major development institutions and organizations. This is complemented by literature reviews on food security and sustainable development and a range of regional consultations and comments received within IFAD and from partners.
The following are 10 ENRM core principles that provide basis for shaping IFAD's programmes and investments, and strengthening ENRM across IFAD Activities. The following are summary of the core principles:

- Scaled-up investment in multiple-benefit approaches for sustainable agricultural intensification;

- Recognition and greater awareness of the economic, social and cultural value of natural assets;
- 'Climate-smart' approaches to rural development;
- Greater attention to risk and resilience in order to manage environment- and natural-resource-related shocks;
- Engagement in value chains to drive green growth;
- Improved governance of natural assets for poor rural people by strengthening land tenure and community-led empowerment;
- Livelihood diversification to reduce vulnerability and build resilience for sustainable natural resource management;
- Equality and empowerment for women and indigenous peoples in managing natural resources;
- Increased access by poor rural communities to environment and climate finance; and
- Environmental commitment through changing its own behavior.

Climate Change strategy

The goal of this strategy is to maximize IFAD's impact on rural poverty in a changing climate. This goal is further articulated in three statements of purpose: to support innovative approaches to helping smallholder producers – both women and men – build their resilience to climate change; to help smallholder farmers take advantage of available mitigation incentives and funding; and to inform a more coherent dialogue on climate change, rural development, agriculture and food security. The main strategy output is a more 'climate-smart' IFAD, where climate change – alongside other risks, opportunities and themes – is
Systematically integrated into core programmes, policies and activities:
• On operations, climate change can be –and in many cases already is – factored into IFAD's operating model. This means incorporating it into our toolkit for the early stages of country programme and project design and for implementation.
• On knowledge, innovation and advocacy, IFAD will: explore new arrangements for sourcing climate-related expertise, share ground-level experiences to ensure their application throughout IFAD-supported
programmes, and continue our work to shape the global dialogue on climate change for smallholders.
• On resource mobilization, our primary focus is to make IFAD's expanding overall portfolio climate-smart. Increased supplementary climate funds will continue to be sought to deepen the integration of climate change into IFAD's core programmes and to cover the increased cost this implies.
• On internal organization, IFAD will make greater use of existing in-house skills and people, and will implement a new organizational structure that brings together and increases its staff capacity on climate and the environment. It will also continue to demonstrate the values of environmental awareness internally.

Land Policy

The IFAD Policy on Improving Access to Land and Tenure Security has been formulated to:
(a) Provide a conceptual framework for the relationship between land issues and rural poverty, acknowledging the complexity and dynamics of evolving rural realities; (b) identify the major implications of that relationship for IFAD's strategy and programme development and implementation; (c) articulate guiding principles for mainstreaming land issues in the Fund's main operational instruments and processes; and (d) provide the framework for the subsequent development of operational guidelines and decision tools.

In this policy, land refers to farmland, wetlands, pastures and forests. Land tenure refers to rules and norms and institutions that govern how, when and where people access land or are excluded from such access.2
Land tenure security refers to enforceable claims on land, with the level of enforcement ranging from national laws to local village rules, which again are supported by national regulatory frameworks. It refers to people's recognized ability to control and manage land – using it and disposing of its products as well as engaging in such transactions as the transferring or leasing of land.

Disclosure Policy

This policy will ensure stakeholder consultation, transparency and accountability through the life of programmes and projects. Engage in early and continuing meaningful consultation with the full range of stakeholders in formulation, implementation and monitoring of programmes and projects. Maintain transparency and accountability by disclosing draft and final environmental and social impact assessments and other relevant documents (at the quality assurance stage or key stages during project implementation) to stakeholders and by responding to their concerns and complaints in a timely manner.

The IFAD policy on the disclosure of documents, approved in 2010, adopted the principle of "presumption of full disclosure".31 The sharing of draft and final ESIAs and other relevant documents32 with programme and project stakeholders and interested parties will be subject to the above-mentioned principle. As such, the documents will be disclosed, when available, in a timely manner prior to project appraisal at the quality assurance stage (or other key stages during project implementation)33 on IFAD's website and in an accessible place in the programme- or project-affected area, in a form and language understandable to project-affected parties and other stakeholders, for the purposes of keeping them informed and obtaining their meaningful feedback. Comments on SECAP-related disclosed documents can be submitted through the SECAP Help Desk email using: ecd_secap@ifad.org.

Guiding values and principles of SECAP

The values and principles in many of IFAD's policies, strategies and guidelines are relevant to SECAP are:

(i) Address the vulnerability and adaptation priorities of rural people: Examine the cause-effect relationship between rural poverty, environmental degradation, social impacts and climate change. Ensure the efficient use of natural resources, subject to their regenerative capacity. Promote approaches to (re)build social cohesion and good governance of natural resources. Respect and make use of endogenous knowledge and gender-sensitive technologies, drawing especially on the unique knowledge of women and indigenous peoples. [ENRM Policy, Indigenous People's Policy and Climate Change Strategy]
(ii) Promote the conservation, rehabilitation and sustainable use of natural resources and key ecosystems in an integrated manner: Ensure that IFAD operations do not lead to natural or cultural resource degradation, including clearing of tropical forests, unsustainable use of natural resources, the threat/loss of biodiversity and ecosystem services, or threats to resources of historical, religious or cultural significance. This applies especially to agricultural intensification activities and value chain development.
(iii)Minimize adverse social impacts and incorporate externalities. Avoid and mitigate any potential adverse impacts on health and safety, labour and working conditions, and well-being of workers and local communities. Avoid any potential diseconomies imposed by an IFAD-financed operation on the environment external to the project boundaries (contextual/unintended consequences). Where possible, address the affected areas through joint projects (which may

constitute an entire command area or watershed) and partnerships to minimize social, economic and environmental impacts in the affected area and, where possible, to incorporate the externalities. [Targeting and ENRM Policy]
(iv) Implement participatory approaches, with special emphasis on the participation of and benefits to women, youth and site-specific targeted groups. Strengthen local institutions, including user groups, essential for promoting environmental sustainability and social cohesion. Promote appropriate incentive systems at all levels and maximize the opportunities for local grass-roots organizations and clients, with special emphasis on equal participation of women and youth in programme/project design and implementation, as well as in cost recovery and delivery systems. [Gender and Targeting Policies]
(v) Promote the development of indigenous peoples and other marginalized groups. Enhance their livelihoods: secure ownership/access to ancestral land and territories; strengthen their institutions; promote free, prior and informed consent and document and report outcomes of the consultations; and value indigenous knowledge systems. Apply the principles and procedures in the IFAD Engagement with Indigenous Peoples Policy.
(vi) Avoid involuntary resettlement wherever possible. While working on "doing good", IFAD will adhere to a "do no harm" principle at all times, so as to minimize potential adverse physical and economic impacts. Explore viable alternative project designs to address risks and to restore livelihoods to improve the standards of living of affected persons. The approach and level of measures taken will be proportional to the range of IFAD's operations. [Land Policy]
(vii) Promote sound agricultural and manufacturing processes. These include traditional, indigenous and climate-smart technologies, integrated pest management, and use of biological control. When the use of agrochemicals is necessary, ensure (through enhanced environmental awareness, farmer training, improved field extension services, etc.) that their application, storage and disposal is in line with international standards. Requires clients to apply international standards, including safe and healthy working conditions, and have in place and maintain sound environment and social management systems.
(viii) Promote SECAP compliance monitoring. Monitor the implementation of the environmental and social management plan and the effectiveness of stakeholder engagement by the borrower. Focus on projects identified as "high risk", or located in areas that are environmentally or socially sensitive, to ensure continued diligence in pursuing the project's development objectives. [ENRM Policy, Supervision and Project Completion Guidelines]
(ix) Ensure stakeholder consultation, transparency and accountability through the life of programmes and projects. Engage in early and continuing meaningful consultation with the full range of stakeholders in formulation, implementation and monitoring of programmes and projects. Maintain transparency and accountability by disclosing draft and final environmental and social impact assessments and other relevant documents (at the quality assurance stage or key stages during project implementation) to stakeholders and by responding to their concerns and complaints in a timely manner. [Disclosure Policy]
(x) Support borrowers in achieving good international practices by supporting the realization of United Nations principles expressed in the Universal Declaration of Human Rights and the toolkits for mainstreaming employment and decent work.

Refer SECAP Document published in 2017 for the details of SECAP Guiding Principles.

Mandatory elements of SECAP

All projects entering the pipeline are subject to an environmental, social and climate risk screening, and are assigned a risk category for environment and social standards (A, B, C) and for climate vulnerability (high, moderate, low). These findings, along with subsequent analysis and assessments, must be reflected in the project's SECAP review note. Projects with environment and social category "C" and climate risk "low" do not require any further analysis.

- All category B projects must have a SECAP review note, including a matrix of the Environmental and Social Management Plan (ESMP) at the design stage. The identified social and environmental risks and opportunities management measures must be reflected in the project design and the project design report. The ESMP matrix must be integrated into the project's implementation manual or developed as a stand-alone guidance document for the project management unit late in the design stage or early in implementation.

- All Category A projects must have an Environmental and Social Impact Assessment (ESIA) at the design stage (or relevant stage of implementation). The draft and final ESIA reports and other relevant documents22 must be disclosed in a timely and accessible manner at the quality assurance stage (or other stages during project implementation).23

- For all projects with a "moderate" climate risk classification, a basic climate risk analysis must be conducted during the project design stage and included in the SECAP review note. Adaptation and mitigation measures must be mainstreamed into the project design and project design report.

- For all projects with "high" climate risk classification, an in-depth climate risk analysis must be conducted during project design and adaptation, and risk-mitigation measures must be mainstreamed into the project design and project design report.

- Depending on the scale and nature of the potential risks and impacts, different assessment tools and elements will apply irrespective of the environment and social category.

- Where necessary, a SECAP preparatory study can be undertaken during the development of RB-COSOPs or CSNs.

- When projects result in physical or economic displacement (affecting access and user rights to land and other resources), the borrower or grant recipient should obtain free, prior and informed consent (FPIC) from the affected people, document stakeholder engagement and consultation process, and prepare resettlement plans or frameworks. The documents must be disclosed in a timely and accessible manner at the quality assurance or relevant implementation stage.

- When impacting indigenous peoples, the borrower or the grant recipient must seek FPIC from the concerned communities, document the stakeholder engagement and consultation process, and prepare an Indigenous Peoples Plan.24 Whenever FPIC is not possible during project design, the FPIC implementation plan should specify how FPIC will be sought during early implementation. The FPIC plan and related documents must be disclosed in a timely and accessible manner at the quality assurance or relevant stage during implementation.

- Consultation with communities and stakeholders must be maintained throughout the project life cycle, especially in high-risk projects.

- When community health is significantly affected, a health impact assessment must be conducted and mitigation measures included in the project design.

- When there is a significant increase in the use of agrochemicals, a pesticide management or mitigation plan is required.

- For all Category A projects and some category B projects, a project-level grievance redress mechanism must be established or existing formal and informal systems strengthened.

- Some category B activities may require specific analysis to be undertaken or an Environmental and Social Management Framework (ESMF) to be developed.

- Relevant environmental and social clauses or covenants must be included in the financing agreements for projects requiring ESIAs, technical studies, FPICs, ESMPs and frameworks during project implementation.
- For some category A projects, an ex post ESIA may be required at the completion stage.

In line with good practice, SECAP ensures early consultation with communities and stakeholders that must be maintained throughout the life of the project, especially in high-risk projects.

This edition includes additional guidance material to further assist in project design and implementation. These include terms of reference and a set of guidance statements. For RB-COSOP/CSN designs, Country Programme Management Teams may choose to conduct a SECAP preparatory study to provide a better understanding of the environmental, social and climate change risks that might potentially affect the proposed IFAD programme.

The procedures are the product of a broad consultation process that has involved staff from IFAD and selected resource persons from multilateral and bilateral development agencies. The implementation of SECAP, since January 2015, and consultations with partners have played an important role in updating these procedures and in order to align them with those of other multilateral financial institutions and country priorities and to ensure their consistency with IFAD's quality enhancement and quality assurance processes. Continuous communication and collaboration with borrower countries, partners and IFAD staff in the Programme Management Department, as well as systematic monitoring and assessment of the effectiveness of the procedures, are essential to successful implementation and improvement. It is expected that this approach will continuously result in further updating these procedures to enhance quality-at-entry in IFAD operations.

Relevant SECAP Guidance Statements

Rural Finance (Guidance statement 12) Developing inclusive rural financial systems and fostering innovations to increase the access of poor people in rural areas to a wide range of financial services and sound financial institutions is central to IFAD's mandate and key to agricultural and rural livelihoods development. IFAD concentrates on rural microfinance, which refers to the provision of financial services to people with low incomes in rural areas for both on- and off-farm activities.

IFAD-financed operations in rural finance focus on developing inclusive financial systems, working with and building capacity of its partners at each level of the sector (see paragraph 7) to build the sustainability of institutions and models and increase outreach to remote rural areas and marginalized poor people. Examples of this type of support are outlined in IFAD's Rural Finance Policy and can include promotion of financial literacy training and capacity-building support to FSPs; support to savings-based approaches; development of second-tier institutions such as industry associations and apexes; and promotion of an enabling policy, legal, regulatory and supervisory environment. Rural finance programmes, projects and components could have the objective of strengthening the financial sector overall and/or improving financial services targeted towards another sector, such as value chain development related to a specific agricultural commodity.

Any programmes or projects initiated by IFAD which support FSPs through the provision of a line of credit that are classified as category A or implementing credit operations specified in category B should meet IFAD's social environmental and climate standards and requirements, including information disclosure and consultation. For subprojects classified as category A, the borrower will submit an Environmental and Social Impact Assessment (ESIA), resettlement plan and/or an Indigenous Peoples Plan to IFAD for clearance before the subproject approval. The following measures should be carried out before establishing a relationship with an FSP:

FSPs should have in place or establish an appropriate environmental and social management system (ESMS) commensurate with the nature, scale and risks of the FSP's current and likely future loan portfolio to be maintained as part of the FSP's overall management system, recognizing that the type and operations of FSPs vary considerably and in some cases may pose minimal social, environmental and climate risks. An ESMS in a formal FSP should aim to incorporate the following elements: (i) environmental and social policies; (ii) loan screening, categorization and review procedure; (iii) organizational structure and staffing, including skills and competencies in environmental and social areas; (iv) training guidance; and (v) monitoring and reporting.

The government through its programme management unit and IFAD will assess the adequacy of the FSP's capacity to manage environment and social impacts and risks related to its loan portfolio. If the FSP is capable, the ESMS will be agreed upon between IFAD/government and the FSP on a case-by-case basis in line with what is appropriate and feasible in terms of: (i) the scope of application within FSP's loan portfolio; (ii) the average loan size; (iii) intended loan use; (iv) the nature of standards required by the activities financed by the loan; (v) the FSP's environmental and social due diligence procedures; (vi) FSP disclosure and reporting guidance; and (vii) the guidance of the monitoring activities put in place by the programme or project (e.g. the use of performance-based agreements). Where there are gaps in the FSP's capacity that needs to be addressed, the government through its programme management unit, IFAD and the FSP will establish a time-bound plan.

Biodiversity (Guidance statement 1)

The Convention on Biological Diversity recognizes that biodiversity is about more than plants, animals and micro-organisms and their ecosystems – it is about people and our need for food security, medicines, fresh air and water, shelter, and a clean and healthy environment in which to live.1 Biodiversity is essential for the maintenance of ecosystem services, such as the provision of water and food and other services that are important to both the ecosystems themselves and human life. Conservation of biodiversity aims to maintain global biological resources and their related services to meet the needs of humanity today while ensuring availability for future generations – a fundamental criterion of sustainable development. Natural resource management that tries to preserve biodiversity focuses on enhancing the sustainable use of these resources and managing protected areas. Losing biodiversity at the genetic, species or ecosystem level means losing opportunities for coping with future challenges (e.g. related to climate change, energy, food security).

Mitigation aims to eliminate or reduce the negative impacts of a project on biodiversity. Measures for protecting biodiversity must ensure that local populations are not adversely affected by project activities and that they benefit from environmental opportunities. As a guide, mitigation activities should follow the following order of preference:
-Complete avoidance of adverse impact. If a project was initially classified as category A because of its impact on a sensitive biodiversity site, an alternative solution may be found to maintain the project. For example, a project that may need the significant clearance of forest resources may be located in areas where significant depletion has already occurred.
- **Reduction of impacts on biodiversity where unavoidable.** For most IFAD projects, it may be necessary to carry on with a project even with its known effects on biodiversity. In such cases, it will be necessary to undertake further environmental and/or climate risk assessments to further understand the risks and access the viability of available mitigation options.

- **Restoration of habitats to their original state.** This is a case whereby a project attempts to return a biologically depleted land form into its original state. While it may not always be an economically feasible option – restoring converted wetlands to their original form, for example – in some situations (such as assisted forest regeneration) it may not only be potentially successful, but also cost-effective.

- **Relocation of affected species.** In extreme cases where a project continues in spite of its adverse effects, one option may be to relocate the species. This is an uncommon option and requires detailed studies to understand the potential impacts of such an intervention at both the original and proposed site. IFAD will not be undertaking this option for its projects.

- Compensation for any unavoidable damage. This refers to a case whereby a project is allowed to continue in spite of its negative effects to biodiversity. The project, however, compensates for its negative effects on biodiversity by supporting mitigation or restoration of similar biodiversity-rich habitats located elsewhere. IFAD should never use this as a stand-alone solution, but may consider it on a very limited scale, such as when other mitigation options have been exhausted.

Agro-chemical (Guidance statement 2)
Increased food production is one of IFAD's central objectives; the use of agrochemicals (mainly fertilizers and pesticides) may be necessary to achieve higher yields per unit area. However, the environmental and social (including health) concerns raised by such use of agrochemicals must be carefully considered. These concerns include undesirable soil and water contamination, acidification of soils, human health risks, pest resistance, damage to non-target organisms and secondary pest problems. For example, the use of nitrogen fertilizers on a farm has an environmental impact because crops recover only about half of the nitrogen supplied in global crop production, with the rest ending up in water resources and causing eutrophication (Eickhout, Bouwman and van Zeijts, 2006). The use of agrochemicals may also result in unacceptable toxic residues on agricultural products and unnecessary financial burdens because of over application.

Agrochemicals are among the most important secondary sources of greenhouse gas (GHG) emissions in the agriculture sector. A large share – often more than half – of the energy used in farming is for the production of synthetic fertilizers, particularly nitrogen fertilizers (which produce 3.3–6.6 kg of carbon equivalent per kilogram produced, transported and stored) and pesticides (Rundgren, 2011).

The following paragraphs outline activities for the prevention or mitigation of inappropriate or excessive agrochemical application. The recommended activities and any additional site-specific measures should be incorporated in the Environmental and Social Management Plan (ESMP) for the programme or project. In operations where large-scale pesticide use is proposed, such as for suppression of locust infestations, or is likely to occur because of agricultural development, a stand-alone pest management plan may be appropriate.

Fertilizer management:

- Ensure that dressings do not exceed recommended doses;
- -Reduce leaching through appropriate choice of fertilizer to suit soil conditions, split applications and fertilizer placement;
- Reduce run-off through incorporation of fertilizer into soil, timing of applications to avoid erosive rains, and soil and water conservation measures;
- Limit nitrate use in sensitive watersheds serving urban areas;
- Select non-ammonium sources of nitrogen such as urea;
- Carry out liming (usually to pH 5.5 for tropical crops);
- Explore the potential for increasing production without the use of chemical fertilizers, especially using indigenous technologies, including organic fertilizers, and supporting integrated soil fertility systems;
- Promote community education on improving indigenous practices to maximize production, avoiding chemical fertilizers in favour of local options that are available on farm;
- Support crop management practices that increase the nutrients available to crops, including by: (i) using more organic and less inorganic fertilizer;3 (ii) increasing the efficiency of fertilizer use through appropriate fertilizer selection, timing and split applications; (iii) increasing nutrient recycling using crop residues and livestock grazing after crop4 harvest (mixed farming); use of nitrogen fixing trees, where feasible (agroforestry); and (iv) improving rotations (e.g. inclusion of legumes, multicropping);

- Monitor receiving water courses and soil for fertility to avoid over application of agrochemicals;

Pesticide management:

The project should be explicit about the pesticides it proposes, including those that farmers are expected to use when credit for input purchases is made available. For projects that entail significant pesticide use or have the potential to result in increased pesticide use, a pesticide management plan is prepared, either as a stand-alone document or as part of the Environmental and Social Impact Assessment (ESIA) or ESMP. The most important criteria for assessing the environmental impact of a pesticide are its toxicity level and the degree of biodegradability. Consideration should also be given to residue-level guidance for countries that intend to export crops. Unregistered, restricted-use or experimental-use pesticides should be avoided, unless their use in the project has been reviewed and approved by the Food and Agriculture Organization of the United Nations (FAO)/World Health Organization (WHO) Joint Meeting on Pesticide Residues.

- Pesticides in WHO Class la and Class lb5 should generally be avoided;
- For general use, the formulated product should be at a low enough concentration to be in at most a WHO Class II. Low-toxicity formulations should be favoured: from least toxic to most toxic, the options are granule, dust, wettable powder, flowable, emulsifiable concentrate, ultra-low volume and fumigant.
- Low-concentration granulars, seed dressings, bait formulations and pheromone traps generally present the least hazard to users and are especially suitable for small-scale farmers unfamiliar with pesticide use; they cause minimal environmental contamination and minimal adverse effects on non-target organisms.
- Aircraft application should be avoided whenever possible, and used only when speed in covering large areas is essential, such as in the emergency control of migratory pests.
- Safe application equipment and servicing facilities should be promoted, along with correct calibration of equipment. Training should be provided for personnel and farmers applying the pesticides.
- Protective clothing, including masks, gloves and boots, should be provided or promoted, especially for pesticides that are absorbed through the skin. However, improper use of protective clothing may be even more hazardous than doing without protection: unless it is washed, protective clothing can become saturated with pesticides – such as in the lining of boots and gloves – and can greatly increase pesticide absorption. Training should be provided.
- Training is crucial to the safety, use and cost-effectiveness of pesticides, and is recommended for inclusion in any project that increases the availability or accessibility of pesticides. A range of actors will require education: users, operators, extension officers, retailers, health workers treating cases of poisoning, and legislators in pesticides law.
- Application guidelines for pesticide use should be made clear to the borrowing country, and a legal document should be drawn up providing assurance that the guidelines will be followed. All the pesticides used in the project should be properly labelled, and all labels and application guidelines should be provided in the local language.
- Monitor water courses, soil and community health on a regular basis to ensure that pesticide concentrations are within legal environmental and health limits.

Water (agricultural and domestic use (Guidance statement 7)

Many poor rural people face severe constraints in their access to adequate quantities of good quality water for domestic and agricultural uses. Clean water supplies and sanitation remain major problems in many parts of the world, with 11 per cent of the global population lacking access to safe drinking water. Worldwide, about 780 million people do not have access to an improved water supply (UNICEF-WHO, 2012). This water scarcity is amplified by increasing levels of pollution. Climate change is exacerbating water scarcity in some regions, while other regions will have increased or even excess water flows. Events such as droughts and floods are also expected to increase in both frequency and intensity in some locations. With an increasing number of countries facing severe water shortages, agriculture's efficient use of water to reduce poverty and hunger is a significant issue, which can be addressed by putting in place systems and investments for managing water resources equitably. These activities need to be grounded in: (i) improved governance through community empowerment; (ii) coordinated watershed- or landscape-based approaches; and (iii) sustainable use of water resources.

The potential negative impacts of water investments affect several environmental and social aspects and include soil degradation, water quality, public health, effects on flora and fauna and disruption of ecosystem services, particularly when introduced on a large scale. In the near future, accelerating changes in the global climate will cause major alterations in the patterns of the water cycle and the geographical distribution of water, with significant effects on agricultural activities (UNEP, 2008). For poor countries with limited capacity to respond to hydrologic variability, climate change will make the achievement of water security even more difficult and costly. Extreme variability of precipitation is expected to put 2.8 billion people at risk of water shortages (World Bank Water and Climate Change website).

8. Climatic change will have significant consequences on water supply, water systems, infrastructure and agriculture. For example, sea level rise could lead to salinization of water supplies from coastal aquifers; irrigation demand might increase because of decreased rainfall and increased evapo-transpiration, placing additional pressure on irrigation systems; and soil erosion from increased rainfall intensity could affect watershed sustainability and lead to sedimentation in reservoirs (World Bank, 2009), with impacts on the operation of facilities. In addition, the water supply for human communities will become uncertain – particularly water accessibility – with increased levels of water stress worldwide exacerbating existing conflicts over water use (UNEP, 2008).

Unless adequately addressed in all development stages, climate change could undermine IFAD's investments and reduce the long-term sustainability of results. IFAD should therefore aim to reduce the vulnerability of water management and infrastructure to current climate variability while also considering the long-term effects of climate.

IFAD projects dealing with irrigation should include a comprehensive Environmental and Social Management Plan with all the measures deemed feasible and necessary to reduce significant adverse environmental, health and social impacts. Most measures can be incorporated in the project design phase. Once remedial measures have been identified, they should be clearly spelled out in contract documents. Tenders should specify the environmental mitigation measures in detail, and include them as work items. Bidders should be asked for detailed descriptions and cost estimates of proposed remedial works. The active involvement of rural communities, and the use of a multisectoral approach that considers many issues – gender, social, health, and new concerns such as energy sources and climate change – in both the planning and implementation stages will contribute to: (i) prevention of potentially harmful design choices; (ii) optimum use of locally available materials; (iii) sustainability of service by involving a critical mass of users, operators and suppliers; and (iv) incorporation of locally adapted environmental measures.

Rural Roads (Guidance statement 10)

IFAD's Strategic Framework 2015-2025 recognizes that weak and imperfect markets continue to be a disincentive to increased agricultural production and productivity by the rural poor. It further recognizes that inadequate rural infrastructure – particularly farm-to-market roads, storage facilities and marketplaces – is a very large part of the problem. IFAD, therefore, seeks to redress the situation by making an investment in productive rural infrastructure, including roads, as one of its key areas of thematic focus. That said, IFAD is unlikely to finance stand-alone rural road projects; it is instead more likely to finance rural roads as part of wider development programmes or simply as components of discrete agricultural development projects.

This guidance statement is intended to help stakeholders, including country programme managers and Country Project Management Teams, to appreciate and avoid or mitigate the environmental risks associated with rural road development and to enhance prospects for environmental sustainability.

IFAD is committed to effective and environmentally sound design, construction (and/or rehabilitation), operation and maintenance of rural roads to the highest possible standards of safety for those involved in construction and those subsequently using the road, whether by motor vehicles, intermediate means of transport (IMTs) or by foot. Best practices include the following mitigation measures:

- Participatory and/or consultative design of road sites using local knowledge –consult local users to establish which tracks (or alignments) offer the best connections to travel safely (flooding, rock fall, animals), as well as whose lands are affected by those alignments. The same applies to borrow pits and construction materials. Consult early to increase local participation and ownership.
- Align for minimum adverse impact –when the project involves the construction of a new road or the realignment of an existing road, consider all alternatives and select the alignment that would result in the least direct and indirect negative impacts, taking account of soils, climate, geology, topography, hydrology, ecology, significant historic or cultural sites, settlement patterns, existing land use and other socio-economic factors.
- Seek free, prior and informed consent (guidance statement 13) –wherever physical resettlement and economic displacement cannot be avoided.
- Assessment of technology choice –design to optimize the use of locally available human and material resources, including local enterprises, contractors, artisans and materials, for ease of maintenance and enhance the prospects for sustainability.
- Design for road safety –consider and accommodate all prospective users, including pedestrians and IMTs; do not exceed the national standard design speed for rural roads; and provide speed bumps (with accompanying warning signs) in highly populated areas such as villages, schools, markets and other centres.
- Traffic safety measures –install road signs to indicate speed restrictions, hazards (such as drifts), junctions and the like.
- Installation of drainage works and river crossings –avoid interruption of subsoil and surface drainage patterns, especially in areas of cuttings or embankments and on agricultural land; put adequate works in place to minimize changes in surface flows and stabilize cuttings with structures (walls, gabions, trees and so on); and provide special drainage requirements, such as “upslope catch water” or cut-off drains , where necessary.
- Simplify drainage measures –simplify the design of drainage measures (and enhance road safety by reducing road speed) by specifying well sign-posted drifts or “Irish” bridges rather than culverts and bridges, wherever possible.
- Incorporate erosion control measures –carry out earth-moving during dry periods; protect vulnerable soil surfaces with mulch; protect drainage channels with berms, straw or fabric barriers to break flows; and establish vegetative cover as early as possible.
- Crossing points –include animal crossing points (on busy roads or in cuttings/embankments).
- Choice and restoration of borrow pits –locate borrow pits carefully and specify restoration and drainage (where desired) as a contractual requirement.
- Provision for construction operations –specify contractual directives, including watercourse buffer zones (distance allowed should depend upon soil type and vegetation cover), for: prudently dealing with surplus materials, particularly in mountainous, erosion-prone areas; collecting and recycling lubricants; avoiding spills; siting of construction camps; applying water or dust control chemicals to prevent water source contamination.
- Disease control –assess disease vector ecology; fill or drain works areas to avoid creating vector habitats; establish “quarantine check points” at strategic locations along the road to minimize the spread of animal and plant diseases; organize HIV/AIDS sensitization activities and support community-based responses and institutions that may have emerged at works or construction camps.

Community Health (Guidance statement 14)

Agricultural sector has undergone immense changes owing to an improved understanding of the health and safety risks associated with agriculture, as well as the use of improved technology and personal protective equipment (PPE) but not in many parts of Ethiopia. There are still many areas in Ethiopia. Where there is a lack of knowledge about how farmers are affected by their exposures to the variety of health risks that they are confronted with every day. There is little medical surveillance in this sector, resulting in a lack of credible research data and evidence. Workers in the agricultural sector are at greater risk of traumatic death and disabling injury.. Risks of acute pesticide poisoning and long-term effects of pesticide exposure, such as lymphoid malignant neoplasms, are present in a variety of settings where crops are grown. Respiratory disorders develop from the inhalation of grain dust, other types of organic dusts, and work in animal confinement facilities. Hearing loss is an important problem in settings where machinery is in use. Skin cancers caused by sun exposure are a serious problem, and irritant and allergic dermatoses occur from exposures to plants and farm chemicals. Zoonotic infections can cause life-threatening illness, and heat and cold stress occur from exposure to the elements.

A health impact resulting from an IFAD-funded project, plan or programme is a measurable change on the health status of an individual, group or population, which may be attributable to the direct or indirect effects of an agricultural development. The impacts may be intended or unintended and may not become apparent for many years after prolonged exposure or due to long-term latency in the human body.
The following are main health impacts related to agricultural sub-projects and mitigation measures proposed to minimize impacts.

Impact	Proposed Mitigation measures
Waterborne diseases, e.g. diarrhoea, dysentery, cholera, typhoid, giardia	- Avoid the use of untreated sewage effluent as a source of irrigation water. - Monitor and analyse potential irrigation water source(s) for microbiological contaminants and pathogens. - Identify sources of potential pollution, e.g. livestock drinking spots, laundry washing areas, community bathing areas, long drop toilets.
Exposure to chemicals and antibiotics	- Consider safer alternatives
Exposure to pesticides	Consider safer alternatives.
Traffic accidents and injuries	- Design road with a hard shoulder at least 2 m wide. - Install speed reduction devices before villages, busy intersections, bus stops, schools, clinics, etc. - Install road safety signs. - Appoint a subcontractor to carry out road safety and awareness campaigns. - Advise livestock owners about the dangers of allowing cattle to graze on road verges and make alternative arrangements.
Communicable diseases, e.g. HIV, STIs, TB, hepatitis	- Employ local labour as much as possible. - Avoid overcrowding in accommodation facilities. - Provide adequate ablution facilities at the construction camp and at work sites. - Allow time off for regular health screening and testing. - Provide education and training with workers and local communities about communicable diseases and effective prevention.
Waterborne diseases	- Use of personal protective equipment (PPE). - Provision of adequate ablution facilities and field toilets.

	- Education and awareness training of workers. - Ongoing water quality monitoring. - Health surveillance.
Vector-borne diseases, respiratory illnesses (inorganic dust)	- Use of PPE and insect repellents. - Dust suppression. - Minimize amount of clearance.
Traumatic injuries	- Driver and equipment operator education and awareness programmes. - Speed control and enforcement. - Road safety awareness campaigns for the local communities. - Erection of barriers and signage around all construction sites. - Provide alternative routes for pedestrians, cyclists and non-construction traffic.
Heat stroke, skin cancer, hypothermia	- Provide appropriate PPE. - Provide adequate shelter for resting. - Provide sufficient quantities of potable water.
Respiratory illnesses from organic dusts, endotoxins, moulds, bacteria, etc.; musculoskeletal disorders	- Use of PPE. - Education and training on occupational health and safety issues.
Disorders from exposure to chemicals and antibiotics; dermatoses	- Use of PPE. - Safe storage, handling and disposal of chemical containers. - Provide education and training on the safe use of agricultural chemicals.
Respiratory illnesses from sugar cane burning; bagassosis	- Use PPE
Traumatic injury; communicable diseases	Driver training. - Speed enforcement and control. - HIV awareness training on causes and prevention of HIV.

Process for implementation of SECAP

Any assessments required during programme and project design are primarily the responsibility of the borrower country, as is the case for programme and project preparation in general and any further assessment deemed necessary during the implementation phase. The assessments will be proportionate to the risks and potential impacts of the programme or project. In addition, the borrower shall ensure adherence to the environmental and social covenants of the financing agreement and is responsible for the implementation and monitoring of the ESMP at the implementation stage. For category A projects, the environmental and social assessments will be carried out by independent experts. IFAD will support the process to ensure that both IFAD and borrower requirements are met, and in ways which recognize and enhance borrower capacity.

Environmental and Social Category

According to SECAP, three categories (A, B, C) are defined based on the likely significance of environmental and social concerns in relation to criteria shown below.

Category A: The programme and project may have significant adverse environmental and/or social implications that: (i) are sensitive, irreversible or unprecedented; (ii) affect an area broader than the sites or facilities subject to physical interventions; and (iii) are not readily remedied by preventive actions or mitigation measures.

Category B: The programme and project may have some adverse environmental and/or social impacts on human populations or environmentally significant areas, but the impacts: (i) are less adverse than those for category A; (ii) are site specific and few are irreversible in nature; and (iii) can be readily remedied by appropriate preventive actions and/or mitigation measures. While no formal ESIA is required for category B programmes and projects, in many cases further environmental analysis could be undertaken, or in some cases an ESMF is developed during project preparation or implementation. Category B projects require an ESMP, which is incorporated in the SECAP review note in the form of a matrix, showing the output from the environmental and social analysis.

Category C: The programme and project will have negligible or no environmental or social implications – no further environmental and social analysis is required. Projects in category C generally do not require additional environmental analysis because the activities have positive environmental impacts, or negligible or minimally adverse environmental impacts:

All projects entering the pipeline are subject to an environmental, social and climate risk screening, and are assigned a risk category for environment and social standards (A, B, C) and for climate vulnerability (high, moderate, low).

Given that the financial support anticipated through RUFIP III is minimal (micro-finance), serious health and social challenges will not emerge from the programme activities per se. However, with the increased production and operation of businesses supported under RUFIP III may have some environmental and social impact on human populations or environmentally significant areas and these can be readily remedied by appropriate preventive actions and/or mitigation measures and may require specific impact analysis to be undertaken or an ESMF to be developed. RUFIP III therefore falls under category B.

RUFIP III is not likely to be vulnerable to climate risks and thus voluntary measures could be incorporated into the detailed design and implementation phases based on the SECAP project assessment recommendations. These projects generally focus on investments which do not have a direct physical or geographical interface with climate hazards, such as the development of a microfinance institution. **C**limate vulnerability of RUFIP III is therefore minimal and the risk due to climate change is low.

Disclosure of documentation related to the SECAP process

The IFAD policy on the disclosure of documents, approved in 2010, adopted the principle of "presumption of full disclosure". The sharing of draft and final ESIAs and other relevant documents32 with programme and project stakeholders and interested parties will be subject to the above-mentioned principle. As such, the documents will be disclosed, when available, in a timely manner prior to project appraisal at the quality assurance stage (or other key stages during project implementation) on IFAD's website and in an accessible place in the programme- or project-affected area, in a form and language understandable to project-affected parties and other stakeholders, for the purposes of keeping them informed and obtaining their meaningful feedback.

IFAD's Grievance and Redress Mechanism (GRM)

IFAD has established a complaints procedure to receive and facilitate resolution of concerns and complaints with respect to alleged non-compliance of its environmental and social policies and the mandatory aspects of its SECAP in the context of IFAD-supported projects. The procedure allows affected complainants to have their concerns resolved in a fair and timely manner through an independent process. IFAD may be contacted by e-mail at SECAPcomplaints@ifad.org or via its website. In addition, IFAD will require the borrower to provide an easily accessible grievance mechanism, process or procedure to facilitate resolution of concerns and grievances of project-affected parties arising in connection with the project (on a case-by-case basis for projects that pose special risks). Grievance redress will use existing formal and informal grievance mechanisms, strengthened or supplemented as needed with project-specific arrangements, and will be proportionate to the risks and impacts of the project. Although IFAD normally addresses risks primarily through its internal reviews and quality assurance process and by means of project implementation support, it remains committed to: (i) working proactively with the affected parties to resolve complaints; (ii) ensuring that the complaints procedure and project-level grievance mechanism are easily accessible to affected persons, culturally appropriate, responsive and operates effectively; and (iii) maintaining records of all complaints and their resolutions.

3.3 Comparison of SECAP and National Policies

There are gaps between Ethiopian laws and regulations and the SECAP in the requirements for resettlement. These gaps relate to the general principles for resettlement, eligibility criteria, the notification period for expropriation and resettlement, and the procedures required throughout the resettlement process.

In the SECAP compensation must be completed prior to the start of the project, there are no similar timetables set out in Ethiopian laws or regulations. Additionally, there is no provision for relocation assistance, transitional support, or the provision of civic infrastructure under Ethiopian law.

Additionally, Ethiopian law does not make any specific accommodation for squatter settlers or illegal settlers, other than recognition of some use-rights, such as when settlers can claim rights to the land. Whereas SECAP requires even illegal settlers be consulted regarding project implementation and resettlement.

Contrary to SECAP safeguard policies, Ethiopian law makes no specific accommodations for potentially vulnerable groups such as women, children, the elderly, ethnic minorities, indigenous people, the landless, and those living under the poverty line. These groups are at highest risk to experience negative effects due to resettlement, and should receive special consideration during the preparation of a resettlement policy framework to assure that they can maintain at least the same standard of living after displacement takes place.

It is also important to note here that the safeguard document requirements and instruments such as ESMF, SEA and FPIC by IFAD are not recognized instruments by EFCCC. In this circumstance IFAD safe guard requirement will prevail.

4 Environmental and Social Setting

4.1 General Setting

Ethiopia is a landlocked country situated between 30 N and 150 N latitudes and 330 E and 480 E longitudes with a land area of 1.13 million km2. It has a diverse topography ranging from 110 m below sea level in the Danakil depression in Afar Region to the Ras Dashen peak at 4,620 m high in the Simien highlands of North Gonder in Amhara Region. Ethiopia is bordered by Sudan, Eriteria, Djibouti, Somalia and Kenya.

Population: Ethiopia is the second most populous country in Sub-Saharan Africa (SSA) with over 80 million people and a population growth rate of around 2.7% p.a. Women account for about 48% of the population. Approximately 20% of households are headed by women. Almost 50% of the population is under 20 years of age. 85% of the population lives in rural area being solely dependent on subsistence agriculture.

Climate: Ethiopia's topography is characterized by large regional differences; it is considered an arid country, but precipitation trends exhibit high annual variability. Ethiopia has three rainy seasons: June–September (*kiremt*), October–January (*bega*), and February–May (*belg*). *Kiremt* rains account for 50–80 percent of the annual rainfall totals, and most severe droughts usually result from failure of the *kiremt*. The lowlands in the southeast and northeast are tropical, with average temperatures of 25°–30°C, while the central highlands are cooler, with average temperatures of 15°–20°C. Lowlands are vulnerable to rising temperatures and prolonged droughts, while highlands are prone to intense and irregular rainfall.)

Ethiopia, home to 110 million people, is one of the world's most drought-prone countries. The country faces numerous development challenges that exacerbate its vulnerability to climate change, including high levels of food insecurity and ongoing conflicts over natural resources. Chronic food insecurity affects 10 percent of the population, even in years with sufficient rains. Roughly two-thirds of the population earns less than $2 per day and access to basic services is limited. Rainfed agriculture contributes nearly half of national GDP and is the mainstay of livelihoods for 85 percent of the population. These rural livelihood systems – crop cultivation, pastoralism and agro-pastoralism – are highly sensitive to climate. Food insecurity patterns are linked to seasonal rainfall patterns, with hunger trends declining significantly after the rainy seasons. Climate variability already negatively impacts livelihoods and this is likely to continue. Drought is the single most destructive climate-related natural hazard in Ethiopia. Estimates suggest climate change may reduce Ethiopia's GDP up to 10 percent by 2045, primarily through impacts on agricultural productivity. These changes also hamper economic activity and aggravate existing social and economic problems.

Land Use: The highlands generally have a temperate climate and cover about 50% of the total land area. The rest of the land is arid or semiarid. The highlands are the home of nearly 90% of Ethiopia's population; they support 75% of the national livestock herd; and, they account for 95% of the area under cultivation. More than 95% of agricultural production is based on dry-land farming and only 1.7% of the land defined as "arable and under permanent cultivation" is irrigated. Rainfall varies throughout the country, not only spatially but also temporally. Some areas of the south western highlands experience rainfall for most of the year (March to October), while rainfall in most of the rest of the country falls in the main rainy season (Kiremt - July to September) and also in the short rains (Belg – March to May). Mean annual precipitation ranges from more than 2,200 mm in the south western highlands to less than 200 mm in the east and south east lowlands. Variation in temperature is driven mostly by elevation. Because of Ethiopia's location near the equator and its elevation, seasonal changes in day length and incoming solar radiation are minimal and consequently have little impact on average temperatures.

Of Ethiopia's total land area it is that l5 percent is under cultivation and 5l percent is pastureland. It is also estimated that over 60 percent of the cultivated area was cropland. Forestland, most of it in the south-western part of the country, accounted for 4 percent of the total land area according to the government. These figures varied from those provided by the World Bank, which estimated that cropland, pastureland, and forestland accounted for l3, 4l, and 25 percent, respectively, of the total land mass.

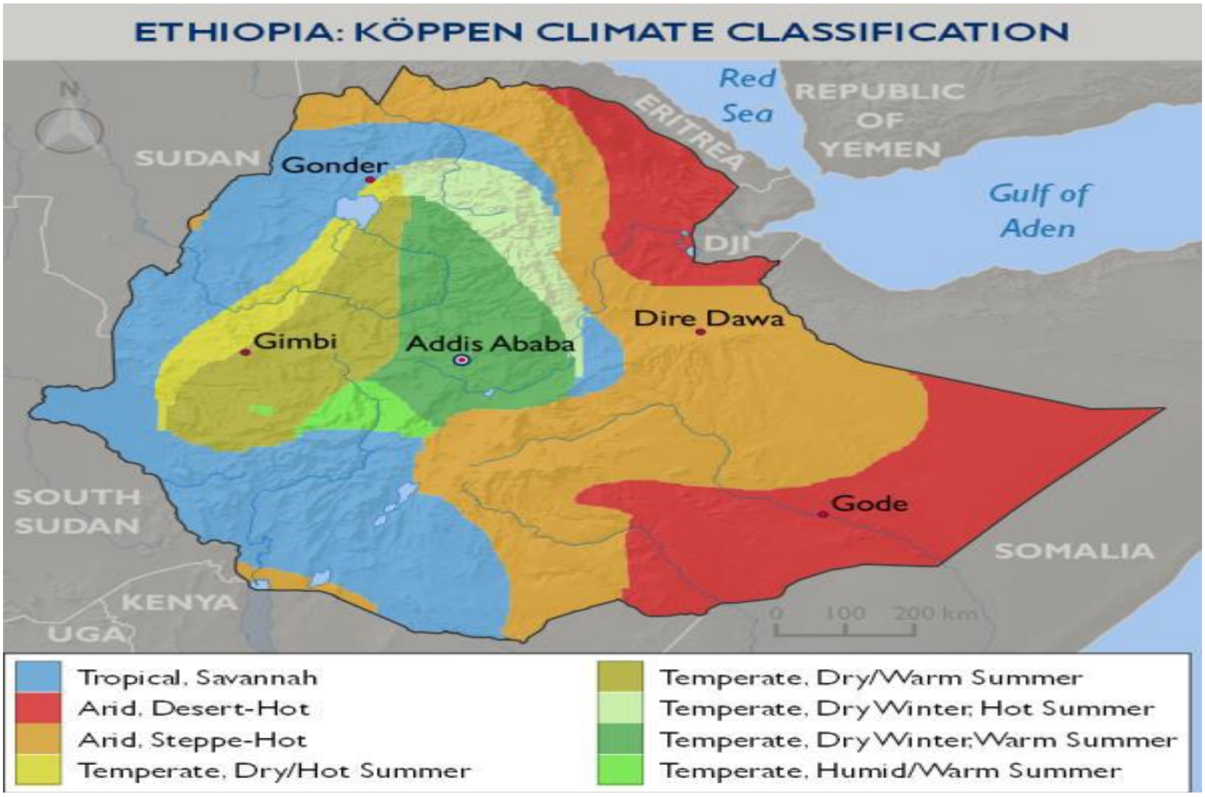
There are two predominant soil types in the highlands. The first, found in areas with relatively good drainage, consists of red-to-reddish-brown clayey loams that hold moisture and are well endowed with needed minerals, with the exception of phosphorus. These types of soils are found in much of Ilubabor, Kefa, and Gamo Gofa. The second type consists of brownish-to-gray and black soils with high clay content. These soils are found in both the northern and the southern highlands in areas with poor drainage. They are sticky when wet, hard when dry, and difficult to work. But with proper drainage and conditioning, these soils have excellent agricultural potential.

Sandy desert soils cover much of the arid lowlands in the northeast and in the Ogaden area of south-eastern Ethiopia. Because of low rainfall, these soils have limited agricultural potential, except in some areas where rainfall is sufficient for the growth of natural forage at certain times of the year. These areas are used by pastoralists who move back and forth in the area following the availability of pasture for their animals.

The plains and low foothills west of the highlands have sandy and gray-to-black clay soils. Where the topography permits, they are suitable for farming. The soils of the Great Rift Valley often are conducive to agriculture if water is available for irrigation. The Awash River basin supports many large-scale commercial farms and several irrigated small farms.

Soil erosion has been one of the country's major problems. Over the centuries, deforestation, overgrazing, and practices such as cultivation of slopes not suited to agriculture have eroded the soil, a situation that worsened considerably during the 1970s and 1980s, especially in Eritrea, Tigray, and parts of Gonder and Welo. In addition, the rugged topography of the highlands, the brief but extremely heavy rainfalls that characterize many areas, and centuries-old farming practices that do not include conservation measures have accelerated soil erosion in much of Ethiopia's highland areas. In the dry lowlands, persistent winds also contribute to soil erosion.

Most agricultural producers are subsistence farmers with small holdings, often broken into several plots. Most of these farmers lived in the Ethiopian Highlands, mainly at elevations of 1,500 to 3,000 meters. There are two predominant soil types in the highlands. The first, found in areas with relatively good drainage, consists of red-to-reddish-brown clayey loams that hold moisture and are well endowed with needed minerals, with the exception of phosphorus. These types of soils are found in much of the Southern Nations, Nationalities, and People's Region (SNNPR). The second type consists of brownish-to-gray and black soils with high clay content. These soils are found in both the northern and the southern highlands in areas with poor drainage. They are sticky when wet, hard when dry, and difficult to work. But with proper drainage and conditioning, these soils have excellent agricultural potential. According to the Central Statistical Agency (CSA), in 2008 the average Ethiopian farmer holds 1.2 hectares of land, with 55.13% of them holding less than 1.0 hectare.



Agriculture: is the mainstay of the economy accounting for about 42% of GDP, employing 80% of the labour force, and contributing about 90% of export earnings. Smallholder farmers account for about 96% of total agricultural production. Agriculture is dominated by a rain-fed (95%), low-input low-output subsistence farming system. Low agricultural productivity can be attributed, *inter alia*, to severe land degradation, poor farming practices, de-forestation causing severe erosion, population pressure (human and livestock), perceived insecurity of land tenure, and variable rainfall.

Agricultural landscapes are critical sources of ecosystem services required by people. Within a watershed, people living upstream and downstream are interdependent on resources such as water. In their efforts to secure their livelihoods, farmers may mine soils, leading to declined productivity, soil erosion, and increased greenhouse gases. Thedeteriorating resource base ultimately push farmers into poverty. Water continues to be a critical basic resource for improved productivity. Soils can contain water and are a main buffer against drought and floods and also climatic change through sequestration of atmospheric carbon. Soil and groundwater are natural, free reservoirs that hold orders of magnitude more water than all existing or conceivable man-made reservoirs. Good husbandry of soil, water and crops (soil and water conservation measures), enhances agricultural productivity, increases groundwater recharge and base flows in streams.

Crop agriculture is dominated by small-scale subsistence farmers who remain heavily dependent on rain (only 1 percent of cultivated land is irrigated), employ low-intensive technologies and lack access to services. This leaves the sector highly vulnerable to changing rainfall and other climate patterns. Limited water storage capacity further increases vulnerability to climate risks. Many farmers grow slow-maturing, high-yield “long cycle” crops that depend on two rainy seasons to reach harvest and are thus highly vulnerable to changes in seasonal rainfall. Most plots are less than 0.5 hectares and are insufficient to sustain household food security, much less generate adequate income, limiting household capacity to invest in improved farming practices that could increase climate resilience. Recurring drought and increasing desertification resulting from land use pressures have resulted in significant losses of arable land and rendered the country increasingly dependent on food aid. Crop productivity may increase in the short term due to warmer temperatures, but continued hightemperatures will result in heat stress and crop failure. By one estimate, Ethiopia will forgo more than 6 percent of each year’s agricultural output if the current decline in average annual rainfall levels continues in the medium term.

The population in the lowland peripheries (below 1,500 meters) is nomadic, engaged mainly in livestock raising. Sandy desert soils cover much of the arid lowlands in the northeast and in the Ogaden of southeastern Ethiopia. Because of low rainfall, these soils have limited agricultural potential, except in some areas where rainfall is sufficient for the growth of natural forage at certain times of the year. These areas are used by pastoralists who move back and forth in the area following the availability of pasture for their animals.

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Livestock: Livestock production plays an important role in Ethiopia's economy. Estimates for 1987 indicated that livestock production contributed one-third of agriculture's share of GDP, or nearly 15 percent of total GDP. In the 2006/2007 EFY hides, skins and leather products made up 7.5% of the total export value; live animals accounted for 3.1% of the total value of exports during the same period.

Although varying from region to region, the role of livestock in the Ethiopian economy was greater than the figures suggest. Almost the entire rural population was involved in some way with animal husbandry, whose role included the provision of draft power, food, cash, transportation, fuel, and, especially in pastoral areas, social prestige. In the highlands, oxen provided draft power in crop production. In pastoral areas, livestock formed the basis of the economy.

Ethiopia's estimated livestock population is often said to be the largest in Africa.It is estimated to number over 150 million in 2007/2008. Excluding the Afar and Somali Regions, there were approximately 47.5 million cattle, 26.1 million sheep, 21.7 million goats, 2.1 million horses and mules, 5.6 million donkeys, 1 million camels, and 39.6 million poultry. For the later two Regions, estimated numbers vary greatly between conventional and aerial censuses, but total less than 15% of the non-nomadic Regions. Though the raising of livestock always has been largely a subsistence activity, intensive, factory farm facilities are gaining in popularity.

Ethiopia has great potential for increased livestock production, both for local use and for export. However, expansion was constrained by inadequate nutrition, disease, a lack of support services such as extension services, insufficient data with which to plan improved services, and inadequate information on how to improve animal breeding, marketing, and processing. The high concentration of animals in the highlands, together with the fact that cattle are often kept for status, reduces the economic potential of Ethiopian livestock.

Cattle in Ethiopia are almost entirely of the zebu type and are poor sources of milk and meat. However, these cattle do relatively well under the traditional production system. About 70 percent of the cattle in 1987 were in the highlands, and the remaining 30 percent were kept by nomadic pastoralists in the lowland areas. Meat and milk yields are low and losses high, especially among calves and young stock. Contagious diseases and parasitic infections are major causes of death, factors that are exacerbated by malnutrition and starvation. Recurring drought takes a heavy toll on the animal population, although it is difficult to determine the extent of losses. Practically all animals are range-fed. During the rainy seasons, water and grass are generally plentiful, but with the onset of the dry season, forage is generally insufficient to keep animals nourished and able to resist disease.

Most of Ethiopia's estimated 48 million sheep and goats are raised by small farmers who used them as a major source of meat and cash income. About three-quarters of the total sheep flock is in the highlands, whereas lowland pastoralists maintain about three-quarters of the goat herd. Both animals have high sales value in urban centers, particularly during holidays such as Easter and New Year's Day.

Most of the estimated 7.5 million equines (horses, mules, and donkeys) are used to transport produce and other agricultural goods. Camels also play a key role as pack animals in areas below 1,500 meters in elevation. Additionally, camels provide pastoralists in those areas with milk and meat.[21]

Poultry farming is widely practiced in Ethiopia; almost every farmstead keeps some poultry for consumption and for cash sale. The highest concentration of poultry is in Shewa, in central Wollo, and in northwestern Tigray. Individual poultry farms supply eggs and meat to urban dwellers. By 1990 the state had begun to develop large poultry farms, mostly around Addis Ababa, to supply hotels and government institutions. Multinational agribusinesses supply these industrial poultry farms with high yielding breeds, such as Rhode Island Reds and White Leghorns.

The fact that the country achieved MDG 4, reducing the child mortality and the decline of HIV mortality has helped life expectancy to increase to 65.2 years in 2015 from 46.6 years in 1990. The Under 5 mortality rate and Infant mortality rate dropped from 203 and 122 in 1990 to 61.3 and 41.4 in 2015. The ministry of health has achieved this through the Health Extension Program by using a special implementation platform called Women Development Army.

Access to basic Services

Education: Prior to 1974, Ethiopia had an estimated illiteracy rate well above 90% and compared poorly with the rest of Africa in the provision of schools and universities. After the Ethiopian Revolution, emphasis was placed on increasing literacy in rural areas. Practical subjects were stressed, as was the teaching of socialism. By 2015, the literacy rate had increased to 49.1%. Recently, there has been massive expansion throughout the educational system. Access to primary is limited to urban locations and they are mostly owned by the private sector and Faith Based organizations. Primary school education consists of two cycles from grades 1 to 4 and grades 5 to 8. Secondary schools have two cycles from grades 9 to 10 and grades 11 to 12. Primary schools have over 90% of 7 year olds enrolled although only about half complete the two cycles. This situation varies from one region to the other and it is even worst in agro-pastoral locations, such as Somali and Afar regions, as well as in the growing regions such as Gambella and Benshangul Gumz. A much smaller proportion of children attend secondary school and even fewer attend the second cycle. School attendance is lowest in rural areas due to lack of provision and alternative occupations. The school curriculum in later years covers more subjects at a higher level than curricula in most other countries. Low pay and undervaluation of teachers contributes to poor quality teaching. This is exacerbated by large class sizes and poor resources resulting on poor performance on national assessments. There is evidence of corruption including forgery of certificates. Many primary schools have introduced mother-tongue teaching but there have been difficulties where small minority languages are concerned. English medium instruction remains a problem throughout the later years of education. Girls' access to education has been improved but early marriage decreases their attendance. Girls' educational attainment is adversely affected by gender stereotypes, violence, lack of sanitary facilities and the consequences of sexual activity. Jimma University is addressing some problems women experience in higher education. TVETs have introduced competence based assessments although many lack adequate resources. Teacher training has been up-graded. All higher education has been expanding but this has not been accompanied by sufficient expansion in staffing and resources. There have been difficulties in introducing BPR with poorly paid university staff supplementing their incomes where possible. Universities need to match training to market demands. All colleges and universities suffer from the same disadvantages as schools. Library facilities are poor, classes are large and there is lack of equipment.

Ethiopia has made enormous strides in education provision over the last decade. Primary school enrolment increased from 2.871 million in 1990-91 to 9.537 million in 2003-2004, a more than three-fold increase. At the secondary education level, enrolment increased from 453 985 in 1990-91 to 780 205 in 2003-04, a 70% increase. Higher education has increased from 31 000 students before 2000 to 172 522 in 2003/2004, a five-fold increase. Despite the tremendous increase in primary enrolments over the past decade, Ethiopia nevertheless faces serious and increasing challenges. Due to the high rate of population growth, it may in fact have to more than double its present enrolments to achieve primary education for all. The largest percentage of out-of-school children is in the rural areas. A comparison of rural and urban enrolment in 2003/2004 indicates that 68.9% of primary enrolment was in rural areas and 31.1% in urban areas. However over 80% of Ethiopia's population lives in rural areas. And even for those who manage to get into school, only 72% of rural children make it to Grade 3, and 25% up to Grade 8. The gender gap in Ethiopia is also significant, at about 18 and 12 percentage points difference for primary and first cycle secondary schooling. At higher education levels there is as much as a 50 percentage points difference in the enrolment of women as compared to men. In order to achieve gender parity, specific steps that favor girls' admission to teacher training institutes, colleges and universities have been taken in the last seven years.

Health: Inaccessibility, water shortages, and infestations of disease-causing insects, mainly mosquitoes, prevented the use of large parcels of potentially productive land. In Ethiopia's lowlands, for example, the presence of malaria kept farmers from settling in many areas.

Ethiopia is the second most populous country in sub-Saharan Africa, with a population of over 94.1 million people. As of the end of 2003, the United Nations (UN) reported that 4.4% of adults were infected with human immunodeficiency virus/acquired immune deficiency syndrome (HIV/AIDS); other estimates of the rate of infection ranged from a low of 7% to a high of 18%. Whatever the actual rate, the prevalence of HIV/AIDS contributed to falling life expectancy since the early 1990s. According to the Ministry of Health, one-third of current young adult deaths are AIDS-related. Malnutrition is widespread, especially among children, as is food insecurity. Because of growing population pressure on agricultural and pastoral land, soil degradation, and severe droughts that have occurred each decade since the 1970s, per capita food production is declining. According to the UN and the World Bank, Ethiopia in 2005 suffered from a structural food deficit such that even in the most productive years, at least 5 million Ethiopians require food relief.

The health service sector at woreda level is expected to provide basic health services to mothers and children. In addition, a woreda health center makes provision of basic health services that help to prevent communicable diseases, provide basic medications and provide basic health package services. A woreda administration has a role to monitor the basic health services delivered to citizens in the locality.

The most common problems in health services are unavailability of health professionals, shortage of basic drugs and health services, unavailability of sufficient and quality health equipment and facilities. Implementing partners through involving the community and with appropriate application of social Accountability tools can increase citizens' knowledge of the government's policies regarding the government basic health service planning, budgeting and delivery.

The under-five mortality rate has declined from 166/1000 live births in 1996-2000 to 123/1000 live births in 2001-2005. It is projected to decline further to 85/1000 live births in 2009/10. The trends in infant mortality and under-five mortality rates for Ethiopia between 1986 and 2010 are shown in the table below. Although current levels are still high, the trends are quite encouraging. According to estimates from the Ethiopian Demographic and Health Surveys (2000 and 2005), the infant mortality rate declined from 97 per 1000 live births during the period 1996-2000 to 77 in 2001-2005 and it is projected to decline to 45 by the year 2009/10. About 90% of the under-five mortality is attributable to pneumonia, neonatal causes (pre-maturity, asphyxia and sepsis), malaria, diarrhea and measles. On the other hand, malnutrition and currently HIV/AIDS are the major underlying causes.

In terms of disease burden, major causes of death are infectious diseases (TB, respiratory illnesses, malaria, gastro-intestinal infections, meningitis, AIDS and leishmaniasis). Nutritional disorders rank among the top problems affecting the population in general and children and mothers in particular. Malaria is the major cause of morbidity and mortality in the country with an estimated 4 to 5 million cases and with proportional mortality rates of 13 to 35% and case fatality rates of 15 to 17% in health facilities every year. The HIV epidemic has taken off rapidly over the last two decades and prevalence was estimated at 4.4% of the adult population is 2003. At present, the epidemic is considered stabilized in urban areas with a slight increase in rural areas. The ICPD+15 country report by Ethiopia indicates that the number of persons who received HIV counseling and testing rose from 448 241 in 2005 to 2.3 million in 2007; the number of HIV patients receiving ART services increased from 900 to 122 243; and the number of those who received services in the prevention of mother to child transmission increased from 2 208 in 2005 to 12 000 in 2007. The major factors that fuel the spread of the HIV/AIDS include: poverty, low level of literacy, stigma and discrimination, gender disparities and the existence of commercial sex, population movement including rural-urban migration, and harmful traditional practices. HIV/AIDS in turn exacerbates the poverty situation, thereby creating the vicious circle of aggravating the ulnerability of individuals and communities. The estimated burden of tuberculosis amounts to 196/100 000 for 2003, and its proliferation is largely attributed to the chronic high rates of malnutrition (worsened by frequent severe droughts), overcrowding, physical stress, emotional anxiety and the high prevalence of HIV/AIDS.

The most recent national estimate shows that over 1 million people were living with HIV in Ethiopia in 2008, and HIV prevalence is estimated at 2.2% (7.7% urban and 0.9% in rural). Women and children constitute the group most affected by the epidemic. About 59% of people living with HIV in the country are female, 68 136 children under age 15 years are living with the virus, 79 183 pregnant women are HIV-positive and 14 093 HIV-positive births are expected to occur from positive pregnant

mothers. In 2008, there were an estimated 5 459 139 orphans; 886,820 of these children were orphaned due to AIDS.
Although some progress has been recorded in the health indicators in the country in general, major reproductive health indicators reveal a state of extremely poor health status. The average maternal mortality ratio for the period 1994-2000 was 871 deaths per 100,000 live births, which declined to 673 by 2005 (EDHS, 2000, 2005). Skilled attendance at birth is at a low rate of about 8%, and only 5% of babies born are delivered in health facilities. Only 10 % of mothers receive post-natal care. About 25,000 women die every year due to complications related to delivery, and 500,000 are left with complications, including obstetric fistula. It is estimated that abortions account for about 50 percent of total gynecological and obstetric admissions in the country.
Excess to basic services

Water supply and sanitation: Typical problems of the water and sanitation service in any woreda of the country as assessed in ESAP1 are inadequate budget allocation for the sector, poor accessibility, availability and quality of water supply and inadequate maintenance of the water supply, etc. In some cases, despite there is somehow sufficient infrastructure for the water supply, there is a poor management system of the water supply due to limited communication between the service providers and service users.

Rural Road: In most woredas of the country, inaccessibility, poor quality and poor maintenance of rural roads are common problems, in which social accountability initiatives can play a role for improvement. The CSOs through working together with the respective woreda officials, can mobilize the community, while woreda administrations provide baseline data to the regional government on accessibility, service level and demand of the rural roads service sector in the locality.

4.2 Environmental and Social Setting Specific to the Regions

The baseline environmental and social conditions are described hereunder on the basis of the fact that the locations of the project are distributed in the whole country. Therefore, the approach followed in this case is that, since these locations could be anywhere, it is better to describe the environmental situations of the Regions that totally form the bulk of the country. That is, the environmental and social descriptions do not refer to specific project sites. The country is composed of nine regional states. Description of the bio-physical environment and social baseline situations of these regions are described below.

4.2.1 Afar National Regional State

(a) Bio–Physical Environment

Afar region lies in the arid and semi-arid climatic zone within the Great Rift Valley of East Africa with irregular drainage systems and depressions. It lies in the geographic location between $8^{0}49'$ and $14^{0}30'$ N latitude and $39^{0}34'$ to $42^{0}28'$east longitude. The land area of Afar Region is about 94,817 km^2, and is divided into five Zones with 32 Weredas and 401 Kebele administrative structures.

Topography

The topography of the Afar region varies from hilly escarpment in the western and southern edges with an altitude of 1,000 – 1,500 masl to low plain land areas in the north east and south east. The altitude of the lowlands fall between 0 and 1,000 masl while there are some areas below sea level. Over 95% of the Afar Region lies in the altitude range below 1,000 masl. About 8% of the total land area lies below sea level. This region is also known for its lowest altitudinal location (depression) in the world, having depths as low as 114 meters below sea level in the Danakil depression in the northern part of the region.

Climate

The region is one of the areas having high temperature and low rainfall. Temperature in the region ranges from a mean maximum temperature of 42.5^{o}C in the area of Doubti Woreda and mean minimum temperature of 17.8^{o}C in the high altitude zone at Gewane. The area has moisture index of less than 0.25 and receives mean annual rainfall of 200 mm.

Severe dry season occurs in May and June at regional level. This season has the hottest temperature. The main rainy season occurs between July and September, while short rain stays between March and April. Rainfall ranges from 500 mm on the western edges of the regional state to 200 mm in the lava plains to the eastern part of the region.

Geology and Soils

According to geological map of Ethiopia (1996), the geological formation of the area includes:

- Afar series; mildly alkaline basalt with subordinate alkaline and pre-alkaline silicics (rhyolitic dome and flows and ignimbrites).
- Basalt flows, spatter cones and hyaloclastites, (a) Transitional type between alkaline and tholeitic. (b) Alkaline olivine basalt.
- Undifferentiated alluvial, lacustrine and beach sediments.
- Alkali granite and syenite.
- Rhyohitic Volcanic centres, obsidian pitchstone, pumice ignimbrite, tuff subordinate truchaytic flows (alkaline and pre-alkaline composition), and
- Alluvial and lacustrine deposits: Sand silt clay diatomite, limestone and beach sand.

The major soils of the region in general include:

- Fluvisols /12.57 %/, which are fertile and easy to work with (this soil type is found along the river courses),
- Leptosols /20.60 %/ (found along plateau margins and steeper slops) that have rocky characteristics,
- Eutric Regosols /18.88 %/ (found on gentle /undulating/ rolling, moderate to high relief hills),
- Eutric Cambisols and Vertic Cambisols /8.06 %/, and
- Solonchaks /18.72 %/ which are typical soils that develop in arid climatic conditions and most plants cannot grow on them.

The soils of the region have limited fertility value. The fertile soils of the region include fluvisols found adjacent to major stream courses.

Vegetation Cover and Wildlife

The vegetation cover of Afar in general is sparse and the area is prone to desertification. Over 70% of the land area in Afar region is bare land. The main vegetation types in the region include the following:

- Juniperous olea forest rising to less than 7m in height;
- Riparian Woodlands/ forest, species constituting varieties of acacia trees;
- Shrub land; predominantly acacia species and prosopis; and,
- Bush land; the dominant species include acacia and balanites species.

Wildlife resources of the region are rich. Wildlife of the area is those that are most adaptive creatures to the arid and semi-arid lands of the region.

Land use / Land cover

As of 1999, the major portion of the land in the region is bare land (70.09% of the Region’s area) followed by shrub land (13.68% of the Region’s area).

Water Resources

There are number of rivers in the region including: Awash, Mille, Kessem, Kebena, Awura, Gulina, Dawie, Borkena, Telalk, Woama, Alaa and other streams. The other major water sources of the region are Lakes. There are twelve relatively large lakes and five ponds in the region. Two of the largest lakes are Afdera Lake and Abe Lake which are found in zone 1 and 2 of the Region. The smaller ones include Lake Asahle, Lake Dalol, and Lake Gemeri. Groundwater is also the major source for potable water supply in the region.

(b) Socio-economic Environment

Population, Religion and Ethnic Group

As per the estimations made by the CSA, for the year 2016 (July), the total population was estimated to be 1,769,002 with a male population of 969,001 and female population of 800,001. In the same period, the rural population the urban population was estimated to be comprised 81.5% and 18.5% respectively. The population density is 21.6 persons/square kilometre on an average. The major ethnic groups of the regional state include Afar, Amhara, Tigray and others. The dominant occupation in the Region is pastoralism. Over 90% of the population is pastoralist community. Afar Region is one of the pastoral areas in Ethiopia, where extensive herding is practiced.

Cultural Heritage and Tourism

Afar region is rich in cultural assets. The archaeological findings from the Region have revealed that it is one of the cradles of mankind. The hominid relic of the world renown, “Lucy”, was found in Hadar area of the Region. This site is considered as an attraction area for scientific research to decipher or figure out man’s origin. The research sites such as Hadar and the middle Awash, that consist fossil and handicraft remains of human ancestors, are attractive destinations for tourists all over the world.

There are potential for tourist attraction in the area, including paleo anthropologic and wildlife resources as well as the Afar traditional way of life. Ertele and the Afar depression are sites of scientific research both of natural science as well as human civilization.

The Yangu Dirasa National park, the Awash National Park hosts number of wildlife species for tourism and biodiversity conservation.

The economic benefits from such tourism also termed as ‘paleotourism’ has not yet developed. But it could be known that eleven new sites have been identified to be considered for research and eventually for ‘paleotourism’.

4.2.2 Tigray National Regional State

(a) Bio-Physical Environment

Topography

Topography of Tigray Region is mainly the extension of the central highland and associated western lowlands and is divided into two major blocs; the eastern bloc comprises of highlands while the western bloc is predominantly lowland. Altitudes range from 500 meters up to 3,900 meters above sea level. It is situated between $12^0$15' N and $14^0$57' N latitude and between $36^0$59' E and 40^0 E longitudes with an estimated area of 53,638 km^2.

Climate

Tigray Region falls within 6 ecological zones (desert, Kola, Woina Dega, Dega and Wurch). Part of the Tigray regional state, that is, the eastern and southern zones, where Mekele is situated receive peak rain in April and August, whereas the western and central part receive single maximum rainfall between June/July to August/September and for the north western part, the wet period runs from April/ May to October/November. The mean annual rainfall for the region ranges from 600 mm in the north-eastern part to 1,600 mm in the western part of Welkait Wereda. Temperature ranges between

16^0 C and 20^0 C in the eastern and central highland part while in the lowlands of the western zones it is 38^0C to 40^0C.

Geology and Soil Type

The geology of Tigray comprises low-grade Metamorphic, Paleozoic and Mesozoic rocks. Tertiary volcanic, quaternary deposit and acidic to basic/ ultra basic intrusions are also some of geological feature of the region.

Major soil types of the region identified in a study conducted in 1976 is quoted by the Bureau of Planning and Economic Development (Report of 1998) as: orthic Acrisels, chromic and Eutric cambisols, Humic cambisols, Vertic cambisols and Vertic luvisols, Eurthic fluvisols, dystric nitosols, Eutric Nitosols, Euric rogosols, Haplic Xerosols, Cambic Arenosols, and chromic Andisols.

Water Resources

There are three major river basins and a valley in the Tigray Region: Tekeze basin, Mereb basin, Afar basin and Angereb valley. Some of the surface water sources comprise Tekeze River, Sure River, Mai Tell River and Mai Hitsatsa River. Groundwater source is abundant and is the major water supply source in the area.

Vegetation and Wildlife

Due to human interference and early settlements in this part of the country, the major vegetation has been destroyed. Accordingly, the vegetation cover of the region is divided into forest, woodland savannah and grassland regions.

The plant species include Acacia trees mixed with savannah, juniperus trees mixed with savannah, and mixed deciduous woodland. The vegetation cover of the north-western zone of the region comprises of grass land, scattered bush and scrub covered and dense forest covered land. There are protected forest areas in Tahitay Adiabo and Atsgede Tsimbela Weredas of western zone. This includes Maikohni forest area, Adi Tsetser, Adi Ascere areas and Enda Tanki protected site. The region has varied wildlife species including hyena, tiger, monkey and fox.

(b) Socio- Economic Environment

Population, Ethnicity and Religious Groups

According to the population estimates of the CSA, for July 2016, the total population of Tigray was 5,151,998 out of which 2,539,997 were estimated to be male while the remaining 2,612,001 were female. In terms of this estimate, 74.2% were rural inhabitants while the balance, i.e. 25.8% was urban inhabitants.The density in Tigray Region in this time was 116 persons /square kilometre. There are a number of ethnic groups that inhabit the Region. Tigray being the major ethnic group, there are also Kunama, Saho, Agew, Argoba and others in smaller proportions.

Cultural and Historical Heritage

Tigray has rich cultural and historical resources and high potential for the tourism industry. In Tigray Region, the colossal obelisks, rock-hewn churches, ruined temples, palaces, mosques, church paintings, stone inscription and manuscripts are some of the ancient Ethiopian properties that have tourist attraction values. The Axum Obelisks, the rock-hewn churches are the major tourist attractions of the Region.

4.2.3 Amhara National Regional State

(a)Bio - Physical Environment

Topography and Climate

The Amhara National Regional State has diverse topographic features, with rugged mountains, extensive plateau and scattered plain separated by deeply cut gorges, steep slopes and cliffs. The elevation varies from 600 masl at Matera up to 4,620 masl at Raps Dashed.

The Amhara National Regional State is located between 9^0 N and 13^0 45' North latitude and 36^0 to $40^0$30' East longitude. It is bounded by Tigray in the north, Oromia in the south, Benishangul Gumuz in the west and Afar region in the east. The Regional State has a land area of about 161,828 km^2 (15% of the land area of Ethiopia).

Climate

The climatic condition of the Region is divided into temperate (Dega), subtropical (Woina Dega) and arid (Kola) agro-climatic zones. Mean annual rainfall of the Region varies from 700 mm to over 2,000 mm and the temperature range is between 10^0 C and 26^0 C. There are two rainy seasons, while short rain occurs during March, May, and April, heavy rain is during June, July and August.

Geology and Soils

The Precambrian rocks, Cenozoic rocks and Mesozoic rocks cover most part of the Amhara Region. The soil of the region includes: Arthic Acrisds, cambisols, Rendizinas, phaeozems, Lithisols, Aluvisds, and vertislols. Soil erosion is the major environmental degradation problem in the Region due to lack of vegetation cover and rugged topography. Soils in the Region are highly eroded as compared to other parts of the country. According to a study conducted in 1984 E.C, the quantity of soil loss in Amhara Region was estimated at 1.1 billion tons per year. This accounts for 58% of the total annual soil loss of the country in general during the time.

Water Resources

There is an abundant water resource in the Region. The major water resource basins in the region are the Abay River /Blue Nile/, Tekeze River and Awash River basins. There are also several lakes like Lake Tana, Lake Zengena and Haik. Ground water resource is abundant and it is the major water supply source in the region.

Vegetation and Wildlife

The natural forest in the Region is heavily depleted and degraded by intensive human interference, mainly for agricultural purpose and for energy (firewood) production. Currently less than 10% of the total estimated forest area is considered to be natural forest in the Region. The rest are scattered wood lots (planted by individual farmers on different land use types) and plantation forests (those that have been planted for different purposes).

Indigenous tree/shrub in the area include: olea, africana, Juniperous procera, podocarpus falcatus, Acacia species, hygenia abyssinica, ximenia american and Ficus though some of these are diminishing in the area due to human activities.

Wildlife availability among other factors depends on the extent of vegetation cover of a given area. Parks of the Siemen Mountains are preserved for the most endangered species, such as Walia Ibex, Siemen Fox, Gelada Baboons and different species of birds, most of which are endemic to Ethiopia. Endangered bird species in the region include: Harwood, Francolin and Ostrich.

The Siemen Mountain National Park and protected areas of main bird sanctuaries like, Lake Tana, Ankober -Debre Sina mountain, Awi Zone, Choke Mountain, Fogera, Guasa/ in Menze/, Jama and Jara valley, Middle Abay valley, Gofa Forest are found in the region.

Land Use/ Land Cover

As of 2002, the Region is largely covered by grazing land, which is followed by cultivable land having 30% and 28.2% respectively of all the area coverage of the region during the time.

(b) Socio-economic Environment

Population, Ethnic and Religious Group

As per the population estimates of the CSA, in July 2016 the Region's total population was estimated to be 20,769,985, which constituted 10,401,995 males and 10,367,990 females. In the same estimation, the rural population was estimated to be 83.2% whereas the urban population constituted 16.8%. The population density of the region during this period was 119.8 persons/ square kilometre.

Socio-Cultural and Historical Heritage

The Amhara Region is rich in cultural and historical heritages. Very old Monasteries, rock-hewn churches, palaces and castles are found in the region. The Lalibella Rock-hewn Churches, the Gondar Castle that are registered as International Cultural Heritage sites are found in this Region. There are several monasteries in Lake Tana Islands, which is also the origin of Blue Nile (Abay) River. The Blue Nile Falls is found just few kilometres downstream of the Regional Capital, Bahir Dar, which is a tourist attraction site.

4.2.4 Oromia National Regional State

(a) Bio- Physical Environment

Topography and area

The Oromia National Regional State is located in the central part of the country and extends from south-east, bordering with Kenya in the south part and up to the Sudan border in the western part. It has an area of 353,690 km^2 (32 % of the country). Oromia National Regional State lies between 3^0 40' N and 10^0 35' N latitude and 34^0 05' E and $43^0$11' E longitude.

The topographic features of the Region have been characterized by immense geographical diversity consisting of high rugged contoured mountains dissected by the great African Rift Valley. The high mountains include Tulu Dimtu in Bale (4,307 masl), Kecha (4,245 masl), Ankolo (4,300 masl) in Arsi, Gara Mulat in East Hararge (3,492 masl) and Bada Roge in Shewa (3,350 masl).

The Regional State has topographic features of mountainous and rolling terrain in the north-western and north-eastern parts, valleys and gorges in the central and eastern, flat and plain land in the south and south-eastern part. Altitude in the Region varies from 500 masl in the south eastern part to 4,300 masl in the central and north western parts.

Climate

The east and southern parts are dominated by arid climate while the central and north western parts are more of temperate climate. The lowlands (500 - 1,500 masl) experience mean annual temperature of 20^0 C – 25^0C, areas of altitude 1,500 - 2,300 masl have mean annual temperature of 15^0 C – 20^0 C, while the highland areas (2,300 - 3,300 masl) have mean annual temperature range of 10^0 C – 15^0 C. Mean annual rainfall ranges between 200 mm in the south east to 2,000 mm in the north western part of the Region.

Geology, Physiographic Divisions and Seismicity

The major part of Oromia falls in the Great Rift Valley of East Africa and is tectonically unstable. It appears to be a zone of volcanic and seismic activities. There are six physiographic sub-regions in Oromia: the Rift lakes plain, the transitional scrap slopes, the young lava plain, zone of ancient crystalline rocks, the central lava highlands and massifs and zone of Mesozoic sedimentary rocks. The geology of the region consists of: Rocks of the Precambrian era, Rocks of the Paleozoic era, Rocks of the Mesozoic era, and Rocks of the Cenozoic era.

Soil

The major soil types of the area constitute Luvisols, Andosols and Fluvisols commonly found in the plain lands of river banks and lake shores. Andosols are formed from volcanic ash parent material.

They are light, loose, porous and have high drain capacity and easily eroded by rain or wind action. Andosols have limited agricultural value. Luvisols on the other hand are good for agriculture.

Water Resource of the Region

There is an abundant water resource including surface and ground sources. Oromia possess three major drainage systems or river basins: Rivers that drain to the Blue Nile (Abay) and the Mediterranean Sea, Rivers that drain to the Indian Ocean and the Rift Valley Closed drainage system. Major rivers in the country like Blue Nile (Abay), Jemma, Muger, Guder and Anger Didessa, Awash, Gibe, Wabe Shebele, Dawa, Genale, Weyb, Dabuss, traverse the Oromia Region. Most of the rift valley lakes in Ethiopia, like Lake Langano, Zeway, Abiyata, and Shalla are found in Oromia. The wetland ecosystem of these water bodies has significant environmental and socioeconomic values.

Vegetation Cover and Wildlife

Oromia region possesses most of flora and fauna types found in Africa, and several endemic species. There are about 12 million ha of woodland and bush land covering 32% of the Region. There is also 70 percent of the national forest priority areas located in Oromia: the Munesa (1,385 ha), Tiro Boter Becho (8,500 ha), Menagesha Suba (9,000 ha) are set aside as Nature Reserves.

The region has dense forest cover in the central, south western and western areas, while southern and south-eastern areas are covered mainly by sparse vegetation, bushes and scrubs. The vegetation types are varied including Coniferous forest, broad leaved forest, woodland and savannah, grassland, riverine forests and wetland vegetation.

There are parks and protected sites in the region, including Awash National park (partly) Abijatta–Shala National Park, Bale Mountain National Parks, Yabelo mountains, Controlled hunting zone of Borena, wildlife Reserves (Sanctuaries) of Babile, Senkele, and Yabelo. There are also Game Reserves in Arsi, Bale and Borena with over 20 Main Bird Sanctuaries. Those parks and protected areas host variety of wildlife and important bird species Wide varieties of wild animals exist in the Region. They include, Mountain nyala, the Giant molerat, Ethiopian Wolf, Minilik’s Bushbuck, Bohor reed buck, Grey duiker, Oribi, Klipspringer, Grant’s Gazelle, Greater Kudu, Lesser kudu, Swayen’s hartebeest, Gerenuk, Burchell’s Zebra, Warthog, Giant forest hog, Bush pig, Colobus, Monkey, Anubis baboon, Spotted hyaena, Serval cat, Lion, Leopard, Golden jackal and African Hunting dogs.

(b) Socio-economic Environment

Population, Ethnic and Religious Group

For the year July 2016, the CSA estimated the total population of Oromia Region as 34,575,008 that comprised of 17,345,004 male and 17,230,004 female. In this estimation, the urban population and the rural population constituted 85.2% and 14.8% respectively. Ethnic group residing in the region is also varied, the majority being Oromo, followed by Amhara, and several other ethnic groups. The density of the population is 106.8 persons / square kilometre.

Archaeological and Cultural Heritages

The Sof Oumar Cave, the Aba Jiffar palace, etc are found in the Oromia National Regional State as sites of cultural heritage. The Sof-Omar caves in central Bale, with their galleries of polished white cone and chamber of columns are the incredible natural phenomena of great interest and beauty. The palace of Aba Jifar in Jimma is another historical attraction.

In general, Oromia National Regional State is rich in tourist attraction resources that could be categorized in to the following major categories-

- Natural forests with wide range of wild plant species;
- Wild animals and birds of various species including endemics;
- Several rivers with their multiple spectacular waterfalls;
- Rift valley lakes and highland crater lakes;

- Magnificent landscape scenery (mountain chains, river gorges);
- Diversified local cultures with their distinct ethnography, art, traditional practices;
- Historical heritages; and,
- Natural wonders of unique forms.

4.2.5 Benishangul Gumuz National Regional State

(a) Bio-Physical Environmental Conditions

Topography

The Region is stretched along the western escarpment of Ethiopia between Gambela Region in the south, the Sudan to the west and Amhara and Oromia Regions to the northeast and east. Benishangul-Gumuz National Regional State has an altitude ranging from 600 masl up to 2,000 masl and has topography dominated by river valleys which join the Abay River before it enters the Sudan.

The areas around Wonbera are characterized by rugged mountain ranges like Gassangassa mountain range, Bedessa & Kushaya Mountains. The road route traverses flat terrain from the Guba side while the segment from the Wonbera side has rolling terrain & hilly topographic feature.

Climate

The climatic condition of the area is varied, like most part of the country. It has climatic condition of 85% Kola (Hot climate), 10% Woina Dega (Semi –Temperate) and 8% has Dega (Temperate) climatic conditions. The annual rainfall in Metekel zone of the Region ranges from 600 mm to 1,450 mm. The rainy season stays from April/May up to October/November. The dry period is between February and April. Annual temperature of Metekel zone ranges between 18^0C and 40^0C.

Geology and Soils

The geological formation of the area is characterized by Tulu Dimtu Groups and Tonalities. Meta Basalt, Meta Andesine, green schist, phyllite, Meta conglomerate, quartzite and Marble, precious materials like Gold are also available in the area.

The regional soil is fertile and has high agricultural potential with favourable agro-climatic conditions. It is estimated that 911,876 ha of land in the region has potential for agricultural development, out of which only 233,200 ha could be cultivated.

Water Resources

The region has high water resource potential. Abay/Blue Nile, Didessa and Beles Rivers are among the major water sources in the region. There are over 32 perennial rivers in the Metekel Zone, most of which have potential for irrigation.

Vegetation and Wildlife

Benishangul-Gumuz National Regional State is endowed with a variety of natural resources. Over 50% of the land is covered with natural forest, which also has commercial value. The woodlands in the Region are the Doqma woodland, the Sudanian woodland, palms and bamboo and riverine forest.

Benishangul-Gumuz region lies in the Abay and Baro drainage basin and is one of the few areas that still have significant part of its landmass covered by natural vegetation. It is estimated that 55% of the land is covered by Bamboo, broad-leaved deciduous woodlands, acacia & cacao woodlands. Riverine forests are predominantly found along the river courses. Some of the tree species found in the area are endemic ones for Ethiopia.

The Region has varied wild life species. Wild animals including Elephant, Giraffe, Rhinoceros, Hippopotamus, Buffalo, Roan antelope and Hartebeest, Lion, Tiger, Patas monkey and Anubis baboon are found in the region. Estimates indicate the availability of about 40 species of larger mammals and estimated bird species of 500-550. Game Reserve and main bird Sanctuary of Dabus is found in the Region.

Land use/Land cover of the Region

As of 2002, Woodland and scrublands have the two largest shares of land use with 49% and 28% respectively.

(b) Socio-economic Environment

Population, Ethnic and Religious Group

The number of population estimated for July 2016 by the CSA was 1,033,999 i.e. 524,000 male and 509,999 female. As per this estimation, the rural population constituted 79.2% while the remaining 20.8% was estimated to be urban population. The density of the population in the Region is 18.5 persons/square kilometre. There are a number of ethnic groups that inhabit the Benishangul Gumuz Region. The major ethnic groups are Berta (26.7%), Gumuz (23.4%), Shinasha (6.9%), Amhara (22.2%), Mao (0.8%) and Oromo (12.8%). The major religious groups are Orthodox Christianity (34.8%), Traditional Religion (13.1%), Protestants (5.9%) and Islam (44%).

4.2.6 Gambela National Regional State

(a) Bio-physical Environment

Topography

The Gambela National Regional State is situated in the south-western part of Ethiopia at 7^0 N - $8^{\,0}$ 17' North latitude and $33^{\,0}$ E - $32^{\,0}$ 2' East longitudes. The altitude of Gambela lies between 300 and 2,500 masl.

Climate

Gambela is subdivided into three agro ecological zones: Woina Dega, Kola and desert agro – ecological Zones.

In general, the Region has warm temperature ranging from 27^0C to 33^0C. However, temperature as high as 45^0C occurred in March and as low as 10^0C in January had been recorded.

The average annual rainfall varies according to the different altitudes. Areas of 400 - 500 masl of the western part receive 900 mm - 1500 mm, while areas over 2,000 masl (eastern part) have average rainfall ranging from 1,900 to 2,100 mm.

Geology and Soils

The Gambela Region falls within the Baro-Akobo River Basin which consists primarily of basement crystalline with eastern upland covering tertiary lava in some places and Quaternary sediments in the lowlands to the west.

Mineral resources of the area include gold, tungsten, granite, crude oil and construction material. The area is dominantly covered by alluvial and lacustrine deposits: silt, sand, clay, diatomite, limestone, Enticho sandstone, Glacials, Gura and Filo formations and sand stones.

The soils of the region are divided into two major classifications as upland soils and fluvisols (along the river course). The soil fertility is very high and not been exploited much.

Vegetation and Wildlife

Gambela Region is endowed with vast natural resources. The main habitats of Gambela Region are forests, woodlands, swamps and rivers. Out of the total area 25% of the land is covered with forest. Savannah, tropical forests and seasonally flooded grass plains also inhabit the area. The eastern part of the region is covered with natural high forest. Woodlands, bush lands and Savannah woodlands inhabit the central plain lands of the region with altitudes below 600 masl.

The dominant tree species include: Acacia, Cambretum species, Terminalia coxifera, Sonogisus reiccarpa, Kegelio africanas, and Albizia cordiaria. From grass species; Beckeropsis uniseta and

Hyparrhenia rufa are some to mention. Abobo-Gog natural forest is one of the 58 most important natural forests classified as National Forest Priority areas by the Ethiopian forestry action plan (as reported in the Baro - Akobo master plan study). There are also four other sites in the region that are identified as natural forest areas.

The Gambela National park, Mago National park and three controlled hunting areas: Jikawo, Akobo and Teyu sites are found in the region. The Gambela national park is the largest park in the country and accounts for 20% of the land area of the region. The remaining controlled hunting areas of Jikawo and Teyu also occupy similar sizes of land area.

Those areas are habitat for over 300 bird species of which 100 are migratory and over 60 mammals. The major wildlife species conserved in the lowland plain are; Roan antelope, White-ear kob, Nile lechwe, Topi, Elephant, lion, Leopard, hippopotamus, Warthog, Giraffe, Defas, Water buck, Buffalo, Pig, Civet, Lelwel Hartebeest, etc. Reptiles such as Tortoise, fish (Nile perch) and Crocodile are found in the Region.

Nile lechwe and the White eared kob are unique to that area. They are also trans-boundary that migrates between Ethiopia and South Sudan.

Land Use and Land Cover

The major settlement area is the riverbanks for both urban and rural communities. Due to this situation, the population is frequently affected by flood calamities. As of 2000, the two major land uses were open wood land and disturbed forest with a percentage share of 41% and 20.87% respectively.

Wetlands and Water Resources

Gambela Region is the wettest and best watered area in the country. There are five major rivers, namely, Baro, Akobo, Itang, Gillo and Alwero Rivers that are also trans-boundary. There are also several lakes and ponds in the Region such as, lakes Tata, Wagan and Nitang which are cut-off lakes, so called because they have been formed when bends, branches and arms of the main river have been cut-off by sediments or changes in the direction of the main river channels.

These water sources feed the Gambela flood plain, which is the largest low laying wetland in the Baro - Akobo River Basin. Both migratory and residential birds inhabit the wetland and are one of the tourist attraction sites in the area.

The flood plain of the two rivers, Gillo and Akobo form important wetland ecosystems. Wetlands support a wide range of biotical, hydrological, and physical processes which result in ecosystem function and the provision of valuable goods and services.

(b) Population and Ethnic Group

According to the population estimates made by the CSA, as of July 2016, the Region's total population was estimated to be 422,002 having 220,000 males and 202,002 females. The rural population as per this estimated constituted 66.8% and the urban population constituted 33.2%. Linguistically the population comprises mainly of Omotic, Cushitic and Nilo-Saharan, although Semetic origin also exists. The major ethnic groups are Agnuaq, Nuere, Megengir, Coma and Oppo. The population density of the region in 2011 was about 12.4 per square kilometre.

4.2.7 Somali National Regional State

(a) Bio-physical Environment

Topography

The Somali National Regional State is located between 4^0 and 11^0 North latitude and between 40^0 and 48^0 East longitude in the eastern part of Ethiopia, which lies to the southeast of the Great African Rift Valley. The region has entirely flat terrain except some hills with gentle slopes around Jigjiga and Togo Wuchale, and along major river courses. The altitude ranges between 500 to 1,600 masl. The major land area of the region falls below 900 masl.

Climate

The rain in the Region has been generally low, unreliable and unevenly distributed. When rain occurs it is torrential and is of high intensity. The annual rainfall is between 200 mm and 530 mm for the Region as a whole. The mean annual rainfall is 425 mm. The annual potential evapo-transpiration ranges from 1,800 mm in the lowlands to 800 mm in the highlands.

The major part (60% to 80%) falls within hot and arid climate. Temperature ranges between 20^0 C and 45^0 C. The region is characterized by strong wind circulation, which can cause and aggravate soil erosion and water moisture losses. The mean annual wind speed varies between 1.8 miles/ sec in highlands and 3.6 miles/sec in the lowlands.

Geology and Soil Type

The geology of the Region is dominated by alternating limestone, shale, anhydrite, dolomites and marl. The land surface is sandy and often coated with reddish soil and calcareous crust typical of desert area. Minerals like edible salt, gold and natural gas also occur in the region.

The dominant soil types of the region are Yermsol, Xerosols, Regosols, and solonchakes. Minor parts have fluvisols and Vertisols, Cambisols and Luvisols. Soil erosion has been a serious problem in the region and is caused by the action of wind and water.

Water Resources

The region is divided into four basins: the eastern Ogaden basin, the Wabe Shebele basin, the Genale Dawa basin and part of the Awash River basin. The area receives a bi-modal rain fall: March - May and September - November. Most of the streams in the region are ephemeral and are characterized by short duration and high intensity of flood. However, perennial rivers like Wabe Shebele, Weyb, Genale and Dawa are also available in the region.

Vegetation and Wildlife

Endemic flora species in the Somali region represent 25% of the flora in Ethiopia, of which 18% are unique to the region. Among the largest plant families are graminacea, leguminacea, and euphorbicea. The main climax vegetation classes in the region are: acacia based woodlands, acacia comiphora bush lands, evergreen scrubland and riparian forest.

There are also a number of mammals, birds, reptiles, amphibians, fishes and invertebrates uniquely adapted to the arid and semi-arid conditions. Wildlife animals include lion, hyena, leopard, fox, hunting dogs, crocodiles and various types of snakes. Hunted wild animals include Bicids, Balango, Goodir, Dabatag, Zebra, Baboon, Hippopotamus, Ostrich, Monkey and Elephant. There are also a number of birds such as, degodi lark, little winged dove, Somali short billed crombec, Jubaland weaver, little brown bustard and white winged collared dove.

Land use / Land cover

Grassland and scrubland are the two types of land use with land coverage of 56.8% and 22.2% of the Region’s total area. Most of Somali Region is arid and semi but unlike Afar Somali region have many rivers (Wabeshebele, Genale and Weybe Rivers) partly harnessed for irrigation to sustainably produce food crops to pastoral and agro-pastoral communities of the region.

(b) Population and Ethnic Group

The total population estimates of the Region conducted by the CSA for the year July 2016 was 5,598,002 i.e. 3,023,000 males and 2,575,002 females respectively. The rural population of the Region in the same year constituted about 85.5% while the urban population comprised about 14.5%. The Somali Regional State is divided into nine administrative zones, 53 Weredas and 67 urban centres. Majority of the population are pastoralists and the social organization of the Somalis is based on clanship. The region is sparsely populated with an average density of 12 persons per km^2.

Somali and Issa are the majority ethnic group, while Oromo, Amhara and Gurage are also found in the urban areas.

The settlement pattern of the Somalis is characterized as group and temporary. In areas suitable for agriculture, Somalis settle permanently. The seasonal availability of water and pasture as well as the rapid exhaustion of the pasture owing to overgrazing often causes mobility of the pastoralist population.

Societal Aspects

The social organization of the Somali society has a pyramidal structure formed by lineage segmentation levels. The segment levels are known as: Reer, Jilib, Qabil and clan families or group. Each lineage segment constitutes a separate social and political unit having definite members with a territory under it (SNRS, conservation strategy, 1999, cited in EEPCo**,** 2011).

The Somali are predominantly pastoralists and their settlement pattern and their life style is influenced by the same mode of occupation. They are mobile in settlement, which is mainly guided by the need of their cattle herds. As a result, a densely populated area at one season can be easily deserted at other times. The Somali have divided themselves into two major lineages of Sab and Somali. The former constitutes hunters, gatherers, and agriculturists.

Among the pastoralists, mostly wealth is not held by individuals but by families. Water and pasture is commonly owned. Agriculture plots are held by families. Craft heritages produced by the low cast Sab are generally made for own use, few are sold to tourists. Since the Somali nomadic pastoralists have been isolated from the central highlands, there has been much lesser degree of acculturation. Moreover, there is lower degree of economic integration, transportation and communication.

Division of labour among the Somali is based on gender differentiation. Women are exclusively responsible for job like building nomadic huts, preparing food, collecting firewood, fetching water, milking cows and small ruminants etc. While males are culturally assigned to perform out – door tasks like herding, watering, farming and mediating.

Livestock is the major economic earning for the Somali population. The rural population earns 40% of their income from livestock, 26% from crop production, 14.4% from trade and 7.4% from gifts availed from others (IPS, July 2000, cited in EEPCo**,** 2011).

4.2.8 Southern Nations, Nationalities and Peoples Regional State (SNNPR)

(a) Bio-physical Environment

Topography

The Southern Nations, Nationalities and Peoples' Region lies on surface area of 117,500 km^2. The Regional State is located between 4^0 25'and 8^0 20' North latitude and 34^0 20' - 38^0 50' East longitude. Altitude ranges from 400 masl in the southern part up to 4,200 masl in the northern part of the regional state. The physiographic feature of the region is divided in to highlands in the north and rift valley and lowland in the south.

Climate

The region's climatic conditions vary from place to place. It has semi-desert climate in the southern extreme of the Kenya border, tropical climate in the northern highlands, and warm temperate in the mountainous areas of north Omo zone. The mean annual temperature and mean annual rainfall are 24^oC and 600mm respectively, in the semi desert climatic zone, the warm temperate climatic zone of North Omo has mean annual temperature of less than 18^0C and mean annual rainfall of 2,500 mm.

Soils Type

The soils of the region constitute:

- Luvisols and phaeozens that cover most of the zones of the region;
- There are also Lithosols, Arenosols and Regosols, fluvisols, Andosols, Vertisols and Cambisols; and,
- Soil fertility is high in the region and is suitable for cereals, root crops, coffee and vegetables.

Vegetation and Wild life

The Region is characterized by dense natural forest and rich wildlife resources. The forest resource is mainly situated in Kafa and Bench Maji Zones and in the southern part of the Region. The most common groups of vegetation include broad leaved deciduous woodland, evergreen scrubs, dry evergreen Montana forest and grasslands, acacia – *commiphora* woodland.

There are several National Parks in the Region. They include Nech Sar, Mago and Omo National Parks, Tama wildlife reserve and Chew Bahir wildlife reserve and all the rest of the southern parts are designated as controlled hunting areas except a small section between Akobo and Omo in which the wildlife ranges from birds to big mammals.

The wildlife of the region include: Giraffe, Common eland, Buffalo, Elephant, Greater kudu, Lesser kudu, Burchell's zebra, Grant's Gazelle, Guenther's Dikdik, Crocodile, Hippopotamus, Swayne's Hartebeest, Orbi, Bohor Reedbuck, Genet, African Hunting dog, Black backed jackal, Colobus monkey, Oryx, Lion, Gerenuk and Ostrich.

Water Resources

There are abundant water resources both from surface and sub surface sources. Surface water resource of the Region include rivers like Omo River, Dincha, Gojeb, Segen Gibe River, Bilate River, Awash River, While Rift valley lakes like Hawassa Lake, Chamo Lake and Abaya Lake are also found in the region.

(b) Socio-economic Environment

Population and Ethnic Groups

As per the population estimates of the CSA made for the Region for July 2016, the total population was estimated to be 18,719,008 with 9,278,004 male and 9,441,004 female. The percentage of population lived in rural areas in the same year was 83.9% whereas the remaining 16.1% lived in urban areas. The population density in the Region is 159.1 persons per square kilometre.

The region is known for its diverse ethnic composition. There are about 45 ethnic groups residing in the Region, constituting over 50% of the total ethnic groups of Ethiopia.

Most of the populations living in the rural areas of the Region are mainly dependent on agriculture and pastoralist economy, while trade and other businesses are the principal practices in the urban areas.

Cultural and Historical Heritage

There are cultural heritage sites like the Tiya monuments and the Omo valley archaeological site.

5 Consultation with Stakeholders and Communities

During the preparation of this ESMF, the study team carried out consultation with stakeholders, project beneficiaries, officials and experts from relevant line Ministries, the RUSSACOs and MFIs. The consultation was aimed to gather their views and expectations from the proposed project.

Specific objectives of the consultations include the following:

- To share fully the information about the proposed project, its component and its activities;
- To obtain information about the needs and priorities of the communities, as well as information about their reactions to the proposed project activities;
- To inform communities about various options on relocation and rehabilitation;
- To obtain cooperation and participation of communities in activities required to be undertaken for resettlement planning and implementation;
- To ensure transparency in all activities related to land acquisition, compensation payment, resettlement and rehabilitation;
- To obtain qualitative as well as quantitative information on viable income generation and livelihood interventions to which PAPs could be engaged in order to restore their income and livelihood in a self-sustaining manner; and,
- To inform local authorities of all the potential impacts, agreed on a cut-off-date, solicit their views on the project and discuss their share of responsibility for the smooth functioning of the overall project operations.

As part of conducting the ESMF of RUFIP III consultation process is mandatory and essential. In this respect, officials and experts in Hawassa Zuria Woreda from SNNPRS and Adis Zemen Woreda in the Amhara Region had been consulted from 3 to 9 March 2019. Discussion had also been made in the same period with officials and experts with micro finance institutions at head office, and branches in Bahir Dar and Hawassa towns. Site visits and discussions were held with beneficiaries in Addis Zemen and Hawassa Zuria.

The various meetings that were held with stakeholders and project beneficiaries provided prevailing project implementation challenges, capacity needs, potential impacts of the proposed project and the respective recommendations for anticipated impact management.

The mission met different organizations and stakeholders in Addis Ababa and have made field visits to Amhara and SNNPR regions. During the field visits the mission interacted with four MFIs, two cooperative unions and three RUSACCOs. Consultation was made with DBE, AEMFI and FCA at the federal level and WB. At the regional level consultation was made with AEMFI, Amhara Regional Cooperative Agency, ACSI, RuSACCO of Soser RuSACCO Union, Reb RuSACCO Union and with the project beneficiaries at Addis Zemen and Soser RuSACCO Union at Dangla in Amkara region and with SNNPR Regional Cooperative Agency, SIDAMA CHALAL RuSACCO Union and SIDAMA MFI of SNNPR at the regional level. The mission shared its preliminary findings in a meeting on 15 March 2019 with DBE and implementing partner of RUFIP II.

During the consultation gaps in funding projects activities the absence of monitoring system and data base of IFAD projects, the need for co-financing to fill the gaps, how to handle drought and climate change shocks, how to fill the liquidity gap, availability of insurance to reduce shock during death, payment extension or exemptions during drought, loan loss provision , synergy with ongoing projects by different institutions, frequency of drought, promotion of certain financial products for diversifying business to improve livelihood , promoting saving as risk mitigation was also raised and discussed.

Consultation Feedback from RUFIP II Beneficiaries

During RUFIP II, the focus was on strengthening of MFIs, building and improving the rural financial cooperatives (RUSACCOs) and their unions, capacity building of staff of FCA, NBE and others.

The studies carried out from time to time and the field mission interactions reveal that a significant proportion of the clients have come out of poverty and generate viable incomes. The study revealed that from livelihood improvement, there were significant social payoffs arising from RUFIP II. Two studies conducted on RUFIP II in 2017 indicated there is income and asset gains besides improving the quality of life of the project beneficiaries'. Despite the considerable gender disparity in financial institution outreach in the country, RUFIP II has enabled both women and men to participate in the programme and benefit from the incremental credit. Of the 5.7 million households that RUFIP II has supported in outreach, 45% are females and 55% males.

RUFIP II enhanced increase in climate resilience as it enables households to engage in adaptive interventions. Linkages have been developed between RUFIP II and other IFAD-funded initiatives promoting micro- insurance innovations, with the objective to increase resilience, strengthen capacity to manage risks and improve the livelihoods of poor rural households who depend on off-farm and on-farm income.

Beneficiaries of RUFIP II during the consultative meetings are supportive of the previous programme since it has provided them communities with a number of benefits by enhancing household incomes and strengthening of self-reliance. The RUFIP II beneficiaries during the meeting ppointed out the contribution of the programme towards improvement of their social well-being and they requested to the team of consultants to continue providing similar financial assistance through RUFIP III, but this time with additional budget to help the diversify their business

The support given to RUFIP II clients by Development Agents who have been trained in natural resource management contributed to the moderate improvement in the environment and the natural resources of the project target areas. RUFIP II clients who are mostly farmers are generally aware of natural resource management.

But there were also some continuing challenges when implementing RUFIP II. The challenges include gaps in funding projects activities, the absence of monitoring system and data base of IFAD projects, the need for co-financing to fill the gaps, means of handling drought and climate change shocks, means of filling the liquidity gap, availability of insurance to reduce shock during death, payment extension or exemptions during drought, loan loss provision., synergy with ongoing projects by different institutions, frequency of drought, promotion of certain financial products for diversifying business to improve livelihood and promoting saving as risk mitigation.

During the RUFIP III consultation meetings issues such as gaps in funding projects activities, the absence of monitoring system and data base of IFAD projects, the need of co-financing, synergy with ongoing projects by different institutions, means of filling the liquidity gap were raised by the RUSSACOs and MFIs whereas the availability of insurance to reduce shock during death, payment extension or exemptions during drought and loan loss provision was raised by the project beneficiaries. To fill the financial gaps it was proposed to create synergy and cooperation with other institutions such as the World Bank for co-financing some of the project activities relevant to their mandate.

6 Environmental and Social Impacts and Mitigation Measures

RUFIP III is country wide project and end line investments from beneficiaries are expected to have impact on the natural resources in one way or another. Project activities financed by RUFIP III resources in the form of investments by MFI and RUSSACO clients such as food crop production, livestock rearing and agro-process/value addition on some agricultural products will have impacts on the surrounding natural resources. Impacts may include ground water pollution and soil contamination due to excessive use of fertilizers and pesticides, soil erosion due to farming of steep slope/ marginal land, lowering of ground water levels due to excessive water use for irrigation, contamination of food and water bodies due to improper use/storage of agro chemicals, breeding ground for insect vectors due to lack of proper drainage, shortage in animal fodder due to over grazing, over grazing due to increase in animal population, deforestation due to expansion of agricultural land, pollution of surface and ground water and release of pungent smell due to release of animal wastes, power shortage due to additional energy demand for agro processing and health risks due to improper use of agro-chemicals.

To minimize such environmental and social concerns Initial Environmental Examination (IEE) will be conducted to assess the nature and magnitude of impacts on the natural resources. Depending on the results of the assessment the national EIA and SECAP Guidelines project activities will be classified as category A, B or C and full ESIA study for category A and partial EIA for category B will have to be conducted . There is no need to conduct EIA study for category C project activities. Based on the outcome of the EIA studies various mitigation measures will be proposed to minimize impacts. The EIA study reports will have to be approved by the regional office responsible for environment.

Ethiopia is strongly affected by climate change. A more sustainable management of natural resources is therefore crucial for the country’s ability to face the challenges of the future. Climate change impacts include more frequent and longer drought periods, and flooding due to erratic rainfall. This poses great challenges for agricultural production, particularly in dry-land areas such as Afar and Somali States. Other parts of the country are also vulnerable and affected by the more unpredictable climate. Degradation of lands weakens access to water and reduces soil quality. Deforestation is also taking place at an accelerating pace.

Beneficiary farmers targeted through RUFIP III lack knowledge of how to adapt agricultural production to more varied climatic circumstances. They also have little access to new and locally adapted seeds.

Government of Ethiopia has planned a climate-resilient green economy as a development strategy. This development direction promotes environmental protection, reducing fossil fuel consumption which releases greenhouse gases into the atmosphere.

To minimize impact due to climate change the Ethiopian Government gives high priority to education in climate-robust agricultural methods. This involves use of new and more varied plants and supporting farmers rebuild degraded lands by means of soil protection systems such as terracing, tree planting and the development of various systems that conserve water resources.

The following section elaborates positive and negative impacts associated with RUFIP III project activities.

6.1 Positive impacts

It is anticipated that the activities supported by this project will deliver significant social benefits, provided that they are planned in an inclusive manner, and are designed to ensure a distribution of benefits to vulnerable groups. Social benefits cannot be guaranteed, and there is a requirement to ensure that project activities are planned and operated in a manner which maximizes benefits. In this regard, although the project aims to provide support to the rural poor, it should also take cognizance of other vulnerable groups, such as the elderly, disabled, youth and children, and ensure their participation in ongoing consultation.

The RUFIP III will have short-term positive socioeconomic impacts as it will provide employment to skilled and unskilled workers, employed by the micro-credit recipient entrepreneurs. In the long term, the success of these businesses can further improve the overall employment situation. Specific socio-economic benefits include:

- Demand for skilled and unskilled labor;
- Increase in income for local communities; and

- Indirect employment opportunities through the provision of required services to the entrepreneurs

In the context of the programme, entrepreneurs are to obtain finance for implementing the business plans that they have developed in the priority sectors of the Growth and Transformation Plan (GTP), namely agri-business sectors. In the short-term, this provides these entrepreneurs that received financial credit opportunities for realizing/implementing their business.

6.2 Negative Impacts

The exclusion list should be the first step to avoid negative impacts of RUFIP III. In RUFIP III, sub-projects with the following activities will be automatically excluded from the programme.

- Project Activities with the potential for significant conversion or degradation of natural habitats without appropriate mitigation of anticipated impacts
- emitting pollutants to water, air and land and degrading forests,
- any project situated within green area designated by each municipality,
- Any project or activity that will be implemented in disputed land,
- Any project that would result in the displacement of people or requires resettlement,
- Any project that is not consistent with the project description at time of project negotiations, unless subsequently agreed to with the PCMU at DBE, along with the development of an appropriate level of environmental and social management capacity.
- Any project or activity involving the procurement of pesticides not allowable under IFAD guidelines,
- Any project or activity that does not meet the legal requirement of the country, including gazetted environment, health and safety legal requirements,
- Any project or activity that is not compliant with the international convention that Ethiopia has ratified,
- Any project or activity, where children under 18 years of age are employed.

- Project activities that will block the access to water points and grazing etc. used by others;
- Project activities that will cause encroachment to, and adversely affect, important natural habitats ;
- (e.g., wildlife reserves; parks or sanctuaries; protected areas; natural habitat areas, forests and forest reserves, wetlands, national parks or game reserve; any other ecologically/environmentally sensitive areas);
- -Project activities that will impact on physical cultural resources (archaeological sites; religious monuments or structures; natural sites with cultural values; cemeteries; graveyards; graves; and other sites of significance)
- -Project activities that will be located in protected areas and ecologically sensitive sites;
- -Project activities that would disadvantage to community members ;
- -Project activities that will contravene international and regional conventions on environmental and social issues;
- -Project activities that will contravene international conventions such as child labor and forced labor;
- -Project activities that cause large-scale physical disturbance of the site or the surroundings;

As described in the eligibility criteria under annex 1, RUFIP III funded activities will not be eligible for funding if displacement and resettlement is involved. Hence, this has not been considered as an adverse social impact of the project. Moreover, it may not be economically viable to resettle project affected persons (PAPs), given that the financial support anticipated through RUFIP III is minimal (micro-finance) and serious health and social challenges will not emerge from the project activities. However, in line with, for instance, the increased production and operation of businesses supported under RUFIP III, the following social and health impacts are anticipated. RUFIP II funded project activities such as agricultural activities for food crop production (modernization of farming), livestock rearing and agro-process will continue to receive credit from RUFIP III. These project activities are expected to impose the following adverse impacts on the biophysical and socio-economic environment.

(a) Impact on the Socio-economic Environment

Health impacts due to poor storage and use of agro-chemicals

Agro chemicals such as fertilizers and pesticides will be used by farmers to enhance their agricultural production. If these agro chemicals are not properly used, stored and/or disposed of farmers will be at risk of chemical exposure, and moreover these agrochemicals may contaminate food and water bodies and adversely affect public health if consumed. To minimize such adverse health effects training should be given to farmers to properly store and use the agro-chemicals. The following safety procedures should be maintained to minimize impacts of agro-chemicals.

- Translate the manufacturer’s instructions into local language and follow instruction for proper storage.
- Keep chemicals in their original containers and do not pour into smaller bottles.
- Do not remove labels from containers.
- Do not store liquid chemicals above solids.
- Store animal feeds, seeds and fertilizers separately from other chemicals.
- Safe use of agrichemicals
- Suggestions for the safe use of chemicals include:
- Ensure anyone using agricultural chemicals is suitably trained to use both the chemical and any equipment required for application;
- Use chemical decanting kits to reduce the risk of spills and splashes while mixing chemicals;
- Only mix the quantity of chemical required for the task at hand;
- Make sure the decanting and mixing area is well ventilated. If this is not possible, ensure that recommended personal protective equipment (PPE) is worn for enclosed environments;
- Follow the manufacturer’s instructions on the label;
- Always wear recommended protective clothing such as chemical-resistant gloves, overalls, goggles and appropriate facemasks or a respirator;
- Triple rinse equipment after chemical application and dispose of the rinse water appropriately;

Intensification of malaria

Increased prevalence of consequent health implications (both for employees and the surrounding community) may be associated to some businesses supported by RUFP III. For example, malaria could be intensified in the small scale irrigation schemes due to the formation stagnant water, site suitable for the breeding of mosquitoes. The following measures should be taken to control malaria intensification.

- Avoid mosquito breeding sites by draining ponds and standing waters;
- Wear clothing such as long-sleeved shirts and pants when working outdoors;
- Spraying clothing with repellents ;
- Use of impregnated mosquito nets during night;
- sensitization of farmers and communities that may be exposed to stagnant water

Power shortage due to establishment of small agro-processing plants

Establishment of agro–processing plants will demand additional energy and may create power shortage in the community. The local administration should plan in advance to avail additional power that will adequately address power demand of the proposed agro-processing plants in order not to compromise power supply to the communities. The use of solar energy and inverters during power shortage should also be encouraged to minimize power shortage impact.

Impact on air quality

Any leakage, bad odors, from poultry, animal rearing and fattening could contribute a potential impact on the Air Quality of the area. These operations may pollute the air resulting in increases in bronchial and eye disorders. Pungent smell from agro processing, animal fattening, slaughter houses and from poultry is expected to be released to the surrounding communalities. The following measures should be taken to prevent odor and bad smell from these sources. The following measures should be taken to minimize impacts:

- Remove manure from the building as often as possible;
- Remove spoiled feed regularly;
- Remove dead animals and dispose promptly;
- Avoid excess moisture in stacking sheds since excess moisture increases the amount of odor generated due to anaerobic decomposition;

Occupational health and safety and child labour

Occupational health and safety issues will arise during the programme implementation periods. This may result from improper use and lack of availability of the required Personal Protective Equipment (PPE). Availability and proper use of PPE by the programme beneficiaries, contractors, laborers who are engaged in the construction, installation and operation and maintenance shall be regularly monitored and ESMF should provide guideline for the officers or teams at regional level to ensure availability and proper use of the PPE..

Investment being made by beneficiaries of RUFIP III may use child labor due to lack of awareness on the Child Labour Proclamation and the negative impact of child labor. RUFIP III end beneficiaries of the investment should respect the national Proclamation No. 377/2003 which states that children under age of 14 will not be employed and young workers (14 to 18 years) shall not perform work that is likely to jeopardize their health or safety.

Impact on cultural heritage

End line investments that will be made using resources from RUFIP III accessed through MFIs and RuSSACCOs should not affect any cultural heritage. During implementation period, it is important to ensure that proposed investments do not have an effect on a place or building having aesthetic, anthropological, archaeological, architectural, cultural, historical or social significance or special value for present and future generations. In order to minimize or avoid such impacts, all necessary measures should be considered at the planning phase and due attention should be paid to cultural heritages sites during screening of the programme activities and close consultation should be made with relevant institutions when encountered with chance finds at the time of implementation of the proposed investment. The relevant screening checklist is depicted in annex 6.

Social conflicts due to water use

Conflict may arise between farmers upstream and downstream due to water use for irrigation or domestic purposes. It will be important to maintain an environmental flow that will not adversely affect the ecological balance and downstream water use for irrigation and domestic purposes. The site of the proposed investment and the ecology downstream is not known and it will be very difficult at this stage to specify minimum environmental flow, though a rule of thumb of 10% to 20% of the mean annual flow can be assumed.

Impact on project implementation due to lack of consultation with the community

Although the proposed sub project activities are integrated with the individual beneficiaries, it is essential to consult stakeholders including all the community members that reside within the sub project area from the outset.. This improves the level of relevant stakeholder participation and ultimately would enhance the sense of ownership of the sub-project by the locals in general and beneficiaries in particular. It is quite evident that usually poor participation in preparation and implementation of projects would result in unsustainability of projects. It is therefore of paramount importance to create awareness among the communities on the benefits, negative impacts and their expected roles in advance to minimize impacts and sustainably manage project activities .

Impact on the Biophysical Environment

Pollution due to increased use of fertilizers and pesticides

Increase in yields of staple food-crops, commercial crops such as cotton, sugar and soya, fruits and vegetables will probably need an increased use of fertilizers and pesticides. Unsafe use of fertilizers and pesticides leads to the pollution of soils, rivers, streams, shallow aquifers and ground. In this context, the programme will synergize with other IFAD projects in Ethiopia in irrigation, food crops, horticulture, dairy, natural resources management for them to not only provide starter kits to the farmers but will train them in the proper application and storage of agrochemicals. To minimize such impacts of these inputs farmers should receive these inputs after creating awareness of the effects of these inputs on ground water and the resulting public health consequences. It is also important to encourage farmers to use manure (organic fertilizer) and apply integrated Pesticide management to fight agricultural pests.

Air Quality

Air quality may be reduced as a result of emissions from agro -processing. Clean technology should be used to minimize emission from the agro-processing plants

Soil erosion due to expansion of farm land

Activities like excavation and digging works during agricultural expansion will involve clearing of existing vegetation within the homestead, which may contribute to the loss of plant cover to a certain degree and this will result in a disturbance of topsoil and cause of micro level erosion. Similarly, farmers may expand their farm land to steep slopes and marginal lands. Areas that are at high risk for erosion due to steep slopes or erodible soils can be alternatively used for forage production or grazing and steeply sloped lands under cultivation can be converted to perennial plantation to minimize soil erosion. Wooded areas with poor soils and steep slopes should be left in their natural state to minimize soil erosion.

Loss of soil Fertility

The increase in the demand of staple food production could lead to overuse of arable land which becomes susceptible to loss of soil fertility. Farmers should receive training on how soil fertility can be maintained by changing cropping patterns, growing nitrogen-fixing crops and composting of crop residues to minimize loss of soil fertility.

Ground water depletion

Farmers benefitting from RUFIP III resources may buy water pumps to irrigate their land and produce crops, fruits and vegetables. Excessive pumping of ground water for irrigation may cause ground water depletion and drying out of boreholes that are in use by the nearby community. Ground water depletion and its impact can be avoided/ minimized by keeping recharge –discharge balance of the catchment areas. In places where such impacts expected to occur the hydro-geologists of the Regional Water Resource Bureau will have to assist in conducting recharge-discharge balance study of the catchment and based on the outcome of the study communities/farmers should be advised on the management and use of ground water in a sustainable manner.

Shortage in animal fodder and overgrazing due to increase in animal population

Animal rearing and fattening will increase the number of animals and may result in shortage of animal fodder and overgrazing. Increase in the animal population will increase the likelihood of reaching the limits of the carrying capacity of the grazing land.

To minimize adverse impacts the following measures can be taken.

-Control number of animals so that it will not exceed the carrying capacity of the grazing land
-Avoid grazing too early so that there will be enough grass in the dry season
-Monitor rainfall patterns and growth of pasture.

Deforestation due to expansion of agricultural land

The availability of funds through RUFIP III may encourage farmers to expand their agricultural land to the nearby forest areas. Smallholder farmers will be tempted to grow crops on steep slopes and riverbanks or encroach to the nearby forest reserves   Farmers should be sensitized and be informed of the benefits of conserving forest in terms of maintaining the balance of the ecosystem.

Loss of vegetation cover

Activities like excavation and digging works particularly for project activities during agricultural expansion will involve clearing and depletion of existing vegetation within the homestead, which may contribute for loss of plant cover at a certain degree and disturbance of topsoil and cause of micro level erosion. In order to minimize loss of vegetation cover the implementing bodies and beneficiaries shall avoid cutting of big trees especially indigenous trees.

Impact due to the lack of proper waste treatment and disposal facilities

Indiscriminate disposal of solid and liquid wastes including animal dung and expired pesticides will adversely affect the health and safety of the workers and the local community. Moreover processing of goods may have high pollution intensity due to the obsolete technology used in their small-scale operations and/or lack of end-of-pipe pollution control systems. Project activities in the leather and textile sectors can have substantive environmental implications (pollution), due to the nature of the processing activities, which utilize dyes and other hazardous chemicals as inputs. Waste from slaughter houses include both solid (carcass, bones, hooves, rumen, intestine contents, dung etc.) and liquid waste (blood, urine, internal fluids including water used for washing) which are difficult to break down in normal waste treatment systems.

Depending on the types of processing and character of waste generated, appropriate waste management strategies need to be developed and implemented.

Climate change induced impacts

The decomposition of chemical compounds in landfills and the burning of synthetic materials may release greenhouse gases. These greenhouse gases trap heat in the atmosphere, warming it and thus promoting climate change. The following measures should be taken to minimize risk due to climate change. The following measures should be taken to minimize impact due to climate change.
To minimize impact due to climate change the Ethiopian Government gives high priority to education in climate-robust agricultural methods. This involves use of new and more varied plants and supporting farmers to rehabilitate degraded lands by means of various soil and water conservation techniques.

Impact on biodiversity

Some investment of the end line beneficiaries generally will not have any adverse impacts on terrestrial and/or aquatic biodiversity. However, there may be a case where big trees that obstruct farming activities and trees and other vegetation cover could be found within and around the farms. Under such circumstances vegetation clearance to a certain extent will sometimes be required and this may adversely affect the biodiversity of the area to some degree. It is essential to preserve tree species of biodiversity importance to minimize impacts.

Cumulative impacts of the project

The business operations supported through RUFIP III may not have serious adverse environmental impacts. However, several projects in combination, or in combination with other government or private sector activities, could also have a larger, more significant cumulative impact. These impacts may be a result of the disposal of non-hazardous and hazardous wastes and chemicals, which may not be significant when considered individually, but significant when considered collectively.

Minimizing cumulative impacts requires introducing mitigation of the impacts of individual businesses supported by RUFIP III and of other development activities that are currently operating in the project area.

7 Environmental and Social Management and Monitoring Plan

A draft ESMP for RUFIP III is intended to ensure efficient environmental and social management of its activities. An ESMP translates recommended mitigation and monitoring measures into specific actions that will be implemented by different actors. The ESMP identifies key project activities and their associated impacts, when impacts are likely to occur (project phase), mitigation measures to minimize impacts, responsible institutions to implement the proposed measures, and costs of implementation. The ESMP will need to be adjusted to the terms and conditions specified in any project funded activities. This ESMP will then form the basis to manage impacts of project activities during project construction and operation.

At this stage the type and scope of the project funded activities are not clearly defined. The type of impacts and proposed mitigation measures are therefore generic and will be difficult to estimate cost of implementation the mitigation measures monitoring at this stage.

Table below presents an indicative environmental and social management and monitoring plan that can be used as a guidance to prepare ESMP of specific project activities under RUFIP III.

Table 7.1: Generic project impacts, proposed mitigation measures and institutions responsible for implementation and Monitoring

Sector	**Potential Impacts**	**Proposed Mitigation Measures**	**Institution responsible for Implementation**	**Monitoring**
Socio-economic Impact	health impact due malaria intensification	-Avoid mosquito breeding sites by draining ponds and standing waters; -Wear clothing such as for example, long-sleeved shirts and pants when working outdoors; -Spraying clothing with mosquito repellents; -Use impregnated mosquito nets during the nights;	Farmers/ Beneficiaries	Woreda Health Bureau
	Power shortage due to Establishment of small agro-processing plants	Plan in advance to get additional power that will adequately meet power demand of the agro processing plants and the communities.	Local administration	MFIs/RUSACCOS
	Impacts due to misuse of Fertilizers and Pesticides	Provide training to farmers on proper application and storage of agrochemicals	Woreda Agricultural Office	MFIs/RUSACCOS
	Impact on air quality due to poultry, animal rearing and fattening	-Clean animal wastes and remove feed remnants regularly; -Remove dead animals and dispose them promptly; -Avoid excess moisture in stacking sheds since excess moisture increases the amount of odor generated due to anaerobic decomposition;	Farmers/ Beneficiaries	Office responsible for environment at the Woreda Level

Socio-economic Impact	Problem of over grazing due to increase in animal population	-Avoid grazing too early so that there will be enough grass in the dry season; -monitor rainfall pattern and growth of pasture;	Farmers / Beneficiaries	Consultant
	Occupational health and safety and Child labour	-Availability and proper use of PPE by the project beneficiaries, contractors, laborers who are engaged in the construction, installation and operation and maintenance of the proposed programme activities shall be in place and the availability and use of PPE should be regularly monitored by the local and regional health officers that have the mandate to carry out this task and the Project Coordination Unit will make random checks on samples of investments to ensure proper implementation of the ooccupational health and safety and Child labour abuse -National labor law and IFAD Child Labor Abuse (CLA) should be respected	Farmers / Beneficiaries	Woreda Health Bureau/ Kebele/ Project Coordination UNIT
	Impact on Cultural Heritage	Delineate cultural heritage sites and make maximum care during construction In the case of chance finds the contractor has to immediately contact the office responsible for cultural heritage for guidance	Farmers / Beneficiaries	Woreda Tourism Office
	Social Conflicts due to water use and grazing land	-Maintain minimum flow downstream when pumping water for irrigation. -Use customary laws to resolve conflict over grazing land	Farmers/ Beneficiaries/communitie s	Woreda/ Kebele Administration
Socio-economic Impact				
	Impact on project implementation due to Lack of Consultation	Create awareness among the communities on the benefits, adverse effects and their		

	with the Community	roles to minimize impacts and sustainably manage project		
Impact on Bio-physical Environment	Ground water pollution due to misuse of chemical fertilizers and Pesticides	Create awareness among the farmer health effects of these inputs when misuse, encourage to use manure (organic fertilizer), apply integrated Pesticide management to fight pests.	Woreda Agricultural Office/ health Office	Woreda Environment Office
Impact on Bio-physical Environment	Soil Erosion due to expansion of agricultural activities to marginal land and steep slopes	-Steep slopes or erodible soils can be alternatively used for forage production or grazing and steeply sloped lands under cultivation can be converted to perennial plantation to minimize soil erosion - Wooded areas with poor soils and steep slopes should be left in their natural state.	Farmers/ Beneficiaries/	Woreda agricultural Office/ environment Office
	Loss of soil fertility	Provide training to farmers on how soil fertility can be maintained by changing cropping pattern, growing nitrogen-fixing crops and composting of crop residues	Woreda Agriculture Office	Woreda Agriculture Office
	Excessive exploitation of ground water due to irrigation activities	-Avoid over pumping of ground water beyond recharge- discharge balance of the catchment areas.	Farmers/ Beneficiaries /Woreda Agricultural office	Woreda Environment office
	Shortage in animal fodder and overgrazing due to increase in animal population	-Avoid grazing too early so that there will be enough grass in the dry season and monitor rainfall pattern and growth of pasture -Control animal population so that it will not exceed the carrying capacity of the grazing land	Farmers/ Beneficieries	Woreda Agriculture Office
	Deforestation due to	Sensitize and inform farmers about the	LLRP/Contractor	Consultant/offices

	expansion of Agricultural land	benefits of conserving forest to maintain balance of the ecosystem Avoid construction on or near natural habitats		responsible for environment
Impact on Bio-physical Environment	Impact due to the lack of proper waste Management of agricultural residues	Properly collect, transport and dispose such wastes on a site designated for this purpose.	Farmers/ Beneficiaries	Woreda environment office
	Climate Change Induced Impacts and Shocks	Rehabilitation of degraded lands by Introducing soil and water conservation techniques such as such as terracing, tree planting and the development of various techniques to minimize impact due to climate change.	Farmers/ Beneficiaries	Woreda environment office
	Impact on Biodiversity	Avoid cutting of indigenous trees and preserve tree species of biodiversity importance	Farmers/ beneficiaries	Woreda environment office
	Cumulative Impacts of the Project	Mitigation of the impacts of individual businesses of RUFIP III and of the other development activities that are currently operating in the project area.	Other Project owners and RUFIP III beneficiaries	Woreda environment office

Note: It will be premature to indicate cost of mitigation measures and environmental monitoring since the nature and sites of specific project activities the sub-projects are not clearly known at this stage.

8 Institutional Arrangements

This section of the ESMF describes the process for ensuring that environmental and social concerns are adequately addressed through the institutional arrangements and procedures used by the programme for managing the identification, preparation, approval and implementation of sub-project or investment activities. This section sets out the reporting systems and schedules for ESMF implementation adherence to the programme implementation period.

In order to comply with various technical and performance standards, the proposed programme activities to be supported under RUFIP III shall comply with this ESMF. The implementation, monitoring and reporting arrangements for the ESMF have been worked out within the overall institutional structure for implementation of the proposed programme. The implementation schedule for the ESMF takes into account all activities related to the proposed measures (enhancement and mitigation), the monitoring program, consultations, and institutional arrangements.

The different actors expected to be the major players during implementation of the proposed program are the following:

- Development Bank of Ethiopia (DBE);
- Regional/ Woreda level Environmental offices
- Micro Financial Institutions;
- Woreda Administrations;
- Woreda Agricultural Offices;
- Peasant Associations;
- The Community; and,
- Local NGOs.

Integration and coordination of the different parties and timely follow-up is of paramount importance for the materialization of the program. The respective roles and responsibilities of the above institutions are discussed below.

(a) Development Bank of Ethiopia (DBE)

Supporting units and committees include Project Management Committee (PMC), Programme Coordination and Management Unit (PCMU) and National Rural Finance Policy Steering Committee (NRFPSC) have already been established under DBE to implement RUFIP I and II. The PCMU have already two safeguard experts. Given the geographical coverage of the RUFIP III programme the two experts may not be enough to coordinate and supervise programme activities and DBE may be required to recruit two more safeguard experts from its own recurrent budget to discharge its responsibility.

Project Coordination and Management Support shall be provided to the PCMU, including the provision of PCMU staff, technical assistance, office equipment, associated software and vehicles; and study tours and training programs for PCMU staff. The PCMU is under the direct supervision of DBE and fully charged with the responsibility of coordination and management of the programme. The PMC and NRFPSC, composed of the major national program partners, are advisory bodies. The former advises or supports the PCMU in discharging its responsibility diligently and the latter deals with rural finance policy matters and has a role in policy dialogue triggered through the RUFIP.

AEMFI, NBE, FCA and RCPB are umbrella institutions supporting the development and regulation and supervision of MFI’s and RUSACCOs and unions.

IFAD is the financing institution; while MoFED on behalf the Ethiopian Government will sign the loan to for the proposed programme.DBE's primary responsibility is management of the equity and credit funds and coordination and facilitation of the institutional development component.

The PCMU will also work with MFIs and Regional level officials and deliver:

- Safeguards awareness training;
- Explain Checklist section based on the SECAP;
- Confirm that enterprise activity designs and specifications contain environmental and social safeguards checks and considerations;
- Confirm that plans include mitigation actions where needed and monitoring responsibilities are recognized;
- Organize/facilitate on-the-job training in safeguards monitoring, inspection and information analysis.

The PCMU will be trained by national or international consultant and the MFIs will be trained by PCMU staff that received training by the consultant.

(b) Regional/ Woreda level Environmental offices

After thorough screening of the national level applications/proposals, DBE will require to submit the safeguards screening results, their recommendations and reports to **Regional/ Woreda level Environmental offices** for further review, clearance and approval of the screening reports.

The regional or Woreda level environmental offices will review the screening results and recommendations in the screening report, review the proposed mitigation measures, and will further provide feedbacks on the specific issues of screening. The reviewing process at this level may not necessarily need a full scale ESIA and may decide, if an ESMP is required.

After review of the screening result, the application might require a field appraisal mission to the location where project activity will be implemented in order to obtain additional or more detailed information. Moreover, if the desk appraisal and screening indicates that the proposed project activities have environmental and/or social concerns that are not adequately addressed in the current documentation, or if the application does not meet certain criteria, the regional or Woreda Environmental offices will require a field appraisal before the project activity application can be considered.

(c) Woreda Administration Office

- Follow-up and assist the micro finance institutions on the repayment;
- Establish a task force/steering committee at Woreda level;
- Organize meetings and chair the Woreda taskforce/steering committee for meetings related to the implementation of the programs, credit disbursement and repayment; and,
- In cases of land expropriation, facilitate the process of valuation and compensation committee meetings and payment of compensation.

(d) Woreda Agricultural and Natural Resources Offices

- Support the selection of eligible farmers, who among others adopt improved agricultural practices and have a capacity to repay the loan in collaboration with other actors;
- Provide capacity building on climate resilient agricultural practices and natural resources management based on the profile of beneficiaries and intended purposes of the loans; and,
- Support by providing guidance and technical assistance to farmers and beneficiaries on compost preparation and other good agricultural practices including soil and water conservation measures.

The Agricultural and Natural Resource ANR officer will report to the Regional Agricultural and Natural Resource and to the RUSSACOs and MFIs.

(c) Micro Financial Institutions

- Assign focal person (s) at head office, branch office and sub-branch offices;
- Short list and make available staff members who are working in selected Woredas for training;
- In collaboration with other parties appraise application of beneficiaries on the basis of the guidelines set;
- Approve and disburse loans for beneficiaries ;
- Provide training and awareness raising campaigns through various forms of media and other means;
- In coordination with other relevant federal and regional bureaus, provide overall technical support/assistance in the implementation of this ESMF for the proposed investment activities;
- Provide loans to potential users;
- Maintain profiles of loan beneficiaries;
- Eensure that the loans are utilized for the intended purpose;
- Strictly follow-up the loans disbursed according to repayment schedule and agreement;
- Undertake monitoring and evaluation on the overall progress of repayment, likely problems, and other related issues and report to DBE on a monthly basis; and
- Program monitoring/reporting ;

  Microfinance institutions (MFIs) will report to DBE

(e) Peasants' Associations in the Proposed project Areas

- Mobilize the society to take part in the program at Iddir meetings, religious ceremonies and other festivities;
- Undertake registration of likely beneficiaries (potential users) so as to avail credit to them in collaboration with other actors;
- Involve in the assessment of the eligibility of the beneficiaries; and,
- Report issues that are relevant to the program.

The Peasants' Associations will report to the RUSSACOs and MFIs

(f) Users/Beneficiaries

- Contribute certain percentage of the overall construction/installation as set by the relevant government bodies;
- Utilize the loan for the intended purpose;
- Repay the loan on the basis of the agreed repayment schedule; and,
- Liable to be penalized as per agreed agreements.

(g) NGOs

NGOs that have been in one way or another involved in similar project activities can participate for enhancing the sustainability of the Programme so long as they respect the rules and regulations at federal and regional levels and the social and cultural aspects at the local level.

9 ESMF Implementation, Monitoring and Reporting

9.1 Exclusion List of IFC

Prior to the formal screening process IFC exclusion list indicated in annex 1 will be used to identify RUFIP III project activities that are eligible for IFAD financing. The next step will be to utilize an environmental and social screening checklist (Annex 2) to identify sub-project/investment activities eligible for funding under RUFIP III. The application package that is to be submitted to MFIs should contain the environmental and social screening checklist. The DBE specialist under the PCMU, will be responsible to review the checklist submitted by the loan applicants and accordingly advise on the subsequent actions (automatic approval, approval pending a plan for mitigation, or non- approval) to be undertaken by MFIs. The MFIs, with the support of the specialist will also make spot checks to verify on the ground that potentially approved activities on paper are in reality in compliance with the EHS stipulated legal requirements.

Attention needs to be paid to the use of sound eligibility criteria that meets the SECAP Guidelines of IFAD in selecting and monitoring the financial intermediaries to ensure their financial and operational quality. In this regard, one of the important requirements is to ensure the project activities are in line with the legal requirements of the country.

This ESMF specifies (i) criteria which help avoid activities that might give rise to unacceptable or unmanageable environmental impacts, and (ii) procedures for screening that there will be no significant impacts and for identifying those that may require EIA. In case an EIA is required, potential beneficiaries are responsible to undertake such a study and get clearance from the local government authority at the region level. In such cases, the agent in the cooperatives to which resources of RUFIP III is channeled is responsible for identifying activities requiring EIA following an initial screening process, while the competent environmental authorities at the regional administration level are responsible for advising on the required level of EIA study and for ensuring that it is conducted to an acceptable standard.

Moreover, taking into account SECAP of IFAD, listing of ineligible projects is indicated in Annex 1.

This negative list encompasses projects with any of the attributes listed below:

- Project Activities with the potential for significant conversion or degradation of natural habitats without appropriate mitigation of anticipated impacts
- emitting pollutants to water, air and land and degrading forests,
- any project situated within green area designated by each municipality,
- Any project or activity that will be implemented in disputed land,
- Any project that would result in the displacement of people or requires resettlement,
- Any project with the potential for significant damages to cultural property,
- Any project that is not consistent with the project description at time of project negotiations, unless subsequently agreed to with the PCMU at DBE, along with the development of an appropriate level of environmental and social management capacity.
- Any project or activity involving the procurement of pesticides not allowable under IFAD guidelines,
- Any project or activity that does not meet the legal requirement of the country, including gazetted environment, health and safety legal requirements,
- Any project or activity that is not compliant with the international convention that Ethiopia has ratified,
- Any project or activity, where children under 18 years of age are employed.

9.2 ESMF Approval and Implementation Process

The ESMF process starts with the project activity. This includes identification of project activities based on beneficiaries' demands and subsequent technical support and advice received from MFIs to prepare their proposal and loan request application documents. Based on the type and scale of selected project activities by the beneficiaries, loan applications/proposals will be submitted to DBE for approval. The DBE and MFI with the support from regional and Woreda offices, if required, will conduct desk appraisal of the proposed project activities prior to commencing the loan eligibility and environmental and social safeguards screening.

The screening process will be carried out against the pre-set criteria for eligibility of the project activities and environmental and social safeguards compliance by staff/team of experts from DBE at national level and by MFI Branch offices at regional and Woreda level using the screening checklist under annex 2. The proposed project activity plan or loan request proposal, screening reports, and recommendations will be complied and send to environmental offices for further review and approval.

DBE will review the plan of activities, screening results and recommendations from MFIs and provide decisions of approval or pass recommendations, if any design modifications or additional safeguards instruments are required. If program activities of any significant environmental concerns are included, then the plan document will be directed to the attention of the DBE or MFIs. The final clearance and approval of the plan document will be referred to the respective institutions (DBE or MFIs) with all the enclosed environmental and social screening documents and final decision reports.

As stated above various institutions have responsibilities to manage and complete the overall process of environmental management and implementation of this ESMF. In this regard, DBE, Regional and Woreda bureaus and offices, Regional and Woreda Environmental offices, Woreda administrations, other relevant line ministries are major actors for the implementation of any proposed sub-projects/investments in an environmentally sustainable way.

The ESMF also outlines that the successful implementation of the programme activities will require dynamic and multi-disciplinary professionals. Therefore, regular short and tailor made training courses and workshops will be required to reinforce the capacity and skills of the direct implementers, stakeholders and beneficiaries during the entire programme period. The existing capacities of the implementing institutions, particularly DBE, MFI, PSE, Line and Sector Ministries to implement the ESMF and other environmental and social safeguard instruments are low.

The program has to provide for capacity building and technical support to all relevant implementing agents from National, Regional and Woreda levels. Thus, to capacitate and fill the gaps due to the prevailing low capacity of DBE, MFI and other institutions to implement this ESMF the development and implementation of capacity development and training plan is inevitable. The required capacity development, training and monitoring activity plan are stated under this ESMF, including the required budget over the six years (from 2019 to 2024) of project implementation period. Thus, for successful implementation of the ESMF, earmarked budget of an estimated amount of 540,000 US$ will be required in the whole project period. This includes training on various topics, annual review and end-program-evaluation of the impacts of the ESMF by a consultant. Apart from the allocation of money, integration and coordination of various actors both at federal, regional and Woreda levels has of paramount importance for the successful realization of the RUFIP III funded activities. Timely monitoring, evaluation and follow-up need also be considered in an integrated manner in collaboration with the various role players. The following steps should be followed to implement the ESMF.

Step one: planning and preparation of the project activities

During planning and preparation of the project activities, the Implementing Partners (IPs) are required to ensure that environmental and social impacts of the project activities owned by each rural household and other beneficiaries are of small scale and that could be mitigated and minimized through implementations of best practice methods. Anticipated impacts and the respective mitigation measures under environmental impact and mitigation measures pointed out earlier will be used by IPs

to obtain an overview of potential environmental and social impacts that could be generated due to the implementation of the project activities.
Given that the numerous beneficiaries' applications are likely to be submitted for funding, the screening and assessment of environmental and social impacts is most effectively applied simultaneously with the screening for loan eligibility by DBE or MFI branch offices. If the environmental and social impacts assessment is required, project activity will thus not be finally approved until an environmental and social safeguards impact assessment has been approved.
Based on the beneficiaries' demand on the type of project activities, applications /proposals for loan request will be submitted to DBE/MFIs.

Step Two: Desk appraisal
Prior to going to the sites, a desk appraisal of the proposed project activity will be carried out to confirm that all applications contain the required information pertinent to loan eligibility and for identification of environmental and social safeguards issues. Depending on the type of project activity loan request application level, desk appraisal will be conducted by the DBE /MFIs branch offices, to ensure that all pertinent environmental issues are identified.

Step Three: loan eligibility and safeguards screening
Screening for environmental and social eligibility will be done at the time when the beneficiaries submit the completed screening form to DBE or RUSSACOs/MFIs. The beneficiaries will be assisted by the Woreda administration when completing the screening form. The DBE or MFIs branch offices will undertake screening of loan eligibility and environmental and social eligibility of project activities to ascertain that the likely social and/or environmental impacts are identified. This screening will be carried out by using the Environmental and Social Screening Form (Refer annex2).
Completion of this screening form will facilitate the identification of potential environmental and social impacts, determination of their significance, assignment of the appropriate environmental category, proposal of appropriate environmental mitigation measures, and conduct any further environmental assessment work, if necessary. Suitably qualified experts from DBE /MFIs will conduct the screening process and if none are available, training will be provided.
The assignment of the appropriate environmental category to a particular project activity will be based on the information provided in the environmental and social screening forms (see annex 2) and on the SECAP provisions. Consistent with this operational policy, the activities of the proposed project activities may be categorized as "Category B" or Category A. Category "A" project activities will not be eligible to receive finance from RUFIP III budget.
Given the scale of the project, some of the activities may be categorized as "Category C" if the environmental and social screening results indicate that such activities will have limited or no environmental and social impacts. Therefore, apart from screening, they do not require environmental safeguards instrument preparation. Thus, if the screening form has only "No" entries, the proposed activity will not require further environmental assessment work, and the technical team of experts will recommend approval of this proposal and implementation can proceed immediately in line with IFAD Environmental Assessment Category "C".

Step Four: Submission of screening report to Regional/ Woreda level Environmental offices
After thorough screening of the national level applications/proposals, DBE will require to submit the safeguards screening results, their recommendations and reports to **Regional/ Woreda level Environmental offices** for further review, clearance and approval of the screening reports.

Step Five: Review of screening report and appraisal by Environmental offices
The regional or Woreda level environmental offices will review the screening results and recommendations in the screening report, review the proposed mitigation measures, and will further provide feedbacks on the specific issues of screening. The reviewing process at this level may not necessarily need a full scale ESIA and may decide, if an ESMP is required.
After review of the screening result, the application might require a field appraisal mission to the location where project activity will be implemented in order to obtain additional or more detailed

information. Moreover, if the desk appraisal and screening indicates that the proposed project activities have environmental and/or social concerns that are not adequately addressed in the current documentation, or if the application does not meet certain criteria, the regional or Woreda Environmental offices will require a field appraisal before the project activity application can be considered.

Table 9.1: Sample Criteria for Requiring a Field Appraisal

Criteria	**Field Appraisal**
1. Land must be acquired to implement project activities , an individual or community's access to land or available resources is restricted or lost, or an individual or family is displaced	Determines the number of affected/displaced people and level of impact on restrict access to any available resources, as per the criteria stated under RPF.
2. Project activities may-affect a protected area or a natural habitat	Determines if the project activities will adequately avoid adverse effects on the protected area or natural habitat, as provided for in the ESMF
3. project activities may have an impact on ecologically sensitive ecosystems (e.g. of impact on wetlands)	A field appraisal determines the scale and level of impact. The application may need to be revised to describe how the project will avoid or minimize adverse impacts to ecologically sensitive areas. This may require a distinct ESMP as outlined in this ESMF
4. Project activities may involve, or result in: • Diversion or use of surface waters; • Production of effluent waste;	A field appraisal determines the scale and potential adverse effects, and may include an ESMP as outlined in Chapter seven of the ESMF.

Depending on the field appraisal mission, the appraisal might reconsider the need for development of an ESMP for the project activities. DBE/MFIs are responsible for ensuring that the required ESMP is conducted as per the SECAP. The ESMP can be conducted by a team of experts from the DBE/MFI/PSE including the environmental safeguards specialist (to be recruited by the project) or by a consultant as deemed necessary. *It should be noted that any project activities that would be rated as category ‘A’ will not be financed by IFAD.*
DBE, MFIs, PSEs, regional or local level will supervise further the environmental and social safeguards implementation work, which may be included in the preparation of ESMP, RAP/ARAP, as the situation may require. Once all the requisite documentation has been compiled, the DBE/MFI will make recommendations to Woreda level environmental offices for final clearance and approval.

Steps six and seven: Approval of project activities by regional or Woreda level Environmental offices
As stated in the previous step four, the completed screening form along with any additional planning reports and overall project activity application is forwarded to the Woreda /Regional environmental offices. The first step in the approval process is to determine if all the relevant information has been provided, and is adequate. The Regional environmental offices at local level or regional level will check if the beneficiaries and screening team have thoroughly considered all environmental and social issues with regards to the identification of potential adverse effects arising from the project activities as well as mitigating measures to adequately address negative impacts.

The Project activity may not be eligible for funding, if they have potentially a negative impact on physical cultural resources, require land acquisition, or significant impacts on natural habitats, forests and other. Lists of project activities that may not be funded by the project are described in annex 1.
Although RUFIP III has no activities, which affect cultural resources in case of any events of the potential of chance find of physical cultural resources, the contract and any activities for construction or installation have to include reference to procedures to follow as per the issues mentioned in annex 5.
The screening of the project activity might result in a request for development of specific ESMP. Regional or Woreda level Environmental offices will review (the ESMP) and make decision by approving the project activity (*with or without conditions relating to implementation*); recommending to re-design (*with required and/or recommended amendments*); or rejecting the project activity (*with comments as to what is required to submit as an acceptable report*). As part of the appraisal, the corresponding ESMP has to be made publicly available.
IFAD Policy on Disclosure of Information requires that ESMPs are made available for public review. In this regard, it is only when ESMPs is made publicly available that the project activities will be reviewed.

Step Eight: Submission of approval decision report to DBE or MFIs / Regional or Woreda level Environmental offices
ESIA/ESMP review should be done in the given period (shortest possible time) to avoid delays in project activity implementation. The result of the review and final approval will submit to DBE/MFIs as soon as completed. The Review report to DBE or MFIs should include but not limited to:

- the decision on each project activity whether an ESMP is required or not;
- if an ESMP is required, the recommended scope of the ESMP clearly indicating the aspects to be seriously addressed, the skills required and duration of the ESMP;
- if an ESMP is not required, include guidance on special needs such as technical guidelines on any of the project activities; and
- Approval without conditions for those project activities with no potential adverse impacts.

(***Note***: *The final ESMP documents will be disclosed at DBE/MFI website. The local level disclosure of the final ESMP will be carried out using appropriate language and culturally sensitive manner.)*

Step Nine: Documentation
DBE or MFIs after receiving the decision report from Regional /Woreda level environmental offices, will compile the documentation comprising the decisions on loan eligibility and environmental and social safeguards screening for further processing of loan effectiveness.

Step Ten: effectiveness of project activities
Once the documentation is finalized, DBE/MFI will communicate the loan beneficiaries to notify the effectiveness of the project implementation and loan award with all requirements during project implementations.

Step Eleven: Implementation
DBE/MFI will inform appropriate implementing institutions/beneficiaries to commence the implementation of various project activities, as per their proposal and notify the beneficiaries to act on the decisions and requirements provided by the regional or Woreda level Environmental offices, together with approval reports.

Step Twelve: Supervision and Monitoring
The DBE, MFI and PSE will carry out supervision and monitoring, in consultation with and support from IFAD.

Step Thirteen: Annual auditing

As stated in the ESMF, the annual auditing and End-of-Project evaluation is the responsibility of DBE/MFI. The assignment will be annual auditing and end-of project evaluation by independent consultants or team of experts from Regional/Woreda Environmental offices.

Step Fourteen: End -of-Program Evaluation

End-of-Programme evaluation is the responsibility of DBE/MFI. The assignment will be evaluation by independent consultants or team of experts from Regional/Woreda Environmental offices.

9.3 Monitoring and reporting

Monitoring is a continuing process throughout the life of the proposed sub- projects and investments under RUFIP III from installation and construction phase up to operation and decommissioning phase. Its purpose is to establish benchmarks so that the nature and magnitude of anticipated environmental and social impacts can be continually assessed ensuring the achievement of ESMF objectives. Monitoring of ESMF could be continuous during project implementations or periodic review as annual monitoring/auditing to determine and guarantee the effectiveness of ESMF measures and procedures.

The objectives of monitoring are:

- To alert project implementers by providing timely information about the success or otherwise of the environmental management process outlined in this ESMF in such a manner that changes can be made as required to ensure continuous improvement of environmental and social management process; and,
- To make a final evaluation in order to determine whether the mitigation measures incorporated in the technical designs and the ESMPs have been successful in such a way that the pre-project environmental and social condition has been restored, improved upon or is worse than before and to determine what further mitigation measures may be required.

The ESMF implementation indicators to be monitored during project implementation include the following:

- Number of field appraisals undertaken;
- Number of ESMPs developed;
- Number of written warnings of violations of ESMPs issued to Private Sector Enterprises, Microfinance institutions, project contractors and/or the beneficiaries in case of non-compliances;
- Number of recommendations from IFAD , annual review and monitoring that have been implemented by the beginning of the following year;
- Number of chance find procedures for physical cultural resources invoked, if applicable;
- Number of staff at all levels trained in the implementation of this ESMF; and,
- Number of staff at federal, regional and Woreda levels attending training course in ESMF, RAP/RPF, ESMP, ESIA, and other safeguards instruments.

The ESMF training component is monitored through indicators of number of safeguard specialists PSE, MFI's staff at Regional and Woreda level beneficiaries and community members etc. trained and the topics covered.

Follow up on previous recommendations is monitored through the number of recommendations from the annual review that have been implemented. The indicators are deliberately very simple. Despite their simplicity, the integration of these indicators provides a guarantee that the ESMF will be implemented in full during the project implementation period.

The Monitoring and Evaluation Team of RUFIP III Coordination Directorate of the DBE will report to the DBE who will lead and oversee the implementation of any corrective measures that are required. Monitoring and evaluation is necessary to ensure that (i) the ESMF process is being implemented appropriately, and (ii) the mitigation measures are being identified and implemented.

This will enable to identify various issues that necessitate amendments in the ESMF so as to improve its effectiveness.

Annual Audit

Annual Audit: an independently commissioned environmental and social audit/monitoring will be carried out on an annual basis as required. Annual Audit of the ESMF implementation will be undertaken by external consultants. The reviews amongst other things will assess the performance of the project against the procedures described in this document, the need for future training, and the environmental and social impacts of the proposed project activities. Guidelines for annual reviews are included in annex 6.

The **Annual Audit** also provides a strong incentive for DBE to ensure that the ESMF will be implemented, and the project ESMPs will be developed and implemented. An Annual Audit Report will include a summary of the environmental performance of the program, based on the ESMPs and measures indicated in the ESMF; presentation of compliance and progress in the implementation of the ESMPs; and a synopsis of the environmental monitoring results from individual project monitoring measures (as set out in the ESMPs), at local level.

The main tasks of the audit study will be, but not limited to:

- Consideration of the description of the project;
- Indicate the objective, scope and criteria of the audit;
- Verify the level of compliance by the proponent with the conditions of the environmental management plan;
- Evaluate the proponent's knowledge and awareness of and responsibility for the application of relevant legislation;
- Review existing project documentation related to all project facilities and designs;
- Examine monitoring programs, parameters and procedures in place for control and corrective actions in case of emergencies;
- Examine records of incidents and accidents and the likelihood of future occurrence of the incidents and accidents;
- Inspect areas where Proposed project equipment and materials are stored and disposed of and give a record of all significant environmental risks associated with such activities;
- Examine and seek views on health and safety issues from the project staffs, the local and other potentially affected communities; and,
- Prepare a list of health, safety and environmental concerns of past and on-going activities.

The suggested annual report template for the proposed project is depicted in annex 8. An annual monitoring and evaluation report must be submitted to DBE.

End-of-project evaluation

Based on the comprehensive annual reviews, an end-of-project evaluation will take place, going into more details with some of the issues raised in the annual reviews and the impact of the capacity development activities. The evaluation will be performed as per the OECD/DAC criteria of relevance, effectiveness, efficiency, impact, and sustainability.

The PCMU, through the specialist designated within the DBE Directorate will be responsible for monitoring applications and approval to ensure that the checklist has been duly filled in and verified by the MFIs, RUSSACOs and the programme beneficiaries. Spot checks by the MFIs and USSACOs will allow the PCMU to verify that the mitigation procedures are being applied as described in the Screening Checklist.

At the Mid Term of the project, RUFIP III will undertake a comprehensive audit and prepare a report on its environmental and social performance. This audit report will be the basis for establishing compliance and for improving performance in this regard. It will also be an important input for the monitoring and evaluation of RUFIP III supported project activities.

To monitor the progress of the implementation of the measures that have been identified in this ESMF, annual reviews will be carried out as outlined in annex 6. The principal output of the annual reviews is and to summarizes the results, and provides practical recommendations. Distinct sections should address ESMF performance and cumulative impacts. Annexes should provide the detailed results of the fieldwork, and summarize the number of approved projects by the respective national and regional teams and their characteristics according to the annual report format indicated in the annex. Copies of the annual review report should be delivered to the PCMU, to each Local, Regional and National Government office responsible for appraisal, approval and implementation of projects, and to IFAD. To ensure early detection of critical environmental and social conditions and to provide information on the mitigation progress and results, reporting deadlines have been specified in the implementation schedule.

Environmental and social monitoring needs to be carried out during the construction as well as operation and maintenance of the proposed project activities to ensure that mitigation measures are implemented, have the intended result, and that remedial measures are undertaken, if mitigation measures are inadequate or the impacts have been underestimated within the environmental and social aassessment (ESA).

At Regional level, the safeguard expert assigned by the regional environment office will be responsible for monitoring and reporting on the status of ESMF implementation throughout the project duration. S/He will supervise and review environmental and social safeguard documents and issues such as environmental audit reports during implementation. He will specifically monitor the following aspects:

- The environmental and social assessment processes (screening; ESMP preparation);
- The monitoring of the implementation of the mitigation measures;
- Monitoring of environmental and social issues and the supervision of the contractor civil works during the construction process;
- Monitoring of environmental and social issues during operations and maintenance of the proposed project activities after construction using the environmental indicators shown in the ESMF; and
- Submission of monitoring reports.

The communities through their representatives will receive both compliance monitoring. This will be done throughout the project cycle namely:

- During the planning phase, the communities will participate in the identification of social and environmental indicators for monitoring the mitigating measures;
- During construction phase, monitoring the execution of works with respect to environmental and social aspects such as for example, verify the compliances of the contractors with their obligations;
- During operation and maintenance phase, the overall environmental and social impact monitoring to alert any emerging environmental and social hazards in conjunction with the ongoing Proposed project activities activities.

When peoples and communities are affected during the implementation of the proposed project activities, they should be included in the monitoring and evaluation exercise.

The monitoring plan has the two components:

- Monitoring of the compliance and effectiveness of the ESMF and application of the recommended standards;
- Impact monitoring, i.e., measuring the socio-economic impacts of the project interventions.

Biannual review workshops will be conducted at Federal and regional levels with the objectives to:

- Assess project performance in complying with ESMF procedures, learn lessons, and improve future performance; and
- Assess the occurrence of, and potential for, cumulative impacts due to the proposed sub-projects and other development activities in the project area.

The participants of the ESMF review workshop are project implementing agencies whose project activities have environmental and social concerns and are responsible for the ESMF implementation at all levels. Regional workshop will be organized by regional environment office. Biannual review workshop will be organized towards the end of the year. Besides, IFAD , as deemed necessary, will periodically conduct reviews of the implementation of the ESMF.

Information disclosure

The DBE will make copies of the ESMF available in selected public places (possibly at National and Regional relevant government offices) for information and comments. The Proposed project activities will be announced through different forms of media. The announcement will include a brief description of the programme, references to where and when the ESMF can be viewed, duration of the display period, and contact information for comments.

For meaningful consultations between the DBE and possible project affected groups, beneficiaries and local NGOs on all Category B projects, DBE shall provide a relevant material in a timely manner prior to consultation and in a form and language that are understandable and accessible to the groups being consulted.

Public Disclosure Plan

Following the public consultation, all comments and briefs will be analyzed by DBE. The report will be published and made available to the concerned community groups and to interested bodies upon request.

In line with this, the ESMF will be available at the relevant institutions at all levels and be publicly disclosed both in country and at the IFAD's website. The DBE will make copies of the ESMF available in selected public places in English and working language of the country in compliance with the IFAD's *Public Consultation and Disclosure Policy*. It is proposed that the locations of copies are announced through pubic relation sections of relevant sector line Ministries, radio announcement in addition to press releases, as applicable.

Any ESMPs and other safeguards instruments that will be prepared for the proposed project activities under the programme will also needed to be disclosed to the public. Copies of the ESMPs should be made available to communities and interested parties in accessible locations through local government authorities, (e.g. Woreda offices). Copies of the ESMPs should also be provided to the implementing agencies and submitted to the PCMU. This will ensure record keeping of all activities implemented under the ESMF and ensure that third party audits, if required, have adequate information when undertaking annual environmental and social audits.

Disclosure of documentation related to the SECAP process

The IFAD policy on the disclosure of documents, approved in 2010, adopted the principle of "presumption of full disclosure" The sharing of draft and final ESIAs and other relevant documents with programme and project stakeholders and interested parties will be subject to the above-mentioned principle. As such, the documents will be disclosed, when available, in a timely manner prior to project appraisal at the quality assurance stage on IFAD's Website and in an accessible place in the programme or project-affected area, in a form and language understandable to project-affected parties and other stakeholders, for the purposes of keeping them informed and obtaining their meaningful feedback.

10 Capacity Building and Technical Assistance

Effective implementation of the ESMF will require technical capacity of implementing institutions. Project activities implementing bodies need to understand inherent social and environmental issues and values and should be able to identify the indicators to properly address environmental issues related to this project. Preliminary capacity need assessment will have to be conducted to identify strengthening needs on social and environmental evaluation, screening, mitigation and monitoring during the implementation of the ESMF. The suggestions on training and capacity development requirements under this section are based on recent observations, and consultations during the field visits for the preparation of ESMF.

This chapter deals with capacity building needs of institutions that will support implementation of the ESMF. It states the detail training and capacity development requirement for DBE, and other regional and Woreda level implementing parties such as MFIs, PSE that will be directly or indirectly engage in the implementation of RUFIP III. This capacity development and training will support DBE and other institutions to develop their skills to sufficiently screen, monitor, evaluate and assess the environmental impact of the proposed project activities.

The two environmental and social safeguard specialists at EDB are currently monitoring implementation of environmental and social screening and mitigation measures of RUFIP II and other related projects. However, there is a need to hire additional safeguard specialists to properly monitor implementation of the proposed ESMF of RUFIP III to meet following objectives:

- Ensure the MFIs and RUSACCOS have the capacity to assist communities and beneficiaries in preparing their proposals, and to appraise, approve and supervise implementation of project activities;
- Representatives and leaders of community members and farmer groups, Beneficiaries, Institutions and associations at local levels to prioritize their needs, and to identify, prepare, implement and manage the environmental and social aspects of project activities; and,
- Assist Local MFIs, PSEs and extension agents by providing technical support (including basic ESMP, ESMF, RPF, and RAP) to communities and farmers in implementing their project activities in an environmental friendly and socially acceptable manner.

At the national level, the training activities in environmental and social impact assessment will include environmental project screening and implementation of ESMF and this training can be conducted by the Environment, Forest and Climate Change Commission (EFCCC) or private consultants with the support of the DBE.

As most of the project activities are expected to be small-scale and have limited impacts that can be easily mitigated (Category "B") and it is anticipated that the DBE safeguard specialists will be able to provide the required technical assistance on environmental and social safeguards management to Woreda experts that have environment background. The Woreda experts on the other hand will provide training and awareness to Kebele focal persons. In case environmental assessments are beyond the capacity of the Woreda experts and Kebele focal persons, they will request assistance from the regional /Woreda environmental offices to undertake the training.

Capacity Assessment

In many institutions they have assigned staff that that does not have the required qualification to oversee issues related to environmental management. In other cases, environment personnel are present but their level of training and technical capacity on environmental principles and tools of management is not sufficient. Training will therefore need to be provided at the federal government, local authorities, micro- finance institutions, and grassroots stakeholders that will in one way or another be involved in the implementation of the ESMF. In order to strengthen the capacity of DBE and to ensure sound implementation of ESMF and the consequent project activities environmental and social safeguard instruments, DBE may need to recruit two additional environmental and social safeguard specialists.

The implementation of the proposed project activities is expected to fulfill the safeguard policies requirements stipulated in this ESMF. However, the woredas and in some case the regions have no capacity to supervise and implement these policies. The staff assigned to implement the proposed project activities at the kebele level should therefore receive training on social and environmental impact assessment in order to properly implement the safeguard policies and also carry out proper monitoring. There is also the need to provide specific training to the Development Agents (DAs) and to Kebele Development Committee (KDC) that will be engaged in the identification, selection and approval of proposed project activities at the kebele level. Similar training should also be given to experts assigned at the regional level for them to oversee proper implementation of the mitigation measures to minimize project impacts.

Training and Awareness Raising

Creating awareness among the kebele communities on the impacts and benefits and action that should be taken to minimize impacts of the proposed project activities is very crucial. To this effect there is a need to develop a training plan to build the capacity of all development actors, who in one way or another, will participate in the execution and supervision of the project. Depending on the capacity building needs identified during the Performance Reviews or M&E, refresher courses will also need to be given in the course of proposed project activities implementation.

Areas identified for training include:

- Training on the role the community during the screening, planning, reviewing, implementation and monitoring process of the proposed project activities;
- Training on environment related national policies, laws, regulations policies that should be respected during the implementation of proposed project activities.;
- Training on IFAD's SECAP for application to RUFIP III;
- Training on environmental and social assessment, ESIA approval processes, reporting and monitoring; and preparation of environmental management plan; and
- Conducting regular community awareness workshop to update progress and to create awareness on the institutional arrangement, procedures and process of implementing the proposed project activities ;

Technical Assistances

For effective implementation of the ESMF, technical assistance is required at region, Woreda and local (Kebele) level to build the capacity of the local communities, DAs, Woreda, zone and region government staffs to discharge their responsibilities as per the requirements set out in this ESMF. To this effect general technical assistance will be given to experts at federal, regional and zonal levels. This assistance includes training on monitoring of the effective implementation of the mitigation measures set out in the ESMP and in monitoring and supervision of the ESMF implementation that will be carried out on a bi-annual basis. Besides the general technical assistance, a specific training on the general environmental management principles tailored to lower technicians and to the community at the grass root level will be given.

11 Budget for the Implementation of RUFIP III

The RUFIP III is planned to be completed in 6 years. Budget required for the implementation of ESMF during the 6 years project life is indicated in the table below:

Table 12.1: Budget Estimate for the implementation of the ESMF in US$

No	List of activities	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6
1	Awareness creation, launching workshop at project commencement						
1.1	Awareness raising, launching workshop and ToT at federal level	10,000					
1.2	Awareness raising and ToT at regional level	40,000					
1.3	Awareness raising and ToT at Woreda level	60,000					
	Subtotal for awareness raising	**110,000**					
2	Training						
2.1	Federal	10,000					
2.2	Regional	40,000					
2.3	Woreda	50,000					
	Subtotal for advanced training	**100,000**					
3	Preparation of ESMFs	**10,000**			10,000		
4	Salary of and social and environmental specialist(2 in Number)	4,000	4,000	4,000	4,000	4,000	4,000
5	Annual Review Workshops, supervision and monitoring and annual audit						
5.1	Federal level		10,000	10,000		10,000	
5.2	Regional level		40,000	40,000		40,000	
5.3	Woreda level		50,000	50,000		50,000	
	Subtotal for Review and monitoring		100,000	100,000		100,000	
	Total	**224,000**	**104,000**	**104,000**	**14,000**	**104,000**	**4,000**

Budget Estimate for the implementation of ESMF of RUFIP III is US$ 554,000

Note:

Training includes the following:

• IFAD's SECAP as well as implementation;
• Stakeholder engagement, consultation and partnerships, EIA law, procedures, & guidelines and enforcing mechanisms, Application of ESMF tools (Screening checklists, ESMP, EA), their review; implementation and enforcement,
• Development of mitigation measures and Environmental and Social Management Plans, Environmental reporting, monitoring and follow-up on the implementation of the ESMF the ESMF.

12 Grievance Redress Mechanisms (GRM)

Grievance redress will use existing formal and informal grievance mechanisms, strengthened or supplemented as needed with project-specific arrangements, and will be aproportionate to the risks and impacts of the project.

Grievance redressing mechanisms have to be designed in view of the fact that programme funded activities may upset the existing balance in society. The resettlement project will touch upon property issues, means of livelihood, and organization of social and spatial aspects that influence proximity to a set of environmental, economic, social, and spiritual assets. Therefore, the grievance redressing system has to be designed in such a way that it functions in a flexible manner and the implementing agency has to incline to a pro-poor approach in all its decisions. The GRM will have a working place and adequate budget for implementation.

Grievances will be actively managed and tracked to ensure that appropriate resolution and actions are taken. A clear time schedule will be defined for resolving grievances, ensuring that they are addressed in an appropriate and timely manner, with corrective actions being implemented and the complainant being informed of the outcome.

Grievances may arise from members of communities who are dissatisfied with (i) the eligibility criteria, (ii) community planning and resettlement measures, or (iii) actual implementation. This chapter sets out the measures to be used to manage grievances.

The grievance procedure does not replace existing legal processes. Based on consensus, the procedures will seek to resolve issues quickly in order to expedite the receipt of entitlements, without resorting to expensive and time-consuming legal actions. If the grievance procedure fails to provide a result, complainants can still seek legal redress.

A local grievance hearing committee (GHC) will be established, consisting of representatives from the village or town, municipality, Woreda, or Kebele administration, the displaced/affected persons, village elders or influential personalities other than the displaced/affected persons, and the church/mosque administration. Grievances should be settled amicably whenever possible. That is, positive discussions are made to convince the affected PAPs in the presence of the GHC.

For r example, if beneficiaries are unable to pay back their loans in time/default on loans since they are extremely susceptible to climate risks or borrower passed away the local grievance hearing committee (GHC) will evaluate the seriousness of the risk and ask for an extension or short term waiver.

However, if the resolution of a case requires additional payment any form of relocation of resources, the report shall be sent to the appropriate administrative executive for consideration. If the administrator agrees to the recommendation, he/she shall instruct the resettlement/appropriate unit to implement the amended provision. On the other hand, if the recommendation of the GHC is such that it upsets legal frameworks, the aggrieved party may be advised to pursue the case in a normal court of law.

According to proclamation 455/2005, Article11, subarticle1: "In rural areas and in urban centers where an administrative organ to hear grievances related to urban land holding is not yet established, a complaint relating to the amount of compensation shall be submitted to the regular court having jurisdiction."

In urban areas, a PAP who is dissatisfied with the amount of compensation may complain to an administrative organ and if the PAP is still not satisfied, PAP may appeal to the regular court within thirty days from the date of the decision.(refer annex 10)

IFAD has established a complaints procedure to receive and facilitate resolution of concerns and complaints with respect to alleged non-compliance of its environmental and social policies and the mandatory aspects of its SECAP in the context of IFAD-supported projects. The procedure allows affected complainants to have their concerns resolved in a fair and timely manner through an independent process. IFAD may be contacted by e-mail at SECAPcomplaints@ifad.org or via its website. In addition, IFAD will require the borrower to provide an easily accessible grievance mechanism, process or procedure to facilitate resolution of concerns and grievances of project-affected parties arising in connection with the project (on a case-by-case basis for projects that pose special risks). Grievance redress will use existing formal and informal grievance mechanisms, strengthened or supplemented as needed with project-specific arrangements, and will be proportionate to the risks and impacts of the project. Although IFAD normally addresses risks primarily through its enhanced quality enhancement/quality assurance process and by means of project implementation support, it remains committed to: (i) working proactively with the affected parties to resolve complaints; (ii) ensuring that the complaints procedure and project-level grievance mechanism are easily accessible to affected persons, culturally appropriate, responsive and operates effectively; and (iii) maintaining records of all complaints and their resolutions.

Communities and individuals who believe that they are adversely affected by the project may also submit complaints through IFAD's Complaints Procedure. For information on how to submit complaints to IFAD, please visit https://www.ifad.org/web/guest/accountability-and-complaints-procedure. Communities Complaints on SEA can also be sent to IFAD using the link https://www.ifad.org/web/guest/ethics).

13 Chance Finds

Any Proposed project activities within the scope of the proposed Program, that will impact the cultural resources are not eligible for funding (Refer to Annex 1). In case of any possibility of chance find of physical cultural resources, most notably during excavation as part of construction activity the contractor should report to the responsible institutions for further guidance.

Such physical cultural resources may take the form of work of art, building structures, graves or other sites of importance, including sites of archaeological, historical or religious significance.

All chance finds of such physical cultural resources will lead to temporary suspension of all activity that will adversely impact the cultural resource. Contracts will include detailed procedures for ensuring the protection of the cultural resources, including cessation of activities until the significance of the find has been determined and until appropriate mitigating measures has been implemented. This contains standard provisions to be annexed to contracts that potentially will lead to chance finds of physical cultural resources, as required. Refer annex 6 for the details of how to handle the issue of chance finds

The attachments outlined below will be annexed to the contract in case there is the possibility of chance find of physical cultural resources (refer annex 6) .

Attachment to contracts in case of potential chance find of physical cultural resources

Excavation in sites of known archaeological interest should be avoided as stated in annex 1 since; such project activities are not eligible for funding. Where historical remains, antiquity or any other object of cultural, historical or archaeological importance (including graveyards) are unexpectedly discovered during construction in an area not previously known for its archaeological interest, the following procedures should be applied:

a) Stop the construction activities in the area of the chance find.
b) Delineate the discovered area.
c) Secure the area to prevent any damage or loss of removable objects. In cases of removable antiquities or sensitive remains, a night guard shall be present until the responsible Regional authorities and the Ministry of Culture and Tourism take over.
d) Notify to DBE and the respective relevant institutions to contact the responsible local authorities and the Ministry of Culture and Tourism immediately (less than 24 hours).
e) The Ministry of Culture and Tourism will be in charge of protecting and preserving the area until deciding on the proper procedures to be carried out. This might require an evaluation of the findings to be performed by the archaeologists of the relevant Ministry Culture, and Tourism (within 1 week). The evaluation of the findings will take in consideration various criteria relevant to cultural heritage, including the aesthetic, historic, scientific or research, social and economic values as decided by the Ministry of Culture and Tourism.
f) Decisions on how to handle the finding are taken by the responsible authorities and the Ministry of Culture and Tourism (within 2 weeks). This could include changes in the location of the Proposed project activity layout (such as when the finding is irremovable remains of cultural or archaeological importance), conservation, preservation, restoration and salvage.
g) Construction or rehabilitation work will resume only after authorization is provided by the responsible local authorities and the Ministry of Culture and Tourism concerning the safeguard of the heritage.
h) Authorization to resume work shall be communicated to the contractor in writing by the Ministry of Culture and Tourism.

In case of delays incurred indirect relation to any physical cultural resources findings not stipulated in the contract (and affecting the overall schedule of works), the contractor/masons may apply for an extension of time. However, the contractor/masons will not be entitled to any kind of compensation or claim other than what is directly related to the execution of the physical cultural resources findings works and protections.

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ANNEXES

Annex 12: List of Proposed project activities that are not eligible for IFAD Funding

Proposed project activities that are not eligible for funding
Project activities that will block the access to water points and grazing etc. used by others
Project activities that will necessitate relocation and resettlement
Project activities that will cause encroachment to, and adversely affect, important natural habitats (e.g., wildlife reserves; parks or sanctuaries; protected areas; natural habitat areas, forests and forest reserves, wetlands, national parks or game reserve; any other ecologically/environmentally sensitive areas)
Project activities that will impact on physical cultural resources (archaeological sites; religious monuments or structures; natural sites with cultural values; cemeteries; graveyards; graves; and other sites of significance)
Project activities that will be located in protected areas and ecologically sensitive sites
Project activities that would not disadvantage to community members.
Project activities that will contravene international and regional conventions on environmental and social issues
Project activities that will contravene international conventions such as child labour and forced labour
Project activities that cause large-scale physical disturbance of the site or the surroundings

Annex 13: Environmental and Social Screening Checklists

This section outlines the selection criteria and associated Environmental and Social Assessment procedures to be applied when screening Project activities under RUFIP III.

Annex 2.1: Information for screening potential safeguards impacts

I. Basic Data:

Name of the Program:

Name of the proposed project activity:

Name of the Beneficiary:

Address:

Civil Works to be constructed:

Proposed Date for Commencement of Work:

DBE/MFI Team Representative and Address:

Site Selection:

II. Site Description

Site Features	Description
Physical description of the site	

Proximity to existing water points, wells and other water resources	
Presence and type of vegetation	
What is the current land use?	
Who identified the site?	
Who is the owner or user of the land?	
Who occupies the land?	

Completeness of the Application:

Does the application document contain, as appropriate, the following information?

Issues to be considered	**Yes**	**No**	**N/A**
Description of the proposed project activity and where it is located			
Reasons for proposing the project activity			
The estimated cost of implementation			
Information about how the site was chosen, and what alternatives were considered			
A map or drawing showing the location and boundary of the Proposed project activity including any land required temporarily during construction			
The plan for any physical works (e.g. layout, buildings, other structures, construction materials)			
Any new access arrangements or changes to existing road layouts			
Any land that needs to be acquired, as well as who owns it, lives on it or has rights to use it			
A work program for construction, operation and decommissioning the physical works, as well as any site restoration needed afterwards			
Construction methods			
Resources to be used in construction and operation (e.g. materials, water, energy)			
Information about measures included in the Proposed project activity plan to avoid or minimize adverse environmental and social impacts			
Details of any permits required for the proposed project activity			

Annex 2.2: Eligibility checklist for DBE or MFI at the National/Regional/Woreda/Kebele level

Name of the Program:
Name of the Project activity:
Location of the subproject: Region: _____________ Zone: _____________Woreda: _____________
Kebele:______________
Person(s) who did the eligibility checklist

	Name	**Organization**	**Signature**	**Date**
1.				
2.				

Answer the following questions to determine whether the Proposed project activity is eligible or not*		
Will the subproject	**Yes**	**No**
cause large-scale physical disturbance on (e.g. irrigation schemes of more than 100 ha is regarded as high risk according to IFAD guideline and are therefore eligible and schemes above 3000 ha requires full EIA)		
block the access to or use of water points etc. used by others		
located in or adjacent to protected area, critical habitat and other ecologically sensitive ecosystems		
create encroachment and/or cause significant adverse impacts to critical natural habitats (e.g., wildlife reserves; parks or sanctuaries; protected areas; forests and forest reserves, wetlands, national parks or game reserve; any other ecologically/environmentally sensitive areas)		
significant impact on physical cultural resources (archaeological sites; religious monuments or structures; natural sites with cultural values; cemeteries; graveyards; graves; and other sites of significance)		
Have risk on and/or exclude some members of a community, including vulnerable and minority groups		
Contravene international and regional conventions on environmental and social issues		

***** *This simple checklist can be used by DBE/MFI as a format for fast track eligibility checking of identified program activities*

Eligibility Recommendations:

It should be noted that if your answer is "**YES**" to any of the questions above, your Proposed project activity is not eligible and has to be rejected unless the features can be avoided by change of design and/or other appropriate mitigation measures.

Proposed project activity is eligible and approved: ☐

Proposed project activity is not eligible and rejected, and requires further action: ☐

Screening supervised and approved by:

	Name	Position	Signature	Date:
1.	___________	______________	___________	_____________

Annex 2.3. Screening checklist for environmental and social concerns needing special attention

Name of the Program:
Name of the subproject:
Location of the subproject: Region: _____________ Zone: _____________Woreda: _____________
Kebele:______________
Person(s) who did the eligibility checklist

Name	Organization	Signature	Date
1.			
2.			

A. Environmental and social concern of the proposed project activity

Feature of environmental and social concern: Will the subproject	Yes	No	Comments
Involves land acquisition, or loss of assets, or access to assets on the land			
Have chemical wastes, disposal and pollution issues			
Displace individuals, families or businesses			
Encroach any sensitive area, like wetlands, national parks			
Located in or near an area where there is an important historical, archaeological or cultural heritage site			
Have risk of causing the contamination of drinking water			

If the Proposed project activity have any of the above features (‘Yes’ answers), the concerned focal person/expert, within the DBE/MFIs in collaboration with those concerned notifies the Regional and Woreda Environmental offices to make sure that the necessary procedures and guidelines are followed and relevant documents prepared. In addition, the proposed project activities have to be screened for any potential environmental and social concern as per the checklist given below

Recommendations

Proposed project activity needs special attention: ☐

Proposed project activity does not need special attention: ☐

Additional comments

Screening supervised and approved by:

Name Position Signature Date:

1___________ ______________ ___________ _________

B. Checklist for environmental and social impact rating for Proposed project activities of environmental and social concerns.

Impact rating will be considered both in terms of consequence of impacts and probability of impacts so as to avoid subjective impact analysis.

No.	Type of activity – Will the proposed project activity :	If Yes, Rate of Impacts				
A		None	Low	Medium	High	Unknown

1	Build or rehabilitate any rural roads?					
2	Build or rehabilitate any electric energy system?					
3	Build or rehabilitate any structures or buildings?					
4	Support agricultural activities?					
5	Be located in or near an area where there is an important historical, archaeological or cultural heritage site?					
6	Be located within or adjacent to any areas that are or may be protected by government (e.g. national park, national reserve, world heritage site) or local tradition, or that might be a natural habitat?					
7	Depend on water supply from existing reservoirs, weir, or other water diversion structure?					
B	**Environment – Will the Proposed project activity:**	**If Yes, Rate of Impacts**				
		None	**Low**	**Medium**	**High**	**Unknown**
8	Have risk of causing the contamination of drinking water?					
9	Cause poor water drainage and increase the risk of water-related diseases such as malaria or bilharzias?					
10	Be located within or nearby environmentally sensitive areas (e.g. intact natural forests, mangroves, wetlands) or threatened species?					
11	Create a risk of increased soil degradation or erosion?					
12	Produce, or increase the production of, solid or liquid wastes (e.g. water, medical, and domestic or construction wastes)?					
13	Affect the quantity or quality of surface waters (e.g. rivers, streams, wetlands), or groundwater (e.g. wells)?					
14	Result in the production of solid or liquid waste, or result in an increase in waste production, during construction or operation?					
C	**Environment – Will the proposed project activity :**	**If Yes, Rate of Impacts**				
		None	**Low**	**Medium**	**High**	**Unknown**
15	Require that land (public or private) be acquired (temporarily or permanently) for its development?					
16	Use land that is currently occupied or regularly used for productive purposes (e.g. gardening,					

	farming, pasture, fishing locations, forests)					
17	Displace individuals, families or businesses?					
18	Result in the temporary or permanent loss of crops, fruit trees or household infrastructure such as granaries, outside toilets and kitchens?					
19	Result in the involuntary restriction of access by people to legally designated parks and protected areas?					

When considering the location of a proposed project activity, rate the sensitivity of the proposed site is as shown in the following table according to the given criteria. Higher ratings do not necessarily mean that a site is unsuitable. They do indicate a real risk of causing undesirable adverse environmental and social effects, and that more substantial environmental and/or social planning may be required to adequately avoid, mitigate or manage potential effects. The following table should be used as a reference.

Summary of site sensitivity

Issues	**Site Sensitivity**		
	Low	**Medium**	**High**
Sensitive Natural habitats (Wetland, national parks)	No natural habitats present of any kind, No critical hot spot biodiversity area, fragile ecosystem	No critical natural habitats; other natural habitats occur	Presence of critical natural habitats present. hot spot biodiversity area, fragile ecosystem with in declared protected area
Water quality and water resource availability and use	Water flows exceed any existing demand; low intensity of water use; potential water use conflicts expected to be low; no potential water quality issues	Medium intensity of water use; multiple water users; water quality issues are important	Intensive water use; multiple water users; potential for conflicts is high; water quality issues are important Intensive water use; multiple water users; potential for conflicts is high; water quality issues are important
Natural hazards vulnerability, floods, soil stability/ erosion	Flat terrain; no potential stability/erosion problems; no known volcanic/seismic/ flood risks	Medium slopes; some erosion potential; medium risks from volcanic/seismic/ flood/ hurricanes	Mountainous terrain; steep slopes; unstable soils; high erosion potential; volcanic, seismic or flood risks
Cultural property Physical cultural resources	No known or suspected cultural heritage sites	Suspected cultural heritage sites; known heritage sites in broader area of influence	Known heritage sites in project area
Involuntary resettlement	No economic or physical displacement	If it displaces less than 200 people	If it displaces greater than 200 people

Issues	Site Sensitivity		
	Low	Medium	High
Land acquisition	No land acquisition	If the activity takes less than 20% of households land	If the activity takes more than 20% of households land

Summary of assessment (based on field visit):

Environmental Category (B or C) of the Proposed project activities(with justification):

____

____

Recommendation

☐ **The Proposed project activity can be considered for approval.** The application is complete, all significant environmental and social issues are resolved, and no further planning of proposed project activity is required: **Approved without condition** (*Project activity is not of environmental and social concern and is ready for approved*)

☐ **Safeguards instrument(s) required: Partial ESIA, ESMP or others (please specify)**

☐ **ESMP required:**

☐ **Rejected; reasons for rejection:**

☐ **Others (specify):**

☐ **A field appraisal is required.**

CERTIFICATION

I/We certify that I/we have thoroughly examined all the potential adverse effects of these project activities. To the best of our knowledge, the proposed project activity as described in the application and associated planning reports (e.g. ESMP, RAP/ARAP,), if any, will be adequate to avoid or minimize all adverse environmental and social impacts.

A Field Appraisal report will be completed and added to the file.

Name of desk appraisal officer (print): ………………………………………………………...

Signature: …………………………Date: ………………………………

Woreda Environmental offices representative

Name: ………………………………………………………..

Position: ………………………………………………………

Signature: ……………………………………………………

Date: …………………………………………………

Desk Appraisal by Review Authority: ……………………………………………

Note: *A field appraisal must be carried out if the Proposed project activities:*

- *Needs to acquire land, or an individual or community's access to land or available resources is restricted or lost, or any individual or family is displaced;*
- *May restrict the use of resources in a park or protected area by people living inside or outside of it;*
- *May affect a protected area or a critical natural habitat;*
- *May encroach onto an important natural habitat, or have an impact on ecologically sensitive ecosystems (e.g. rivers, streams, wetlands);*
- *May adversely affect or benefit an underserved and vulnerable people;*
- *Involves or introduces the use of pesticides;*
- *Involves, or results in: a) diversion or use of surface waters; b) construction or rehabilitation of latrines, septic or sewage systems; c) production of waste (e.g. slaughterhouse waste, medical waste); d) new or rebuilt irrigation or drainage systems; or e) weirs, reservoirs or water points; and,*
- *Any others to be clarified/checked at the Proposed site (please mention them).*

………

………

Annex 14: Suggested Environmental and Social Field Appraisal Form

Name of the Program:

Name of the proposed Project Activity: Application Number:

Part 1: Identification

1. Name: (……………….)
2. Location: (…………………)
3. Reason for Field Appraisal:
4. Date(s) of Field Appraisal:
5. Field Appraisal Officer and Address:
6. Extension Team Representative and Address:
7. Community Representative and Address:

Part 2: Description of the Proposed Project Activity

8. Details:

____

____

Part 3: Environmental and Social issues

9. Will the Proposed project activity: Yes No

- Need to acquire land?
- Affect an individual or the community's access to land or available resources?
- Displace or result in the involuntary resettlement of an individual or family?

If "Yes", tick one of the following boxes:

- The Resettlement Action Plan (RAP/ARAP) included in the allocation is adequate. No further action required.
- The RAP/ARAP included in the application must be improved before the application can be considered further.
- An RAP/ARAP must be prepared and approved before the application can be considered further.

10. Will the subproject: Yes No

* Encroach onto an important natural habitat?

* Negatively affect ecologically sensitive ecosystems?

If "Yes", tick one of the following boxes:

- The Environmental and Social Management Plan (ESMP) included in the application is adequate. No further action required.
- The ESMP included in the application must be improved before the application can be considered further.
- An ESMP must be prepared and approved before the application can be considered further.

11. Will this proposed project activity involve or result in: **Yes** **No**

- Diversion or use of surface waters?
- Production of waste?
- New or rebuilt irrigation or drainage systems?

If "Yes", tick one of the following boxes:

- The application describes suitable measures for managing the potential adverse environmental effects of these activities. No further action required.
- The application does not describe suitable measures for managing the potential adverse environmental effects of these activities. An ESMP must be prepared and approved before the application is considered further.

12. Will this Proposed project activity impact on water supplied from an existing reservoirs or weir?

Yes ☐ No ☐

If "Yes", tick one of the following boxes:

- The application demonstrates that a dam safety report has been prepared, the dam is safe, and no remedial work is required. No further action is required.
- The application does not demonstrate that a dam safety report has been prepared, the dam is safe, and no remedial work is required. A dam safety report must be prepared and approved before the application is considered further.

15. Are there any other environmental or social issues that have not been adequately addressed?

Yes ☐ No ☐

If "Yes", summarize them:

...

And tick one of the following boxes:

- Before it is considered further, the application needs to be amended to include suitable measures for addressing these environmental or social issues.
- An ESMP needs to be prepared and approved before the application is considered further.

Part 4: Field Appraisal Decision

- The Proposed project activity can be considered for approval. Based on a site visit and consultations with both interested and affected parties, the field appraisal determined that the community and its proposed project adequately address environmental and/or social issues as required by the ESMF.
- If the field appraisal identify environmental and/or social issues have not been adequately addressed, then recommendation will be made to amend the application.
- All required documentation such as an amended application, ESMP, RAP/ARAP, will be added to the proposed project activity file for further consideration.

Name of field appraisal officer (print): ....

Signature: ....**Date:** ……………………………………

Annex 15: Guideline for the preparation of site specific ESMP

ESMPs should demonstrate that proposed environmental and social management and monitoring activities will encompass all major impacts and how they will be integrated into supervision. The ESMP should also describe proposed measures, methods, and actions to facilitate public consultation. It is important that the ESMP identify linkages to other social and environmental safeguards plans relating to the proposed project activities such as plans dealing with resettlement issues. ESMPs should be finalized and approved after taking into account comments from Woreda Environmental offices. The IFAD safeguards team will review and provide comments on draft site-specific instruments (if required) and monitor the safeguards compliance. Given below are the important elements that constitute an ESMP:

i) **Description of the subproject**: Scale nature and type of proposed project activity implemented under the proposed programs are summarized.

ii) **Description of Proposed project area:** The Biophysical and social environmental setting of the specific Proposed project activity are summarized

iii) **Impacts:** Predicted adverse environmental and social impacts (and any uncertainties about their effects) for which mitigation is necessary should be identified and summarized.

iv) **Description of Mitigation Measures**: Each measure should be briefly described in relation to the impact(s) and conditions under which it is required. These should be accompanied by and/or referenced to designs, development activities, operating procedures, and implementation responsibilities. Proposed measures and actions to facilitate public consultations should be clearly described and justified. Feasible and cost-effective measures to minimize adverse impacts to acceptable levels should be specified with reference to each impact identified. Further, the ESMP should provide details on the conditions under which the mitigation measure should be implemented. The ESMP should also indicate the various practicable measures applicable to the proposed project activity at each project phases (design, construction and/or operation). Efforts should also be made to mainstream environmental aspects wherever possible.

v) **Description of monitoring program:** The ESMP identifies monitoring objectives and specifies the type of monitoring required; it also describes performance indicators which provide linkages between impacts and mitigation measures identified in the ESA report, parameters to be measured (for example: national standards, extent of impacted area to be considered, etc.), methods to be used, sampling location and frequency of measurements, and definition of thresholds to signal the need for corrective actions. Monitoring and supervision arrangements should be agreed by IFAD and the client to ensure timely detection of conditions requiring remedial measures in keeping with best practice; provide information and the progress and results of mitigation and institutional strengthening measures; and, assess compliance with National and IFAD environmental safeguard policies

vi) **Institutional arrangements**: Institutions responsible for implementing mitigation measures and for monitoring their performance should be clearly identified. Where necessary, mechanisms for institutional coordination should be identified, as often, monitoring tends to involve more than one institution. This is especially important for requiring cross-sectoral integration. In particular, the ESMP specifies who is responsible for undertaking the mitigation and monitoring measures, e.g., for enforcement of remedial actions, monitoring of implementation, training, financing, and reporting. Institutional arrangements should also be crafted to maintain support for agreed enforcement measures for environmental protection. Where necessary, the ESMP should propose strengthening the relevant agencies through such actions as establishment of appropriate organizational arrangements; appointment of key staff and consultants.

vii) **Implementing schedules:** The timing, frequency and duration of mitigation measures and monitoring should be included in an implementation schedule, showing phasing and coordination with procedures in the overall implementation/operations manual. Linkages should be specified where implementation of mitigation measures is tied to institutional strengthening and to the legal agreements.

viii) **Reporting procedures**: Feedback mechanisms to inform the relevant parties on the progress and effectiveness of the mitigation measures and monitoring itself should be specified. Guidelines on the type of information required and the presentation of feedback information should also be highlighted.

ix) **Cost estimates and sources of funds:** Implementation of mitigation measures mentioned in the ESMP will involve an initial investment cost as well as recurrent costs. The ESMP should include cost estimates into the design, bidding and contract documents to ensure that the contractors will comply with the mitigation measures. The costs for implementing the ESMP will be included in the design, as well as in the bidding and contract documents. It is important to capture all costs – including administrative, design and consultancy, and operational and maintenance costs – resulting from meeting required standards or modifying design.

For each potential impacts of the proposed project activity, corresponding mitigation measures, and who is responsible for implementation is indicated. For each potential environmental and social impact, there can be more than one mitigation measure. Responsibility for implementation of mitigation measures will typically rest with the contractor or beneficiary during construction and operation of the proposed activities.

The monitoring section of the ESMP prescribes indicators for monitoring the environmental and social impact and the effects of mitigation measures. The responsibility for this will typically rest with the DBE in collaboration with the respective pertinent institutions. A template for ESMP is depicted in annex 5.

Annex 16: Suggested Environmental and Social Management Plan (ESMP) Template for the proposed project activities

identification					
Name					
Region		Zone		Wereda	
Kebele/community		Location GPS coordinates			

Description of the Proposed project activity
Description of potential environmental and social impacts;
Description of planned mitigation measures and monitoring along with institutional responsibilities and capacity/training requirements

Environmental and Social Management Plan-Mitigation					
Project Phase	**Project activity**	**Environmental Impacts**	**Mitigation/ enhancement measures**	**Institutional responsibilities**	**Cost**
Pre-construction					
Construction					
Operation and maintenance					
Total mitigation costs					

Environmental and Social Management Plan-Monitoring							
Project Phase	**Mitigation measures**	**Parameters to be monitored**	**location**	**measurements**	**frequency**	**Institutional responsibilities**	**Cost**
Pre-construction/ activities							
Construction/ activities							
Operation and maintenance/ activities							

Total monitoring costs	

Annex 17: Procedures for Chance Find of Physical Cultural Resources

Any Proposed project activities within the scope of the proposed Program, that will impact the cultural resources are not eligible for funding (Refer to Annex 1). In case of any possibility of chance find of physical cultural resources, most notably during excavation as part of construction activity the contractor should report to the responsible institutions for further guidance.

Such physical cultural resources may take the form of work of art, building structures, graves or other sites of importance, including sites of archaeological, historical or religious significance.

All chance finds of such physical cultural resources will lead to temporary suspension of all activity that will adversely impact the cultural resource. Contracts/Masons will include detailed procedures for ensuring the protection of the cultural resources, including cessation of activities until the significance of the find has been determined and until appropriate mitigating measures has been implemented. This Annex contains standard provisions to be annexed to contracts that potentially will lead to chance finds of physical cultural resources, as required.

The attachments outlined below will be annexed to the contract in case there is the possibility of chance find of physical cultural resources.

Attachment to contracts in case of potential chance find of physical cultural resources

If the Contractor discovers archaeological sites, historical sites, remains and objects, including graveyards and/or individual graves during excavation or construction, the Contractor/Masons shall:

1: Excavation in sites of known archaeological interest should be avoided as stated in annex 1 since , such project activities are not eligible for funding. Where historical remains, antiquity or any other object of cultural, historical or archaeological importance (including graveyards) are unexpectedly discovered during construction in an area not previously known for its archaeological interest, the following procedures should be applied:

- i) Stop the construction activities in the area of the chance find.
- j) Delineate the discovered area.
- k) Secure the area to prevent any damage or loss of removable objects. In cases of removable antiquities or sensitive remains, a night guard shall be present until the responsible Regional authorities and the Ministry of Culture and Tourism take over.
- l) Notify to DBE and the respective relevant institutions to contact the responsible local authorities and the Ministry of Culture and Tourism immediately (less than 24 hours).
- m) The Ministry of Culture and Tourism will be in charge of protecting and preserving the area until deciding on the proper procedures to be carried out. This might require an evaluation of the findings to be performed by the archaeologists of the relevant Ministry Culture, and Tourism (within 1 week). The evaluation of the findings will take in consideration various criteria relevant to cultural heritage, including the aesthetic, historic, scientific or research, social and economic values as decided by the Ministry of Culture and Tourism.
- n) Decisions on how to handle the finding are taken by the responsible authorities and the Ministry of Culture and Tourism (within 2 weeks). This could include changes in the location of the Proposed project activity layout (such as when the finding is irremovable remains of cultural or archaeological importance), conservation, preservation, restoration and salvage.
- o) Construction or rehabilitation work will resume only after authorization is provided by the responsible local authorities and the Ministry of Culture and Tourism concerning the safeguard of the heritage.
- p) Authorization to resume work shall be communicated to the contractor in writing by the Ministry of Culture and Tourism.

2: In case of delays incurred indirect relation to any physical cultural resources findings not stipulated in the contract (and affecting the overall schedule of works), the contractor/masons may apply for an extension of time. However, the contractor/masons will not be entitled to any kind of compensation or claim other than what is directly related to the execution of the physical cultural resources findings works and protections.

Annex 18: Guidelines for Annual Reviews

Objectives:

The objectives of annual reviews of ESMF implementation are two-fold:

a) To assess the program performance in complying with ESMF procedures, learn lessons, and improve future performance; and,

b) To assess the occurrence of, and potential for, cumulative impacts of the proposed project activities

The program management is expected to use the annual reviews to improve on procedures and capacity for integrating natural resources and environmental/social management into proposed program operations.

Scope of Work:

ESMF Performance Assessment

The overall scope of the performance assessment work is to:

a) Assess the adequacy of the process and procedures based on interviews with Project participants, Project records, and the environmental and social performance of a sample of approved project activities;

b) Assess the adequacy of ESMF roles and responsibilities, procedures, forms, information resource materials, etc.;

c) Assess the needs for further training and capacity building;

d) Identify key risks to the environmental and social sustainability of the proposed project activities; and,

e) Recommend appropriate measures for improving ESMF performance.

The following tasks will be typical:

a) Review national, regional and Woreda records of proposed project preparation and approval (e.g. applications; management in the region and Wereda; screening checklists; EMPs, appraisal forms; approval documents), as well as related studies or reports on wider issues of natural resources and environmental management in the country;

b) On the basis of this review, conduct field visits to assess the completeness of planning and implementation work, the adequacy of environmental/social design, and compliance with proposed mitigation measures. The sample should be large enough to be representative and include a substantial proportion that had (or should have had) a field appraisal according to established ESMF criteria. Proposed project activities in sensitive natural or social environments should especially be included;

c) Interview national, regional and Woreda officials responsible for appraisal and approval to determine their experience with ESMF implementation, their views on the strengths and weaknesses of the ESMF process, and what should be done to improve performance. Improvements may concern, for example, the process itself, the available tools (e.g. guidelines, forms, information sheets), the extent and kind of training available, and the amount of financial resources available; and,

d) Develop recommendations for improving ESMF performance.

Cumulative Impacts Assessment

This part of the annual review assesses the actual or potential cumulative impacts of proposed project activity with other development initiatives on the environment, natural resources and community groups, if applicable. Cumulative impacts result from a number of individual small-scale activities that, on their own, have minimal impacts, but over time and in combination generate a significant impact. For example:

a) Decline in groundwater levels or quality due to the abstraction of waters from limited natural water sources or wells and the introduction of numerous other small scale project activities affecting the available water potential in the area;

b) Overwhelmed or illegal waste and dumping sites due to the inappropriate disposal of increasing amounts of waste materials; and,

c) Attraction of migrant populations to communities that have successfully introduced improved social infrastructure (such as schools, health facilities or water sources) resulting in depletion of resources (e.g., supplies, water), etc.

The function of this assessment is primarily as an "early warning" system for potential cumulative impacts that might otherwise go undetected and unattended to. It will be largely based on the observations of people interviewed during the fieldwork, and trends that may be noticed by regional or Woreda officials. Where cumulative impacts are detected or suspected, recommendations will be made to address the issue, perhaps through more detailed study to clarify matters and what should or can be done about them.

Qualifications for Undertaking Annual Reviews:

The annual reviews shall be undertaken by an individual or small team, with experience relevant to the likely issues to be encountered (e.g. environmental and natural resources management, land acquisition and resettlement, livelihood restoration). They should also be familiar with the methods and practices of effective community consultation, and with typical methods and processes for preparing, appraising, approving and implementing small-scale community development projects.

Timing:

Annual reviews should be undertaken after the annual ESMF report has been prepared and before IFAD supervision of the Project, at the closing of each year of the programs. It is expected that each review would require 3 to 4 weeks of work and that the review report would be completed within 2 weeks of completing the fieldwork.

Outputs:

The principal output is an annual review report that documents the review methodology, summarizes the results, and provides practical recommendations. Distinct sections should address;

a) ESMF performance;

b) Cumulative impacts; and,

C) Measures to be taken.

Annexes should provide the detailed results of the fieldwork, arid summarize the number of approved proposed project activities and their characteristics according to the annual report format.

Copies of the annual review report should be delivered to the Programs management, to each national and regional office responsible for appraisal, approval and implementation of the proposed project activities, and to the IFAD. The project management (national or regional) may also want to host national or regional workshops to review and discuss the review findings and recommendations.

Annex 19: Suggested Forms for ESMF Reporting, Training and Follow-up

This annex contains three templates to be used in conjunction with monitoring and reporting and follow for ESMF implementation.

ESMF reporting form

Title of the Proposed project activity	Application received (date)	Field appraisal undertaken (date if undertaken)	Application approved (date if approved)	ESMP developed (yes or no)	Written warnings of violation of ESMP issued (yes/no)	Chance find procedures invoked (yes or no)

ESMF training form

Personnel	No. of people trained	Training received
Safeguard specialist/officer		
Zonal focal points		
Woreda staff		
Community members etc.		

Follow up on previous recommendations

Recommendation	Date of recommendation	Action taken	Recommendation implemented (yes/no)

Annex 20: Sample Terms of Reference (ToR) for ESIA Preparation

Based on the screening and scoping results, ESIA terms of reference will be prepared. The terms of reference will have the following contents. P*lease refer to the Guideline Series Documents for Reviewing Environmental Impacts Study Reports (EPA, 2003) for detail information on contents and descriptions of ESIA report (EPA, 2003).*

I. **Objective of the TOR:** This section should state the scope of the ESIA in relation to the screening category and the proposed program activities. It needs to stipulate the process and the timing of the ESIA preparation and implementation stages in order to adequately address the safeguards requirements of the GoE and the IFAD.

II. **Introduction and Context:** The ToR needs to provide information on program activity objective, the name of the program activity proponent, the rational for conducting the ESIA, specific components of the program activity, program activity area with location map, short briefing of social and environment of settings and applicable national and international safeguard policies.

III. **Location of the study area and likely major impacts:** State the area involved and the boundaries of the study area for the assessment. Identify adjacent or remote areas which should be considered with respect to impacts of particular aspects of the program activity.

IV. **Mission/Tasks:** The ESIA study team/consultant should clearly execute the following tasks.

Task A: Description of the proposed program activity: Describe the location, size and nature of the program activity, environmental assessment category, brief description of program activity alternatives, time schedule for phasing of development (i.e. preconstruction, construction, operation/maintenance, decommissioning), and resources (finance, human, material and technology) required for the program activity, among others.

Task B: Baseline information/Biophysical and social-economic description: Describe the baseline/biophysical and socio-economic characteristics of the environment where the program activity will be implemented; and area of influence. Include information on any changes anticipated before the program activity commences.

Task C: Administrative and legal Policy framework: In addition to the required administrative and institutional setup for the implementation of the program activity, this part needs to identify pertinent policies, regulations and guidelines pertinent to the study that include:

- ✓ National laws and/or regulations on environmental and social assessments;
- ✓ Regional environmental and social assessment regulations;
- ✓ Environmental and social assessment regulations of any other financing organizations involved in the program activity;
- ✓ Relevant international environmental and social agreements/conventions to which
- ✓ Ethiopia is a party; and,
- ✓ IFAD safeguards policies.

Task D: Identification of potential impacts of the program activity: Identify all potential significant impacts that the program activity is likely to generate. Assess the impacts from changes brought about by the program activity on baseline environmental conditions as described under Task B. The analysis should address both the positive and negative impacts of the program activity. Wherever possible, describe impacts quantitatively, in terms of environmental and social costs and benefits.

Task E: Propose Program activity alternatives: Alternatives extend to site, design, technology selection, construction techniques and phasing, and operating and maintenance procedures. Compare alternatives in terms of potential environmental and social impacts; capital and operating costs; suitability under local conditions; and institutional, training, and monitoring requirements.

Task F: Preparation of an Environmental and Social Management Plan (ESMP): Describe the mitigation measures for adverse environmental and social impacts, staffing/institutional and training requirements, schedules, and other necessary support services to implement the mitigating measures. Provide environmental and social protection clauses for application by contractors and consultants, if any. The ToR should state that the concerned and affected parties should agree on the proposed mitigating measures before they are included in the ESMP.

Task G: Monitoring Plan: This organizes a comprehensive plan to monitor the implementation of mitigating measures and the impacts of the program activities. It should also address an estimate of capital and operating costs and a description of other inputs (such as training and institutional strengthening) needed to implement the plan.

V. Qualification of the ESIA study team/Consultant: The ToR should provide clear guidance on the qualification of the ESIA study team.

VI. Duration of the ESIA Study: This should be determined according to the type of the program activity.

VII. Preparation of the final Report: The ESIA study team/consultant will produce the final report one week after receiving comments from program activity proponent and concerned stakeholders. The final report will include comments from these institutions.

VIII. Suggested Contents of the ESIA Report: *Please refer to the "Guideline Series Documents for Reviewing Environmental Impacts Study Reports" (EPA, 2003) to get detail information on the contents of ESIA report (EPA, 2003). The contents of the ESIA report should contain the following elements.*

- Executive Summary;
- Introduction;
- Methodology;
- Administrative, legal and policy requirements;
- Description of program activity (need, objectives, technical details, size, location input and other relevant requirements);
- An outline of the main development alternatives;
- Description of baseline information/environmental and socio-economic conditions;
- An account of the prediction and assessment of each impact at all stages of the program activity cycle for each alternative;
- Description of the methodology and techniques used in assessment and analysis of the program activity impacts;
- Description of environmental and social impacts for program activity;
- Environmental and Social Management Plan (ESMP) for the project including the proposed mitigation measures;
- Institutional responsibilities for monitoring and implementation; Summarized table for ESMP;
- Conclusions and recommendations;
- References; and,
- Annexes:
    - ✓ List of Persons/Institutions met;
    - ✓ List of the ESIA study team members; and,
    - ✓ Minutes of consultations.

Annex 21: Grievance Redress Mechanism

IFAD has introduced a Grievance Redress Service (GRS) requiring the Borrower to provide a grievance mechanism, process, or procedure to receive and facilitate resolution of stakeholders' concerns and grievances arising in connection with the project and the Borrower's environmental and social performance.

According to the GRS project-affected communities and individuals may submit complaints regarding IFAD financed project to the appropriate local grievance mechanism, or the IFAD's corporate Grievance Redress Service (GRS).

The table depicted below shows a generic grievance redress mechanism that can be applied to the proposed project activities.

Steps	**Process**	**Description**	**Time frame**	**Other information**
1	Identification of grievance	Face to face; phone; letter, e-mail; recorded during public/community interaction;	1 Day	Email address; hotline number
2	Grievance assessed and logged	Significance assessed and grievance recorded or logged (i.e. in a log book)	4-7 Days	Significance criteria Level 1 –one off event; Level 2– complaint is widespread or repeated; Level 3- any complaint (one off or repeated) that indicates breach of law or policy or this ESMF/RPF provisions
3	Grievance is acknowledged	Acknowledgement of grievance through appropriate medium	7-14 Days	
4	Development of response	• Grievance assigned to appropriate party for resolution • Response development with input from management/ relevant stakeholders	4-7 Days 10-14 Days	
5	Response signed off	Redress action approved at appropriate levels	4-7 Days	Senior management staff of DBE should sign
6	Implementation and communication of response	Redress action implemented and update of progress on resolution communicated to complainant	10-14 Days	
7	Complaints Response	Redress action recorded in grievance log book Confirm with complainant that grievance can be closed or determine what follow up is necessary	4-7 Days	
8	Close grievance	Record final sign off of grievance. If grievance cannot be closed, return to step 2 or refer to sector minister or recommend third-party arbitration or resort to court of law	4-7 Days	Final sign off by Senior management of DBE

Annex 22 Institutions Consulted during the Fieldwork

- National Bank of Ethiopia

-Rib Saving Cooperative UNION

-Atsedemariam primary cooperative

-Amara Saving and Credit Share Company

_Yesidama Beder ena Kuteba EnterpriseVRUSSCO Office

-Ministry of Water, youth irrigation Development

-Project Beneficiaries of RUFIP I and II in SNNRP and Amhara Region

Annex 12 Filled Questionnaire Related to climate Shocks

Filled Questionnaire No.1
(Questionnaire for MFI's – lending profile for clients)

1. Does your institution have clients that are in areas affected by climate related shocks? – (these would include floods, droughts).

   Yes, mostly due to the lowered yield expected in the main harvest time.

2. If so which geographic locations and how many clients?

Province	*Woreda*	*Number of clients*	*Type of climate shock*
South West Showa	**Sebeta Awas**	**216 in two Kebeles**	**Crop failure (fall in yield)**
South West Showa	**Kersa Malina (Lemon)**	**700 in two Kebeles**	"
East Showa	**Adama and Boset**	**190 in two Kebeles**	"

3. Are there any notable trends in lending related to climate shocks – such as frequency? Severity?
   Not frequent and not as such severe. There is some trend in the rift valley area where Adama is part of it. What has been observed is partial crop failure not total and we hope an improvement in the climate than continue as it is been now.

4. Are there any notable trends in rates of client defaults during the time of climate related shocks?
   Yes, particularly it is noticeable in agricultural and related loan clients. As the primary source of loan repayment is based from farm and related activities and shocks in these areas not only affect their loan commitment but also their livelihoods.

5. Does your Institution take any measures to maintain the portfolio during times of climate related shocks (such as postponement of repayment instalment, waiver of interest, writing off loan)?
   Yes, based on the severity of the shock. What has happened currently is partial crop failure and the Institution implements partial repayment schedules accordingly.

6. Do clients make any specific requests during or following climate related shocks? What type of requests?
   Yes they request. The request includes rescheduling of loan repayments, waiving of interests, and even additional loan to withstand the shocks.

7. Does your institution have an Environment and Social Management System in place?
   Yes
8. Does your institution have any risk assessment related to climate shocks?
   Yes, through its risk and compliance department on regular and ad hoc patterns.
9. Does your institution have experts for Environment, Social and Climate risk management?
   Yes, dedicated staffs from Social Performance Management, Risk and compliance.
10. Does your institution provide any advisory services for clients and if so what type?
    Yes, timing of taking loan, on mixed cropping, is diversifying means of livelihoods, etc.

Filled Questionnaire No.2
(Questionnaire for MFI's – lending profile for clients)

1. Does your institution have clients that are in areas affected by climate related shocks? – (these would include floods, droughts)
   From time to time there are climate related shocks that our clients experience in recent years. There was severe drought that was induced by El-Nino in 2015/16; drought in 2009/10; and 2002/2003 in all 7 branches located in and around the rift valley region in Oromia. Rainfall shortage or late rainfall incidence are becoming common almost every year or every other year in the past 10 years. Rainfall variability mainly shortage or late rain seems to occur almost every year in the areas between Mojo/Koka to Ziway/Bulbula and we are no more giving in-kind loan of maize seed which was a success for us in the past and as a result we lost many customers in Meki and Ziway and Bulbula branches.

2. If so which geographic locations and how many clients?

Province	Woreda	Number of clients	Type of climate shock
Oromia region	**Shashemene, Adami-Tullu-Jido-Kombolcha,**	**4,000**	**Drought, rainfall shortage, late rainfall;**
Oromia region	**Kofale, Kore**	**3,000**	**Frost**
	Adami Tullu-Jido-Kombolcha (Bulbula, Meki, Ziway)	**4,000**	**Late rainfall, rainfall shortage**

3. Are there any notable trends in lending related to climate shocks – such as frequency. Severity?
   The shocks in terms of severity have increased in recent years; rainfall shortage or late or early rainfall incidence has increased in frequency of occurrence. For e.g., in the last three cropping seasons including 2018 (Apr/May/Jun) we clearly cancelled loans for maize seed purchase for farmers in rift valley areas because the rain was very late. As a result we lost about 2,000 maize farmer clients in Meki, Ziway and Bulbula areas.

4. Are there any notable trends in rates of client defaults during the time of climate related shocks?

Of course yes. In 2015/16, we have massive loan defaults in our Shashemene, Kuyera, Arsi Negelle, Bulbula, Ziway, Meki, Mojo and Bishoftu branches. In Bulbual branch we had default in 2014, 2015 and 2016

5. Does your Institution take any measures to maintain the portfolio during times of climate related shocks (such as postponement of repayment instalment, waiver of interest, writing off loan)?

   You are forced to accept non-repayment in times of weather related shocks in one way or another, especially if the situation affects two or more Kebeles in rural areas. And this will bring a bigger problem, that is, we are often forced to close most of these affected branches sooner or later. Because postponement or rescheduling does not work for joint and several liability groups because if there is drought in on Kebele that affected just few farmers, every credit group in the Woreda will fall or disappear due to the domino effect of group guarantee lending method.

6. Do clients make any specific requests during or following climate related shocks? What type of requests?

   Buusaa Gonofaa has been financing input loan by giving wheat and maize seed in kind to farmers since 2010 but in limited branches in the rift valley areas. And farmers were always asking us to give them guaranteed access to these improved seeds every time, and aftershocks, they are very clear that they will pay their loans if and only if they can get tangible guarantee for seed. We cannot guarantee farmers reliable seed supply at any time although we entered the business of in-kind loan exactly because farmers can't get seed, and if they can, it is very late or too late. Farmers tell us that the survival rate of improved seed is much higher than their traditional seeds during period of climate shocks like rainfall shortage.

7. Does your institution have an Environment and Social Management System in place?

   I don't even understand the term. For social performance management of our existing clients, we do have a modest mechanism, but it is focus exclusively on our clients only.

8. Does your institution have any risk assessment related to climate shocks?

   We don't have much assessment practice, although in the case of in-kind input financing, we certainly check from the farmers about the perception of the climate situation before we give out the seeds in loan. Also there is no mechanism that we know to get some forecast of the weather situation for the coming 5 or 10 days or weeks before we disburse in-kind loan for seed or cash loan for fertilizer.

9. Does your institution have experts for Environment, Social and Climate risk management?

   No we don't have.

10. Does your institution provide any advisory services for clients and if so what type?

    In few branches where we provide input loan in-kind (seed, fertilizer and agro-chemicals), we provide training on good farming practice on pilot scale to about 1,000 wheat and maize farmers annually. For sure we have seen this has significant implication for improving farmers' productivity, increase their income and hence de-risk our credit risk. But unreliability of seed supply has discouraged us from taking the benefit of such investment. We trained farmers last year but there was no appropriate wheat seed for example.

Filled Questionnaire No.3

Questionnaire for MFI's – lending profile for clients

1. Does your institution have clients that are in areas affected by climate related shocks? – (these would include floods, droughts)= **Not affected**
2. If so which geographic locations and how many clients?
3. Are there any notable trends in lending related to climate shocks – such as frequency? Severity? **NO**
4. Are there any notable trends in rates of client defaults during the time of climate related shocks? **NO**
5. Does your Institution take any measures to maintain the portfolio during times of climate related shocks (such as postponement of repayment instalment, waiver of interest, writing off loan)? **NO**
6. Do clients make any specific requests during or following climate related shocks? What type of requests? **To design special Loan product to this area**
7. Does your institution have an Environment and Social Management System in place? **NO**
8. Does your institution have any risk assessment related to climate shocks? **NO**
9. Does your institution have experts for Environment, Social and Climate risk management? **NO**
10. Does your institution provide any advisory services for clients and if so what type? **NO**

Filled Questionnaire No. 4 by MFI's – lending profile for clients

(Questionnaire for MFI's – lending profile for clients)

1. Does your institution have clients that are in areas affected by climate related shocks? – (these would include floods, droughts). **Yes**
2. If so which geographic locations and how many clients?

Province	Woreda	Number of clients	Type of climate shock
(Finfine Zuria Oromia Liyu Zone)	Sebeta Hawas	221	Drought
(South West Shoa)	Illu Woreda	54	Floods & Frost
(Finfine Zuria Oromia Liyu Zone)	Akaki	565	Drought
(Arsi Zone)	Tiyo	95	Frost
(Arsi Zone)	Digelu Tijo	60	Frost

3. Are there any notable trends in lending related to climate shocks – such as frequency? Severity**? No**.
4. Are there any notable trends in rates of client defaults during the time of climate related shocks? **No**
5. Does your Institution take any measures to maintain the portfolio during times of climate related shocks (such as postponement of repayment instalment, waiver of interest, writing off loan)? **Yes, there is policy to reschedule but not as such applicable from experience.**
6. Do clients make any specific requests during or following climate related shocks? What type of requests? **Yes, reschedule, refinance and waiver in interest**
7. Does your institution have an Environment and Social Management System in place? **Yes**
8. Does your institution have any risk assessment related to climate shocks? **No**
9. Does your institution have experts for Environment, Social and Climate risk management? **No**

10. Does your institution provide any advisory services for clients and if so what type? **Yes, it is a kind of training on financial services (Debt management, saving and budgeting) and regular follows up of clients business.**

The Federal Democratic Republic of Ethiopia

Rural Financial Intermediation Programme – Phase III (RUFIP III)

Design report

Annex 17 – Financial Management Manual

IFAD
Investing in rural people

Government of Ethiopia (GoE)
Development Bank of Ethiopia (DBE)

Rural Financial Intermediation Programme III (RUFIP III)

Draft Financial Management Manual

June 2019

TABLE OFCONTENTS

ABBREVIATIONS AND ACRONYMS

AEMFI	Association of Ethiopian Micro Finance Institutions
AGRA	Alliance for Green Revolution Africa
ATA	Agricultural Transformation Agency
AOS	Annual Outcome Surveys
AWPB	Annual Work plan and Budget
BADEA	Arab Bank for Economic Development in Africa
CBE	Commerical Bank of Ethiopia
DBMS	Database Monitoring System
EFCMD	External Fund and Credit Management Directorate
EIB	European Investment Bank
EU	European Union
FAR	Fixed Assets Registry
FAIR	Fixed Asset Issue Registry
FCA	Federal Cooperative Agency
GoE	Government of Ethiopia
IA	Implementing Agency
ICB	International Competitive Bidding
IFAD	International Fund for Agricultural Development
IGA	Income Generating Activity
ILCUF	Irish Leauge for Credit Unions Federation
IPSAS	International Public Sector Accounting Systems
KM	Knowledge Management
LLRP	Lowlands Livelihood Resilience Project
M&E	Monitoring and Evaluation
MFI	Micro Finance Institution
MIS	Management Information System
MoFEC	Ministry of Finance and Economic Development
MTR	Mid-Term Review
NBE	National Bank of Ethiopia
PaR	Portfolio at Risk
PASIDP	Participatory Small-scale Irrigation Development Project
PIM	Project Implementation Manual
PCMU	Project Coordinaiton and Management Unit
PP	Procurement Plan
PPI	Progress out of Poverty Index
PSC	Project Steering Committee
PSNP	Productive Safety Nets Programme
RuSACCO	Rural Savings and Credit Cooperative
RCPB	Regional Cooperative Promotion Bureau
RFI	Rural Financial Institution
RUFIP	Rural Financial Intermediation Programme
TNA	Training Needs Assessment
UNCDF	United Nations Capital Development Fund
USD	United States Dollars
WA	Withdrawal Appliation

1 INTRODUCTION

1.1The Project

1. The Government of Ethiopia (GoI) has requested a loan from International Fund for Agricultural Development (IFAD) for implementation of Rural Financial Intermediation Programme III (RUFIP III). The project shall be carried out national wide with the lead agency being the Development Bank of Ethiopia (DBE).

2. The project will consolidate the existing base of rural financial cooperatives; from the Rural Financial Intermediation Programmes (RUFIP) Phases I to II. The development objective is *to increase access to a range of financial services and products to rural households.*

a) At the **Micro level,** the project will target 12 million clients

b) At the **meso level,** the project will be potentially available to :

- Existing 11,260 RUFIP-supported RuSACCOs,
- 140 Unions
- 38 Micro Finance Institutions (MFIs),
- The project will also explore setting up a guarantee fund through some commercial banks and financial institutions to provide resources to RFIs that currently focus on rural communities.
- Initiate marketing of rural client-friendly insurance products through RFIs,
- continue to support automation of mangement information systems (MIS) systems to improve reporting of the entire rural finance system.

3. At the **macro level**, the RUFIP III will strengthen the regulatory bodies for MFIs and the RuSACCO sector which are respectively as follows :

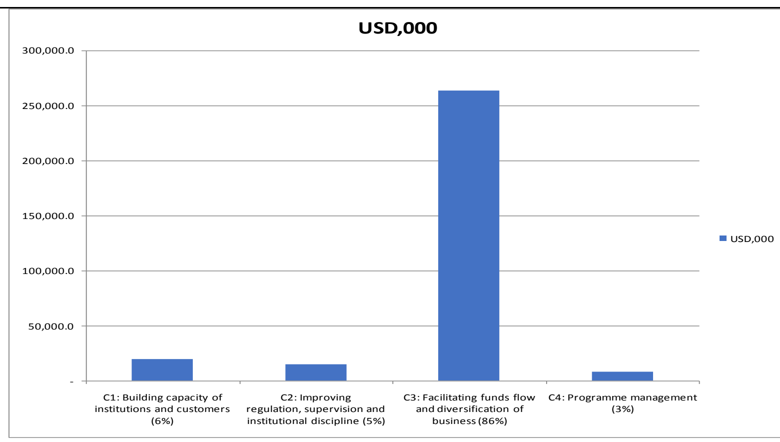
- National Bank of Ethiopia (NBE)
- Federal Cooperative Agency (FCA)

4. <u>RUFIP III components:</u> The project has been arranged conveniently under the following components with the respective budget allocations:

Component-wise funds allocation by component (USD'000)

	USD,000
C1: Building capacity of institutions and customers (6%)	19,505.7
C2: Improving regulation, supervision and institutional discipline (5%	14,635.9
C3: Facilitating funds flow and diversification of business (86%)	263,793.8
C4: Programme management (3%)	7,863.2
	305,798.6

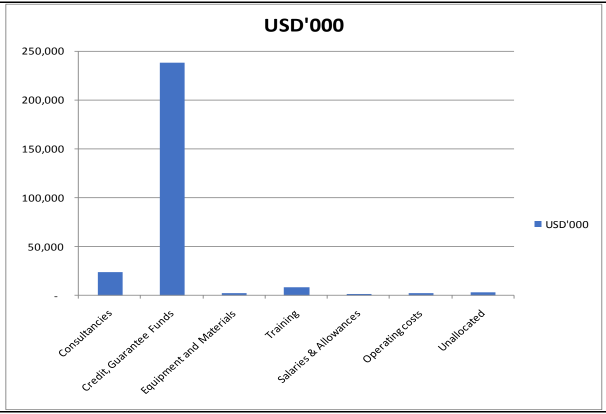
Component C3 at USD 263 million deserves signifcant attention in terms of he financial management processes, controls and reporting.



5. RUFIP III expenditure categories: By expenditure category financial resources will be invested as follows. This is important in the set-up of this Financial Management Manual. This makes up schedule 2[1] to the financing agreement[2]. During the preparation of the schedule 2, some categories of expenditures may be merged; details will be outlined in "categories description" of the IFAD-GoE Financing Agreement.

Category-wise expenditure allocation (USD'000)

Category	USD'000
Consultancies	24,373
Credit, Guarantee Funds	237,594
Equipment and Materials	2,188
Training	8,521
Salaries & Allowances	1,656
Operating costs	2,542
Unallocated	3,076
	307,638



6. The financial spread and diversity of the above components and expenditure categories are important during implementation. *Expenditure categorize-wise*, over USD 230 million is going towards credit and guarantee funds which is the same weight for component C3: *Facilitating funds flow and diversification of business.* This manual, therefore, has given relative importance towards the controls around the category of credit and guarantee funds and component C3.

1.2The Project Implementation and Coordination

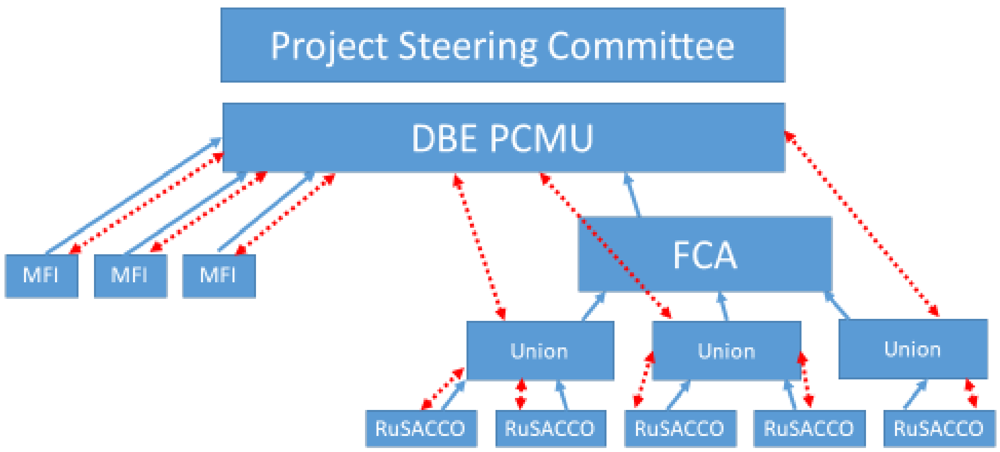
7. The MoF, as the representative of the borrower, will represent GoE on all matters pertaining to RUFIP III financial management. DBE, is the Lead Executing Agency and will ensure the overall oversight for the implementation of Programme at National level with its roles reflected at Regional level. As a disbursement condition and as part of the PCMU, a full time Finance Manager and at least two accountants must have been assigned. IFAD No Objection will be needed to assure the calibre of staff assigned. As these are full time staff of DBE, counterpart funds shall be used to cover their salary costs. Terms of reference of RUFIP III Programme Accountant are attached.

8. Coordination at the highest level will be provided by a Project Steering Committee (*PSC*). *FCA* has been designated as a key implementing agency for the financial cooperative sector. This will involve coordinating budgeting, release of funds, justification and reporting for all Regional Bureaus as well as FCA itself. Given the current low capacity at FCA's finance directorate, a dedicated accountant will be recruited competitively on fixed term contract basis to join the finance team for purposes of RUFIP III financial management. For each of the other implementing agencies, focal staff will be assigned to handle RUFIP III day to day financial management requirements. As there will be a small volume of transactions, these do not need to be fully dedicated. The Regional Cooperative Promotion Bureaus will collate reports from Unions and report to FCA, which in turn will report to PCMU.As accounting software set up has not been a requirement for implementing partners given the anticipated level of transactions, they will furnish PCMU with all the relevant documentation and reports on a quarterly basis to facilitate posting of transactions in the accounting software.

[1] This is after rounding off to the nearest thousand and taking 10% from each category as "unallocated category.

[2] Depending on choice of GoE this could be in SDR or USD

Coordination arrangement for the biggest component and expenditure category involving Line of Credit (LOC) Application process (blue line) and flow of funds (red, dashed line) for LOC

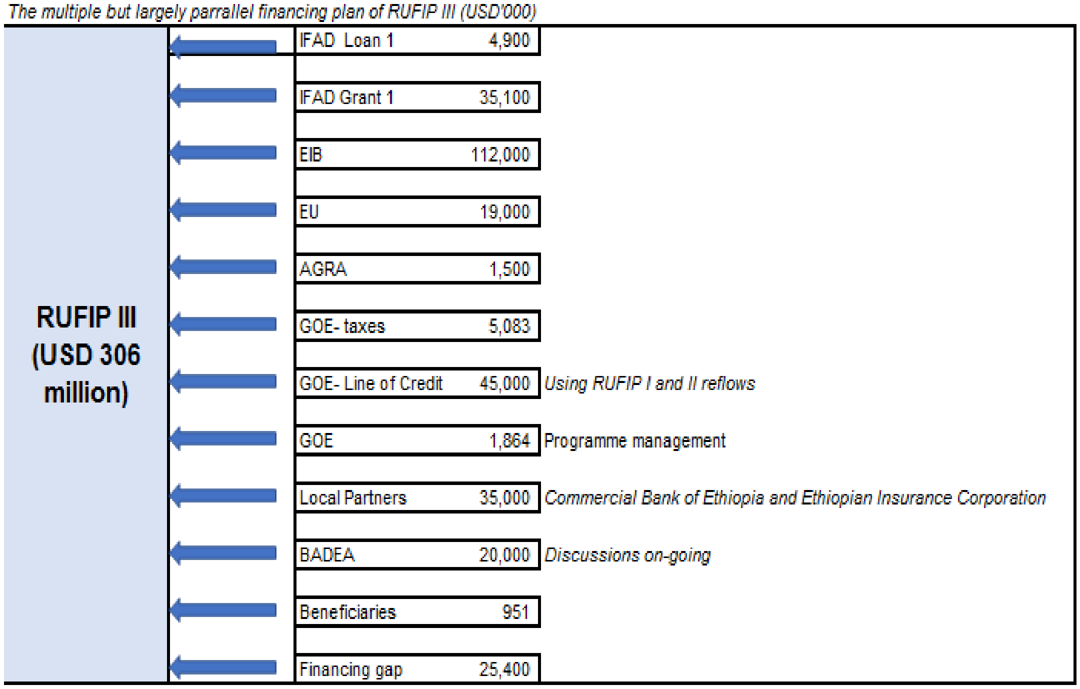


1.3The RUFIP III cost structure and financing plan

9. A full set of cost tables have been prepared as part of the design process. These will be the framework used for AWPB preparations and general planning.

10. RUFIP III will be funded from <u>*multiple and parallel funding sources*</u> and it is recognised that this can be quite complex. Some co-financiers have varied financial reporting demands and, therefore, the accounting software must be set to be able to meet these multiple and parallel reporting demands.

The multiple but largely parrallel financing plan of RUFIP III (USD'000)



11. The total cost of the proposed programme is estimated at approximately US$305.7 million over a six year implementation period. About USD 40 million will be initially financed by IFAD. EIB has committed USD 112 million towards the programme of which a part would be utilized for promoting lease financing among rural businesses and enterprises. European Union has finalized a contribution of USD19 million. AGRA has committed USD 1.5 million towards a guarantee fund. GoE will finance USD 5.0 million towards Programme management and USD 45.0 million to LOC from reflows of earlier RUFIP loans apart from taxes. In addition, discussions are ongoing with BADEA (Arab Bank for Economic Development in Africa) for funding of USD 20 million (If the discussions do not fructify, there will be a gap of USD 20 mn, which can be filled by (i) possible additional resources that become available in IFAD during the IFAD11 cycle; and (ii) co-financing and lines of credit provided by other development partners (domestic and foreign), and as and when they emerge). In terms of local partnerships, the Commercial Bank of Ethiopia and Ethiopian Insurance Corporation are likely to cofinance USD 20 million and USD 15 million respectively. 63.7% of programme outlay will be funded from external resources and 36.3% from domestic resources.

Summary Table of costs by component and financier (US dollars 000)

	Borrower/counterpart		IFAD Loan		IFAD Grant		Other Cofinanciers		Beneficiaries		Total			Local (Excl.	Duties &
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	For. Exch.	Taxes)	Taxes
1. C1: Building capacity of institutions and customers	2,517.5	12.9	-	-	14,437.2	74.0	1,599.6	8.2	951.4	4.9	19,505.7	6.4	5,878.6	11,109.7	2,517.5
2. C2: Improving regulation, supervision and institutional discipline	1,908.5	13.0	-	-	12,727.4	87.0	-	-	-	-	14,635.9	4.8	4,463.9	8,263.5	1,908.5
3. C3: Facilitating funds flow and diversification of business	45,000.0	17.1	4,900.0	1.9	3,993.8	1.5	209,900.0	79.6	-	-	263,793.8	86.3	-	263,793.8	-
4. C4: Programme management	2,521.2	32.1	-	-	3,941.6	50.1	1,400.4	17.8	-	-	7,863.2	2.6	1,718.0	5,488.1	657.1
Total PROJECT COSTS	51,947.2	17.0	4,900.0	1.6	35,100.0	11.5	212,900.0	69.6	951.4	0.3	305,798.6	100.0	12,060.5	288,655.1	5,083.1

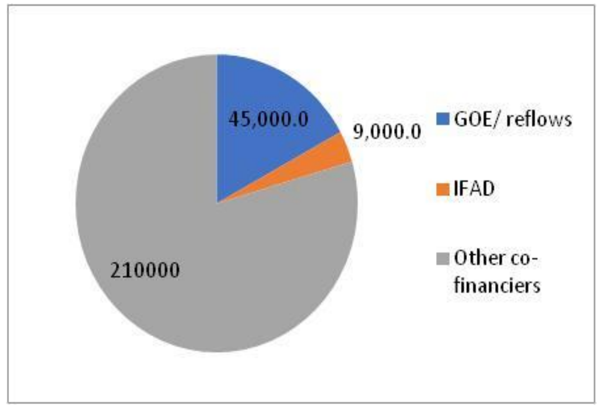
Table …: **Programme costs by expenditure category and financier (US dollars 000)**

	Borrower/counterpart		IFAD Loan		IFAD Grant		Other Cofinanciers		Beneficiaries		Total			Local (Excl.	Duties &
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	For. Exch.	Taxes)	Taxes
I. Investment Costs															
A. Consultancies	3,531.4	13.0	-	-	20,009.9	73.9	2,762.4	10.2	777.5	2.9	27,081.2	8.9	8,320.5	15,229.3	3,531.4
B. Credit, Guarantee Funds	45,000.0	17.0	4,900.0	1.9	4,193.8	1.6	209,900.0	79.5	-	-	263,993.8	86.3	-	263,993.8	-
C. Equipment and Materials	317.0	13.0	-	-	2,103.8	86.5	10.5	0.4	-	-	2,431.3	0.8	855.7	1,258.5	317.0
D. Training	1,234.7	13.0	-	-	7,832.5	82.7	227.1	2.4	174.0	1.8	9,468.3	3.1	2,884.3	5,349.3	1,234.7
Total Investment Costs	50,083.1	16.5	4,900.0	1.6	34,140.0	11.3	212,900.0	70.3	951.4	0.3	302,974.5	99.1	12,060.5	285,831.0	5,083.1
II. Recurrent Costs															
A. Salaries & Allowances	879.8	47.8	-	-	960.0	52.2	-	-	-	-	1,839.8	0.6	-	1,839.8	-
B. Operating costs	984.3	100.0	-	-	-	-	-	-	-	-	984.3	0.3	-	984.3	-
Total Recurrent Costs	1,864.1	66.0	-	-	960.0	34.0	-	-	-	-	2,824.1	0.9	-	2,824.1	-
Total PROJECT COSTS	51,947.2	17.0	4,900.0	1.6	35,100.0	11.5	212,900.0	69.6	951.4	0.3	305,798.6	100.0	12,060.5	288,655.1	5,083.1

Programme/project costs by component and year (US dollars 000)

	2020	2021	2022	2023	2024	2025	Total
1. C1: Building capacity of institutions and customers	5,359.9	3,959.9	4,063.0	2,833.7	2,115.1	1,174.1	19,505.7
2. C2: Improving regulation, supervision and institutional discipline	2,533.3	3,487.0	3,225.2	2,401.0	2,216.5	772.9	14,635.9
3. C3: Facilitating funds flow and diversification of business	60,115.1	60,115.1	60,115.1	60,115.1	11,666.7	11,666.7	263,793.8
4. C4: Programme management	2,508.9	1,339.2	1,336.1	874.3	937.5	867.2	7,863.2
Total PROJECT COSTS	70,517.1	68,901.3	68,739.4	66,224.1	16,935.8	14,480.9	305,798.6

2 ACCOUNTING FOR LINE OF CREDIT FUNDS

12. As noted above this is the biggest expenditure category. IFAD will finance a total about USD 9.1 million from both the loan and the grant. GoE has committed to use the reflows from RUFIP I and II to finance USD 45 million under this key category. Other co-financiers will finance USD 210 million. No doubt that DBE is best placed to handle such amount of disbursement but financial controls for the particular cannot be over emphasised. The donors financing the biggest amount from the line of credit may require additional safeguards which will be included in the PIM as per their requirements	**Contribution towards line of credit under RUFIP III** 

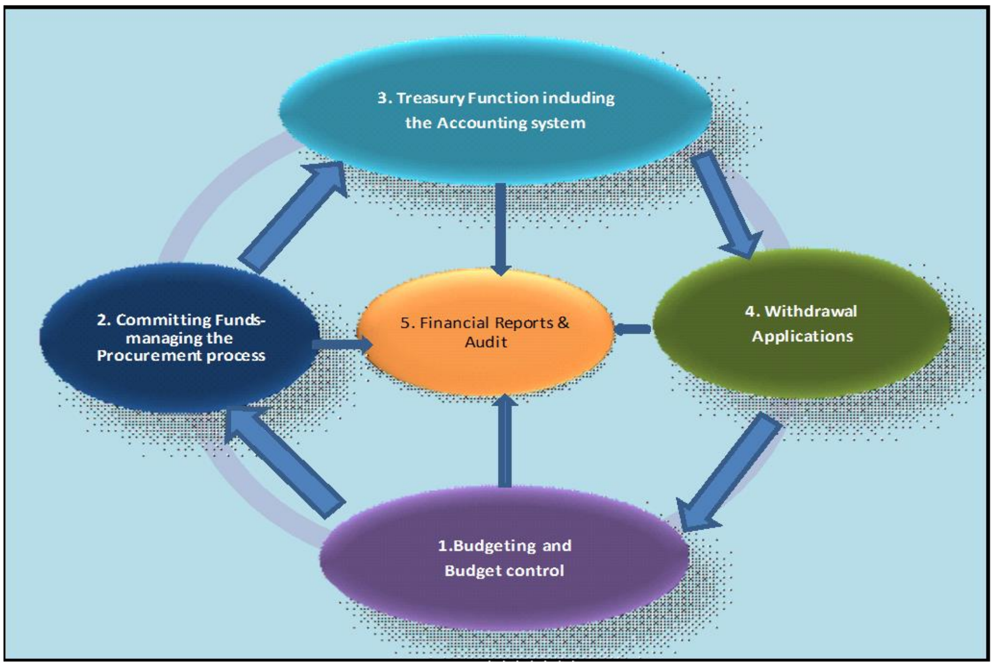
13. Before disbursing LoC funds the finance teams shall ensure that:

- The PCMU/ FCA will have ensured that the 10 entry criteria as detailed in the PIM have been adhered to;
- Ensure compliance with the 14 criteria for allocation of funds to RFIs
- Unions will be the ultimate clients. RuSACCOs cannot apply directly for funding. Therefore, only RuSACCOs which are members of unions will be funded under the LoC and the fiduciary responsibility will rest with the Unions regarding the loan portfolio financial performance. Unions will have to access funding through the FCA and its RCPBs networks.
- It is MFIs that can approach DBE for funding but also subject to the criteria documented in the PIM.

3 THE RUFIP III FINANCIAL MANAGEMENT CYCLE

14. Financial management in Government Programmes such as RUFIP III is to be established as a routine and highly standardised process and will follow an annual cycle of inter-dependent steps. It will start with planning and budgeting. In financial control, any expenditure incurred outside the approved budget will be declared ineligible for IFAD financing. After the AWPB is approved together with the procurement plan, the next step is the process of committing funds. While this largely is a procurement function, the finance team will have a role to play. Following on from commitments will be the treasury functions, payments to eligible contractors, service providers, suppliers. The finance team will have to exercise efficiency in turnaround of withdrawal applications to IFAD to ensure liquidity challenges do not hamper implementation. The final routine in financial management is financial reporting and auditing. This manual has been arranged as to cover each of these aspects of the annual financial management routine as presented in chart below.

Chart... The RUFIP III annual financial management cycle



3.1Step 1: RUFIP III Annual Work Plan and Budgeting

15. Annual Work Plan and Budget (AWPB) is the key instrument for RUFIP III implementation and operational control. The PCMU, therefore, gives particular attention to budget preparation and control. During day-to-day financial management, an approved AWPB is the most important document, and the principal guide on what to do and how to use resources. In the context of RUFIP III financial management, the AWPB is more than a guideline. It represents:

a) *a commitment of PCMU and implementing agencies to carry out a set of activities, produce specific outputs and achieve certain targets; and*
b) *Agreement by GoE, IFAD, cofinanciers that the planned activities are appropriate in light of the RUFIP III objectives and approval to spend the necessary money as specified in the annual budget*.

16. The AWPB is a means by which Government of Ethiopia and IFAD will have provided *"prior approval"* to PCMU to spend resources on the activities included in the AWPB. It

should be taken very serious, as any expenditure incurred outside the AWPB will be queried by auditors, supervision missions and will be declared ineligible for IFAD financing.

17. The detailed steps to be followed in the preparation of the AWPB are included in the *IFAD guidelines for preparation of AWPBs and progress reporting*. The Procurement planning aspects are covered under the Procurement Manual.

18. **Timing:** The draft AWPB should reach IFAD within two month before commencement of the year in question, that is, by 30 April of each year. It is equally important that AWPB preparation schedule be in tandem with Government budgetary process since RUFIP III budget should pass through Government budgetary approval process and RUFIP III must be included in the GoE printed budget estimates.

19. The following AWPB preparation schedule is provided for guidance. It should be reviewed and modified as may be necessary by MoF/ DBE and IFAD.

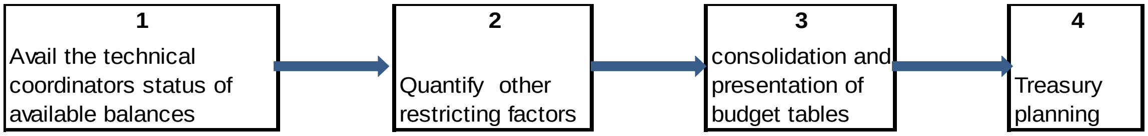
ANNUAL WORK PLAN AND BUDGET SCHEDULE[3]

Activity/ steps	Schedule	Responsibility
(i) Briefing on preparation of AWPB provision of guidelines and format to FCA, RCPBs, NBE, AEMFI and other implementing agencies.	End October	PCMU M&E Officer supported by Finance Manager
(ii) Call letter from PCMU for the preparation of AWPB to FCA, RCPBs, NBE, AEMFI and other implementing agencies.	Early Nov.	Letter drafted by M&E Officer and sent under the signature of Designated Coordinator/ deputy director DBE.
(iii) Preparation of AWPB by FCA, RCPBs, NBE, AEMFI and other implementing agencies. Submission of AWPB proposals to PCMU	Nov/Dec.	Appointed budget officers within FCA, RCPBs, NBE, AEMFI and other implementing agencies
(iv) Preparation of consolidated Annual Work Plan and Budget.	Mid-January	M/E officer and Financial Manager with support from PCMU members
(v) Review/Agreement on draft AWPB by participating institutions	End January	Meeting called by Designated Coordinator/ Deputy Director DBE
(vi) Review by PSC	Early February	PSC
(vii) Finalization by PCMU	Mid-February	M&E Officer
(viii) Submission of draft AWPB to IFAD	April	Designated Coordinator/ Deputy Director DBE
(ix) Comments from IFAD	Mid May	IFAD CPM
(x) Finalization of AWPB/Distribution to FCA, RCPBs, NBE, AEMFI and other implementing agencies.	End June	Designated Coordinator/ Deputy Director DBE

20. **Role of finance offices in AWPB preparation:** In the planning and budgeting stage, the RUFIP III finance officers perform the four functions below:

Roles of RUFIP III finance staff in budgeting process

[3] Fiscal year in Ethiopia is from 8 July – 7 July.



21. **Role 1: Avail RUFIP III Budgeting teams the status of available balances:** Technical coordinators/ agencies will play an important role in facilitating budget preparation for activities in their respective realm. This does not however imply that they can solely dispose of the component budget as the respective sub-components are interrelated with others. RUFIP III is adopting an integrated team work programme management approach.

RUFIP III Budgeting holders/ responsibility centres

Planning Unit	**Budget Controller**
C1: Building capacity of institutions and customers	AEMFI
C2: Improving regulation, supervision and institutional discipline	NBE
C3: Facilitating funds flow and diversification of business	FCA consolidating from the participating RCPBs
C4: Programme management	PCMU

22. Prior to the start of the planning and budgeting exercise, the Financial Manager (FM) based at DBE provides each of the above budget holders the respective sub-component status of available balances and overall category-wise implications. The FM does this by making extracts from the accounting system and obtains from IFAD client Portal (ICP) status of funds balances available category-wise. From the accounting system, the FM also obtains balances component-wise, including up to the major activities as described later in the manual. The status of funds available should be adjusted by deducting commitments, WAs in the pipe line and projected expenditure for the remaining part of the current year. The adjusted information about the status of funds is provided to the above named budget holders so that they are aware of budget ceilings. A working form that can be used in Ms Excel to determine the available balance is as given below.

Working Form to determine status of available balances category-wise analysed separately for each financier: IFAD loan/grant, EIB, EU, AGRA GoE etc

Category	**Available cash balance)[4]**	**Less Commitments[5]**	**Less WA's in Pipe Line**	**Less Projected Expenses to the end**	**Net Available Balance**
Consultancies	x	x	x	x	x
Credit, Guarantee Funds	x	x	x	x	x
Equipment and Materials	x	x	x	x	x
Training	x	x	x	x	x
Salaries & Allowances	x	x	x	x	x
Operating costs	x	x	x	x	x
Total	**x**	**x**	**x**	**x**	**x**

23. The net available balance should also be broken down according to components, sub-components and major activity headings so that planners are able to determine the relative weights for each component/ sub-component in the AWPB as illustrated in the table below.

[4] IFAD Client Portal (ICP) Statement of Funds (convert to Birr) plus balances for domestic financiers well reconciled to the computerized accounting system to be installed by RUFIP III
[5]Take care to roll-over commitments into next year's budget

It is important to keep a relative balance between components so that some components do not lag behind.

Working Form to deduce status of available balances budget units analysed separately for separately for each donor: IFAD loan/grant, EIB, EU, AGRA GoE etc

Budget unit	Available cash balance)[6]	Less Commitments[7]	Less Projected Expenses to the end	Net Available Balance
C1: Building capacity of institutions and customers (6%)	x	x	x	x
C2: Improving regulation, supervision and institutional discipline (5%)	x	x	x	x
C3: Facilitating funds flow and diversification of business (86%)	x	x	x	x
C4: Programme management (3%)	x	x	x	x
Total	**x**	**x**	**x**	**x**

24. **Role 2: Other disbursement restricting factors:** Whereas available balances may set the ceiling of what to include in the AWPB, there are other restricting factors. The FM will need to quantify these and communicate to the budget holders/ sub-component heads at the start of the planning season; examples will include:

- The realistic amount that can be replenished for from IFAD.
- Time lag between commitment and disbursement.
- Existing obligations to complete on-going tasks.

25. **Role 3: Consolidating the RUFIP III AWPB:** In the AWPB there are core finance tables that have to be consolidated by the FM and his or her team, working closely with the M&E Officer. While the consolidation of the AWPB into one document will be led by the M & E Officer, the finance tables will be a responsibility of the FM. These tables will include:

- Past year financial performance and cumulatively
- Consolidated Annual Budget Summary
- Component-wise summary
- Category-wise summary
- Category-wise summary by financier
- Component-wise summary by financier
- Detailed Activity based annual Work Plans and Budgets for each budget responsibility centre

26. The formats for each of the above summary are available in the IFAD guideline for AWPB preparation and progress reports which will be availed to the teams.

27. **Treasury planning:** This will be part of the AWPB preparation. The FM, as part of AWPB processing, will earmark the bigger items that can be paid for through direct payments[8] and those that have to be paid for from the designated / operational bank accounts. This will be translated into a monthly cash flow forecast to ensure there is sufficient liquidity even in peak periods.

28. Under Work plan and budgeting IFAD supervision missions will always be interested

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[6]This will be as per RUFIP III accounting system

[7]Take care to roll-over commitments into next year's budget

[8] Must be above the threshold in the Letter to the Borrower (LTB).

in:

- Timely preparation and approval of AWPB.
- AWPB in line with expenditure categories in Financing Agreement Schedule 2 to the financing agreement.
- Financing sources and implementing agencies for each category in the AWPB are identified.
- Linkage between AWPB and Procurement plan.

*3.2*Step 2: Committing funds

29. Commitment of funds is largely a procurement function covered under procurement section of the PIM. The finance team will have a role to play in the procurement cycle including:

- Providing the status of available balances ahead of each procurement launch to avoid over-committing RUFIP III/ GoE. This will require FM to maintain a detailed analysis of commitments.
- This means contracts cannot be signed off without the FM entering them into his/her system.
- The authentication, custody and execution of any financial instruments such as performance bonds, advance guarantees will be a responsibility of the Finance Manager.
- The financial progress elements of the contracting monitoring forms will be a responsibility of the Finance Manager.

*3.3*Step 3: Treasury function including the accounting system

30. RUFIP III's financial reporting will be in accordance with the International Public Sector Accounting Standards (IPSAS)- cash basis as already adopted in Ethiopia.

31. The PCMU will make use of off-shelf accounting software for maintaining its accounts. The software should meet the criteria below. Use of excel worksheets as was the case under RUFIP I and II will not be allowed.

32. Some of the suggested attributes of RUFIP III accounting package will include

	STANDARD REQUIREMENT
(a)	Multi-currency tracking & reporting
(b)	User friendly (e.g windows driven)
(c)	Ability to account under different bases of accounting (cash, modified cash, modified accruals)
(d)	Budget Control features including encumbering funds at the point of commitment.
(e)	Capacity to track the following data:
	i. Actual
	ii. Budget
	iii. Life of Project
(f)	Ability to track/link to Physical Performance Indicators (e.g. units of output or contract completion status) as required by project)
(g)	Ability to track and search by specific transaction references (e.g cheque #'s. P.O. #'s. direct payments. Voucher #'s, direct payments, Voucher #'s, etc)
(h)	Dual charts of account (ability to track in accordance with or link to local reporting systems as well as donor requirements)
(i)	Ability to support in the generation of withdrawal applications, or at least through export into Ms excel.

	STANDARD REQUIREMENT
(j)	Ability to track and report on parallel multiple funding sources

REPORTING

	Requirement
(a)	Ability to track and report on flexible reporting cycles (e.g month, quarter, calendar year, fiscal year, project cumulative, etc)
(b)	Ability to track and report by financier
(c)	Ability to track and report by grant/loan agreement category- with exact layout of the components, activities and expenditure categories
(d)	Ability to track and report by project component or activity. Capacity to customize reports
(e)	Ability to generate key Financial Management Review report formats with a clear audit trail (e.g. no additional revisions needed in a spreadsheet which would modify an audit trail)
(f)	Ability to generate reports for previous periods back as 6 years (e.g. lost report)

SECURITY

	Requirement
(a)	Internal Security features adequate (e.g. cannot delete posted transactions, controlled access, password protection
(b)	Security includes back-up and system maintenance procedures
(c)	Security includes self-diagnostic checks to ensure integrity

SUPPORT

	Requirement
(a)	Support readily available for: i. Technical issues
	ii. Training

33. **Setting the chart of accounts:** In setting the chart of accounts:

- The main general ledgers codes may follow the GoE chart of accounts for the purpose of complying with GoE financial reporting needs provided the other fields can be set to respond to RUFIP III accounting demands component wise, category wise, financier wise etc.
- The off the-shelf accounting system will be adopted using other fields to be coded exactly as per the structure of components, sub-components and expenditure categories as per the financing agreement
- The package should be set to process multi-currency transactions (minimum USD/ Birr reporting including taking care of reporting currencies for other donors if not USD)
- It should be set to produce auto Statement of Expenditures (SoEs). Withdrawal applications shall not be processed in parallel to the selected accounting software system.
- They key activities and codes allocated should be agreed with M&E as the key ones that the latter will be monitoring from physical progress side. This will ensure that there is a convergence between the Finance Manager's monitoring (financial progress) and the M&E Officer (physical progress). This coding approach will be

applied consistently across the entire RUFIP III from the coding of the AWPB, procurement requisitions and other documents, payment vouchers, the accounting system and M&E physical input level monitoring.

34. **Expenditure-attribution**. Use of the accounting software will ensure the traceability of the funding. This is extremely a very important area for RUFIP III given the multiplicity of funding sources. In this, activities will be earmarked – right from planning to be followed through by the accounting system up to withdrawal application – to respective donors. The use of parallel bank accounts as follows has been emphasized.

Minimum bank accounts to augment expenditure attribution[9]

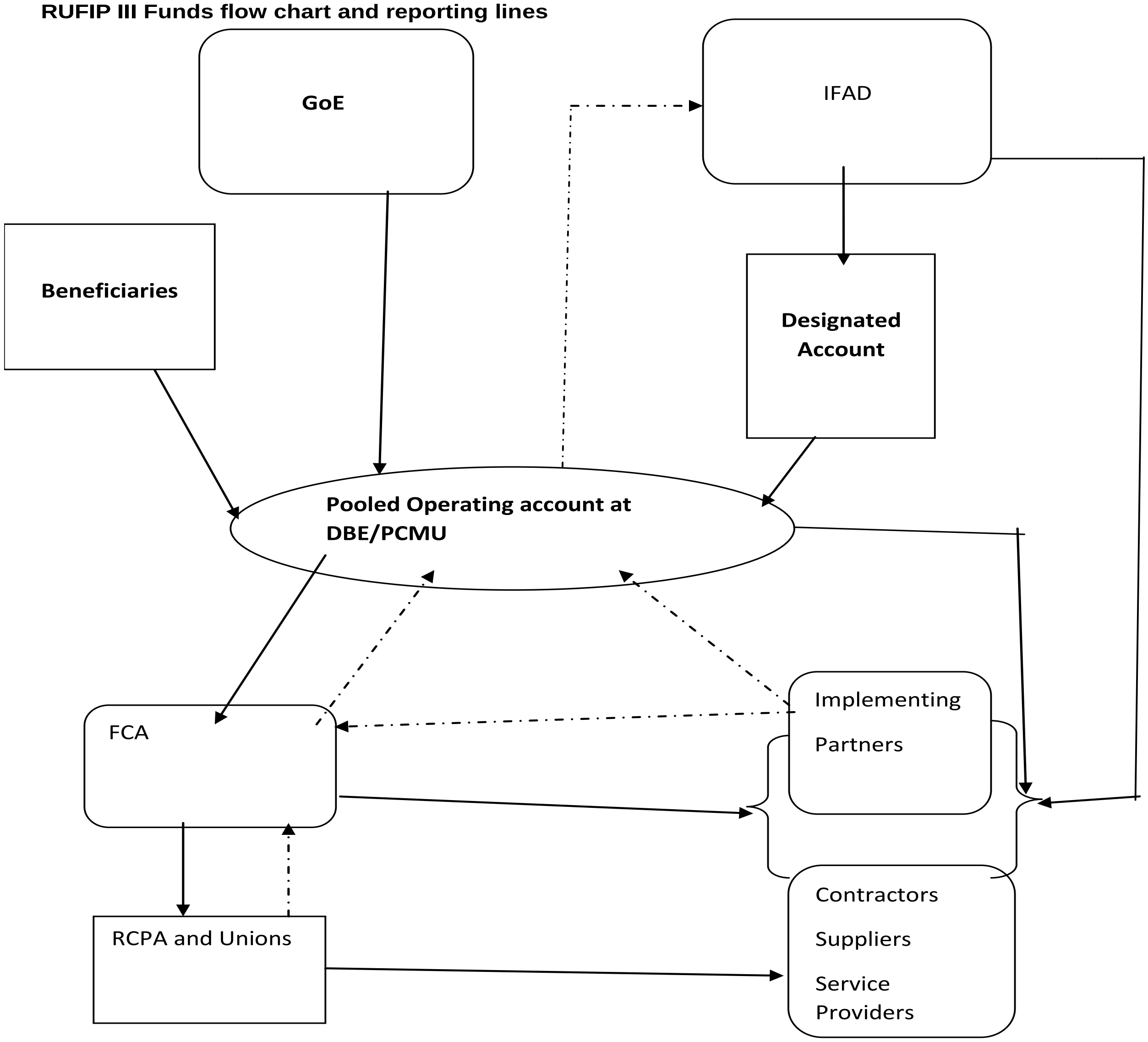
Bank Accounts	Remarks
A: DESIGNATED BANK ACCOUNTS (USD)	
IFAD Loan and grant- USD Bank Account EU-grant-USD Bank Account	Monitor IFAD disbursement separately from EU grant disbursements.
B: OPERATIONAL BANK ACCOUNTS (ETB): DBE Level – Operating account	To receive funds from the designated account for transactions by PCMU including transfers to implementing partners
RUFIP I, II & III- Reflows Bank Account - ETB	Account already in existence and is "ring-fenced" to receive repayments of loans given out under RUFIP I & II. Such loan repayments should not be mixed-up with RUFIP III IFAD loan/grant and EU Grant funds. Any mix-up result in difficulties in reconciling the Authorised allocation to the designated bank accounts.
RUFIP III Guarantee Scheme account	Account will be administered by DBE or under oversight of DBE in accordance with GoE arrangements acceptable to IFAD
RUFIP III Operational Bank accounts to be opened by Implementing Institutions	
FCA Operating Bank Account - ETB	Funds that will be transferred to FCA will be for the FCA approved activities under RUFIP III and other entities under FCA supervision. Funds to the Regional Cooperative Bureaus will be channelled through this account.
AEMFI Operating Bank Account - ETB	Funds that will be transferred to AEMFI will be exclusively for the AEMFI approved activities under RUFIP III.
Each Region should open a specific Bank Account for RUFIP III specific funds.	The lowest RUFIP III bank accounts will be at regional level, there is no need to open specific bank accounts at the Unions and *Woreda* level. A system to follow-up advances made by the regions to the woredas as established under RUFIP II will continue to apply under RUFIP III.

35. The set-up of Selected accounting software should reflect the following financing rules on activity by activity basis and so should be the AWPBs. Other donors will require exacting expenditure attributions. The funds flow chart below will be updated as co-

[9] More bank accounts to be opened as negotiations with other co-financing donors crystallise

financing arrangements are affirmed.

RUFIP III Funds flow chart and reporting lines



36. RUFIP III activity level coding with the respective financing rules:

		Financing Rule
1. Capacity Development of MFIs		
A. MIS improvement of MFIs and NBE		
	MIS-Project shared hardware infrastructure	OTHER_COFIN (100%)
	Trainings and capacity building for project team	IFAD_GRANT (80%), BEN (20%)
	Software Upgrades for Shared Data Center and DR	IFAD_GRANT (100%)
B. Human resources development at MFIs		IFAD_GRANT (80%), BEN (20%)
	Trainings to MFIs staffs/management/board	
C. Research & Knowledge Management for MFI sector		

		Financing Rule
	Research and Knowledge Management	OTHER_COFIN (100%)
D. Exposure visits		
	Exposure visits to board of directors and general managers of MFIs	IFAD_GRANT (80%), BEN (20%)
	Pastoralist area MFIs-exposure visit for board and management	IFAD_GRANT (80%), BEN (20%)
E. Social performance management		OTHER_COFIN (100%)
F. Knowledge management		
	Financial literacy and education	IFAD_GRANT (100%)
	Knowledge Management/documentation/conferences	OTHER_COFIN (100%)
G. Strengthening AEMFI		
	Strengthening AEMFI-Launching EFTRI's certification programmes	IFAD_GRANT (100%)
	Study for transforming AEMFI into apex level organization	IFAD_GRANT (100%)
	Staff Development/Trainings	IFAD_GRANT (80%), BEN (20%)
	TNA for developing training programmes by AEMFI and EFTRI	IFAD_GRANT (100%)
	Institutional development/ furniture and computers/stationary	IFAD_GRANT (100%)
	Upgrading and maintaining websites of AEMFI and EIFTRI	IFAD_GRANT (100%)
	Mobility / travel	IFAD_GRANT (100%)
	Shorter term local consultant	IFAD_GRANT (100%)
	AEMFI Staff Salary (Long Term High Level local consultant)	IFAD_GRANT (100%)
2. Capacity Building of RUSSACOs		
A. Capacity Building of RUSACCOs/ Union		OTHER_COFIN (90%), BEN (10%)
B. Member Level development		IFAD_GRANT (90%), BEN (10%)
C. Policy Makers Development Programmes		IFAD_GRANT (100%)
D. Policy and product Development Interventions		IFAD_GRANT (100%)
E. Financial integration		
	Support for IT infrastructure (hardware, software) for RUSACCOs	IFAD_GRANT (100%)
	Institutional Development- Setting up 2 Apex level national/regional Bodies	OTHER_COFIN (100%)
	Linking RUSACCOs to Unions	IFAD_GRANT (100%)
	Setting up a training Institution of excellence at the National Level	IFAD_GRANT (100%)
	Developing Training Institutions at Regional level for Financial Cooperatives- infrastructure Development	IFAD_GRANT (100%)
	Setting up Certification System for professional and institutional excellence	IFAD_GRANT (100%)
	Pilot testing new products	IFAD_GRANT (100%)
	Training Need Assessment	IFAD_GRANT (100%)
	Viability and Transformation Impact Study	OTHER_COFIN (100%)

		Financing Rule
	Integrating Financial Cooperatives with Financial Inclusion Programme	OTHER_COFIN (100%)
	Integrating SACCOs/Unions with Payment Systems	IFAD_GRANT (100%)
	Integrating Unions/ SACCOs with Credit Information system	IFAD_GRANT (100%)
	Mobility Support for Union/ RUSACCO staff	IFAD_GRANT (100%)
	Technical Staff Support for Unions	IFAD_GRANT (100%)
3. Improved Regulation and Supervision of MFIs by NBE and AEMFI		IFAD_GRANT (100%)
4. Improved Regulation and Supervision of RUSACCOs by FCA		IFAD_GRANT (100%)
5. Facilitating Funds Flow and diversification of business		IFAD_GRANT (100%)
1. External Cofinanciers		
	AGRA	OTHER_COFIN (100%)
	BADEA	OTHER_COFIN (100%)
	EIB	OTHER_COFIN (100%)
	EU - LOC	OTHER_COFIN (100%)
	IFAD Grant - LoC	IFAD_GRANT (100%)
	IFAD Loan - LoC	IFAD_LOAN (100%)
2. Domestic Cofinanciers		
	Government of Ethiopia	GOVT
	DBE	OTHER_COFIN (100%)
	Commercial Bank of Ethiopia	OTHER_COFIN (100%)
	Ethiopian Insurance Company	OTHER_COFIN (100%)
Subtotal		
6. Program Management		
1. Equipment		
	Laptops	OTHER_COFIN (100%)
	Specialist IT software	IFAD_GRANT (100%)
	Desktop Computers and peripheral devices	IFAD_GRANT (100%)
Subtotal		
2. Vehicles		
	Four-wheel Drive	IFAD_GRANT (100%)
3. Studies		
	Impact Studies	IFAD_GRANT (100%)
	Mid-term review (MTR)	IFAD_GRANT (100%)
	Project Completion Report (PCR)	OTHER_COFIN (100%)
4. Workshops		
	RUFIP III Launch Workshop	IFAD_GRANT (100%)
	stakeholders Consultation Work shop	IFAD_GRANT (100%)
	Steering Committee and PCMU meeting	IFAD_GRANT (100%)
	Financial literacy sensitization workshop	IFAD_GRANT (100%)
5. Training and Study Tours		IFAD_GRANT (100%)
6. Technical Assistance and Operations		
	Guarantee Facility	OTHER_COFIN (100%)
	Insurance mainstreaming	IFAD_GRANT (100%)
7	**Salaries**	
	Senior Lead Technical Staff	IFAD_GRANT (100%)

		Financing Rule
	All other salaries	GOVT
8	**Operating Costs**	GOVT

Records Management

37. Financial records must be created and preserved for every financial transaction performed under the project. Financial records are defined as any financial information including written, computer data, internal forms, e-mails, or any other form of storage information originated from the PCMU such as internal forms, journal vouchers financial reports (Monthly & quarterly) copies of cheques/ EFTs and withdrawal applications etc. or received by the PCMU such as supplier invoices and receipts, bank statements, IFAD documents etc. within the framework of the project's official activities. The objective of this procedure is to preserve the financial records and files for further official use by the PCMU, for financial audit and for review by the Fund during the supervision missions. The project's financial records are the property of the DBE and cannot be removed or destroyed.

It is important to note that in accordance with the IFAD general conditions, the GoE has to maintain the original records for a minimum 10 years after RUFIP III completion.

38. **Filing of the financial records**. The Finance team will maintain chronological files in which the financial documents have to be filed for future reference. Filing should be performed daily to prevent the accumulation of papers and to ensure that the financial records are maintained in an up-to-date manner at all times. Each financial record should be filed under its code in a chronological order, with a sequential number assigned to every document. Any kind of additions or amendments to the financial document should be filed in a chronological order immediately following the principal document. A separate series of vouchers will be filed for each operational account opened: separately for IFAD loan/ grant and other donors.

39. **Storage of financial records:** The financial records of the project should be stored in the PCMU and FCA for a minimum of 10 years after the project completion. The data should be stored within the accounting software, as paper copies, as scanned copies and as computer disc copies. The key agencies such as DBE/ FCA should allocate an appropriate storage area for the financial records in paper format and maintain them in locked cabinets, safe from water and fire, to which access is controlled and limited. The Financial Officers should also classify the financial records as "Confidential", or "General". All important correspondences should be filed.

40. **Archiving of financial records:** In order to prevent an unnecessary pile-up of files in a limited office space, the Finance Manager should make sure that the financial records are archived on a regularly basis. Once a year, the Finance Manager should make sure that the completed or inactive files are archived in a manner that will allow for easy retrieval of the files in case they are required at some future date.

41. **Back- up procedures:** To avoid the loss or damage of financial data, the information should be kept in two copies: i) at the computer server of the PCMU and ii) in the locked cabinets of the PCMU. Only authorised personnel should be allowed to access the financial records. The access of external persons is prohibited except for authorised persons such investigators, auditors & IFAD staff/ consultants with prior arrangement.

42. Under the area of accounting system, IFAD missions will be looking out for the following aspects:

- Basis of accounting- RUFIP III should comply with the cash basis of

accounting with the required disclosures.
- Adequacy and reliability of accounting system- therefore the project should ensure to comply with the internal controls around the Selected accounting software system
- Recordkeeping (including documentation and filing/archiving)
- Fixed assets register maintained and reconciled
- Adequate documentation and controls for Information Systems, including documented accounting procedures, backup of financial records, integration of all sub-systems.
- Adequacy of chart of accounts for RUFIP III accounting purposes
- Timeliness of recording transactions, regularity of performance and approval of reconciliations, controls on erroneous recordings.
- Appropriate/ adequate accounting and reporting of counterpart funds contributions (including tax and tax exemptions) as well as beneficiary contributions.

43. **Internal controls and expenditure documentation:** It is emphasised that RUFIP III is GoE programme and, therefore, will comply with GoE allowances for travel and accommodation unless otherwise specifically agreed formally between IFAD and GoE. The prevailing GoE field and travel related allowance rates will be applied for RUFIP III activities.

44. **Payment Documentation:** For all payments, the Finance Manager should ensure that the following steps are performed:

  - A payment request voucher should be prepared for each payment.
  - Validation of invoice. The following validation checks should be performed by the Finance Manager on invoice:
    - Invoice arithmetically correct; and
    - Quantity and price recorded on invoice should be checked back to contract, order, and certification of completion/delivery. If there is any discrepancy identified, it should be raised with the vendor prior to proceeding with invoice processing,

45. Supporting documentation: the following documents should be attached to the payment voucher to support validation:

- Copy of invoice;
- Required approvals;
- Purchase order, goods received note and contract if applicable; and
- Copy of required guarantee

46. **Minimum documentation**. To ensure that the finance unit collects all the supporting documents, the following checklists are provided; they should be ticked-off carefully and attached to each payment voucher.

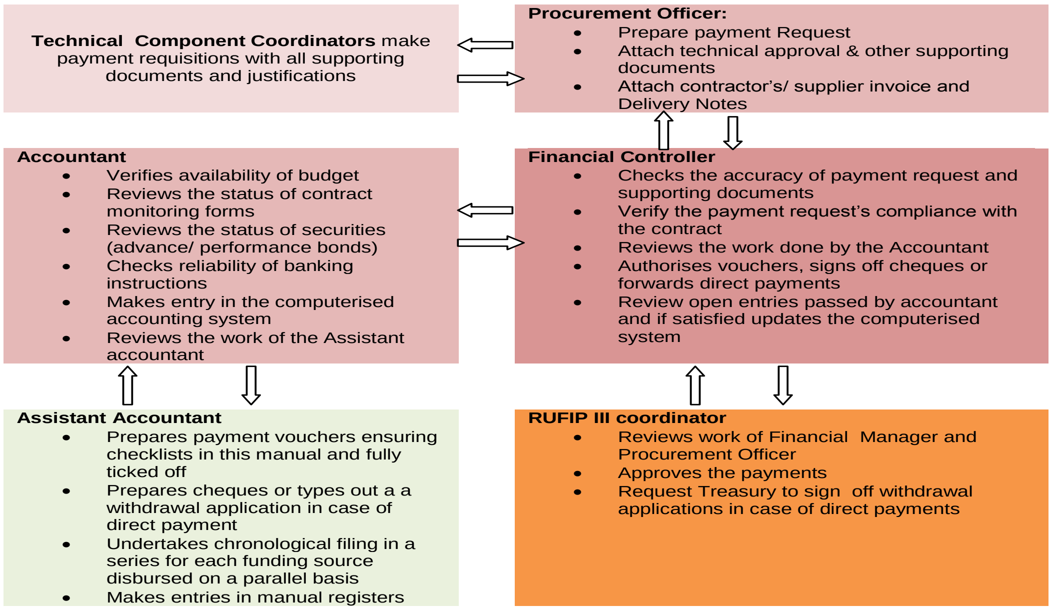
Standard Goods	**(Tick)**

In-Country Workshops	**(Tick)**

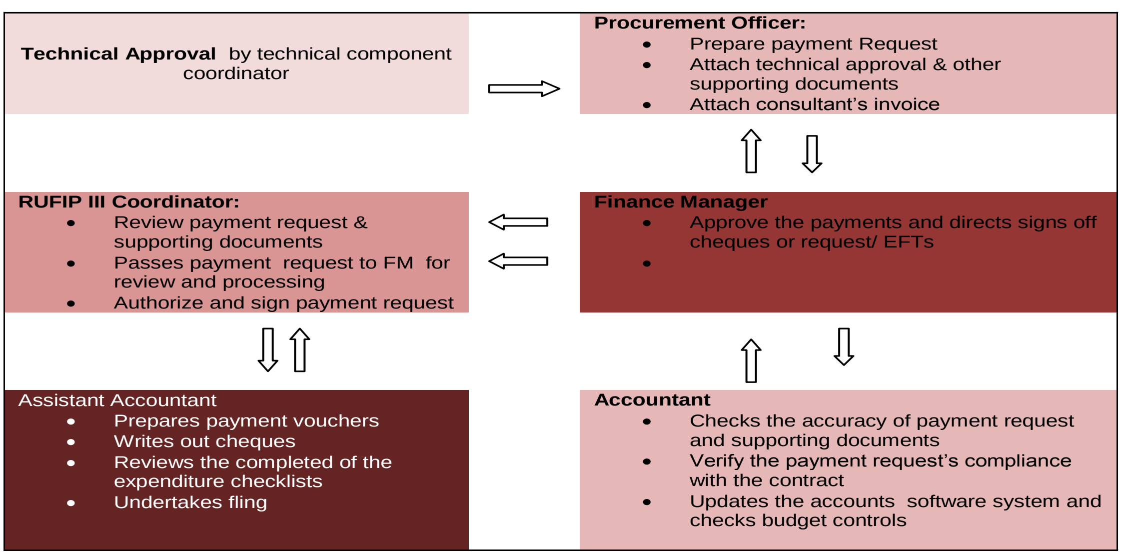
Complete Written Voucher, duly approved	
Confirmation by Procurement Officer that the Procurement was properly done in accordance with GOE and IFAD procedures	
Attach Copies of relevant No Objections from IFAD, where applicable	
Availability of supporting documentation	
Contract	
Invoice	
Evidence of payment	
Bank guarantee	
Delivery notes/reports (Make Cross Reference where bulky)	
Fund availability in	
Budget-Ensure the Selected accounting software budget controls have been updated	
Category(ies)	
Accuracy of Computations/footings	
Reviewed optimality of the disbursement method	
Banking instructions	
Correspondence bank	
Percentage of financing	
Workshops- Abroad	**(Tick)**
Invitations and related IFAD's No Objection	
Availability of supporting documentation	
Boarding passes reconciled DSA days taken	
Back to Office Reports	
Fund availability in	
Budget-Ensure the selected accounting software budget controls have been updated	
Category(ies)	
Accuracy of Computations/footings	

Attendance sheets	
Attendance sheets should be reconciled to DSA paid	
Availability of supporting documentation	
Training report	
Hotel Receipts/ bills for meals and accommodation(should be reconciled to attendance sheets)	
Procurement record on how the venue was selected	
Justification for any fuel refunds and related support	
Fund availability in	
Budget-Ensure Selected accounting software budget controls have been updated	
Category(ies)	
Accuracy of Computations/footings	
Consultancies	**(Tick)**
Timesheets in comparison with the work done; Attach Copies of relevant No Objections from IFAD, where applicable An acceptable report Availability of supporting documentation Contract Invoice Evidence of payment Bank guarantee for advances Fund availability in Budget-Ensure Vote Book has been updated Category(ies) Accuracy of Computations/footings Banking instructions Correspondence bank	

47. **Adequate segregation of duties:** The RUFIP III financial management system has been designed to assure adequate segregation of duties. No single officer can originate and complete a transaction. The payment cycle for works and goods will follow the following pattern:



48. **Payments for Consultant Services**: There are two types of consultants' services; a) Consultants with a lump sum contract, and b) Consultants with a time-based contract. For type (a) consultants, payments will be made against the delivery of outputs as detailed in their contracts. For type (b) consultants, payments will be made against the submission of a time sheet, a report on activities performed and the assurance (by a technical coordinator) of the adequacy of services rendered. Both time sheets and reports will need the technical approval of the technical component head before the payment can be entertained.



49. Similar arrangement above to assure segregation of duties will apply for regular office supplies and travel related expenditures.

50. **Fixed assets control:** Fixed asset management is an important process that seeks to track fixed assets for the purposes of financial accounting and to ensure preventive maintenance, and theft deterrence. Adequate Fixed asset maintenance also increases the sustainability of the project.

51. **Asset Register**. The Project must maintain a register of all (material) RUFIP III equipment. The asset register should record the following information for each individual piece of equipment: 1) Asset description, 2) Asset number, 3) Serial number of the item, 4) Officer responsible for asset, 5) Funding of asset (IFAD, other donors, Government etc.), 6) Location; Date of purchase; and 7) Estimated life.

52. **Asset Verification Review**. The Finance Manager must ensure that a verification count of all equipment recorded in the fixed asset register is performed at least once a year. This should include the following checks:

- Verify that all equipment is still held in the location recorded on the register; and
- Check that equipment is still in a reasonable state of repair.
- The assets register must contain all assets held by the PCMU/ implementing agencies such as FCA and those held by beneficiary communities.
- Discrepancies between the verification exercise and the fixed asset register should be investigated. Where assets are missing or seriously damaged, they should be removed from the asset register. The removal should be formally documented and approved by the RUFIP III Coordinator.
- The verification review must be performed by different staff from those who use the equipment, to ensure adequate segregation of duty.

53. **Vehicle Maintenance and Fuel**. The drivers are required to record all trips and fuel refills in a logbook and collect all the supporting documentation (different if fuel cards are used). The vehicle logbook provides control over the use of the vehicles as well as fuel consumption. For official field trips, a special cash provision is given to drivers to allow them to purchase fuel during the trip.

54. The safety of cars is the responsibility of the recipient staff members and drivers assigned to the vehicles. Consequently, they must ensure that the cars are parked in a secure area when not in use or outside working hours. The drivers are required to monitor the maintenance of their assigned vehicles under the supervision of the administrative assistant. The drivers must notify the administrative assistant of maintenance needs (including periodic servicing) so that the cars can be serviced on a timely basis.

55. The Finance Manager should on a monthly basis review the mileage and fuel usage as well as any undertaken service as reported in the log book of each car and compare these with the official invoices and travel authorizations etc. to make sure the numbers are accurate.

56. An insurance policy must be taken by the PCMU to ensure all cars and passengers against all risks, including damage, theft, and fire, as well as injury and property damage to third parties.

57. Under internal controls, IFAD missions will be keenly interested in the following aspects:

(i) Segregation of duties- are the following functional responsibilities performed by different units or persons:
  a. authorization of a transaction
  b. execution of a transaction
  c. recording of the transaction; and
  d. custody of assets involved in the transaction.

(ii) Clarity and adequacy of decision processes and sequence of events for control functions in project implementation reflected in the Financial Manual (or equivalent there-of).

(iii) Adherence to Project Management manuals.
(iv) Effectiveness and efficiency of internal controls over inflows of funding sources other than IFAD.
(v) Adequacy of contract management (use of contracts register and monitoring form) and filing there-of.
(vi) Effectiveness and efficiency of internal controls over expenditures (full cycle from commitment, payment, receipt of good and services, approval of payments, classification, etc.)
(vii) Documentary evidence to confirm delivery and acceptance of contracted goods, works or services.
(viii) Physical controls over cash, documents and records. Adequacy of filing systems. Missions will review the petty cash subject to monthly reconciliation as well as surprise checks; custody of cash box and control of keys.
(ix) Adequacy of physical management of cash.
(x) Timely payment to suppliers and consultants.
(xi) Eligibility of expenditures with respect to Financing Agreements.
(xii) Legality/eligibility of advances from project funds and timely justification for use thereof.
(xiii) Compliance with financial management covenants in the Financing Agreements and Letter to the Borrower (LTB).
(xiv) Adequacy of up-to-date record keeping for fixed assets and inventories.
(xv) Adequacy of controls concerning project assets including:
   a. Vehicle and other assets management (assets should be property tagged and a physical inventory count done on a regular basis)
   b. Fuel management (Drivers should maintain a vehicle log book)
   c. Travel authorisations (including Daily Subsistence Allowance (DSA) paid to staff)
   d. Adequacy of vehicles and assets insurance.
(xvi) Workshops:
   a. Availability of list of participants
   b. DSA paid to participants
   c. Receipts for workshop expenditure
(xvii) Adequacy of controls and authorisation process for use of funds (payments, transfers, Cash/Bank balance management) / and other operational accounts.
(xviii) Banking arrangement and controls (reconciliation of bank statements with financial accounts).
(xix) Existence of a proper IT support unit in place.

***3.4*Step 4: Withdrawal Applications**

58. The IFAD disbursement handbook provides all the guidance and forms needed for the preparation of withdrawal applications including replenishment applications. Those forms and guidance are not reproduced in this manual. As stated in the LTB and the LDH, four standard disbursement procedures may be used for withdrawal of financing.

- **Procedure I:** Advance withdrawal (using imprest account with replenishment designation account as has been the case under RUFIP I and II).
- **Procedure II:** Direct payment. This modality is used for eligible RUFIP III expenditure to be paid directly by IFAD, generally for large contracts, to suppliers, contractors or third parties, as authorised by the GoE over USD 100,000 and to be reviewed by IFAD depending on assessment of the fiduciary risk.

- **Procedure III:** Reimbursement. This is applicable when eligible RUFIP III expenditures, reimbursable under the financing, have been pre-financed by the GoE. Such reimbursements are expected to be claimed not later than 90 calendar days from the date of payment by RUFIP III.

59. The finance team must be efficient in submission of the withdrawal applications to IFAD otherwise liquidity can be a hindrance to implementation. A tool that can be used to measure the efficiency of a replenishment process is the designated account reconciliation as shown below. Thus the designated account reconciliation should not be done as formality for inclusion in a WAs but should be used on a monthly basis, as a performance measure as illustrated below.

Illustrating that Designated Account Reconciliation is good Treasury Management Tool

		USD	Management Tips
1	Total initial advance by IFAD	xxx	This reconciliation should give the trail of this advance. The FM should always on a monthly basis be interested to know the trail of the Authorized Allocation (AA).
2	LESS: Amount Recovered by IFAD	-	
3	Outstanding Advance to Designated Account	xxx	
4	Balance of Designated Account as per Bank Statement from the Commercial bank	xxx	If less than 50% of the initial deposit can be traced to bank statements, this can always alert the FM and RUFIP III Coordinator of lingering cash flow problems by looking at lines 4 and 5
5	Balance on Project Operational Accounts as per Bank Statements	xxx	
	Total of Bank Balances	**xxx**	
6	Plus Total Amount claimed in this Application No.	xxx	If this amount is materially higher than 30% of the initial deposits it would point at laxity in the replenishment system. If for example, this amount is twice or more than the minimum amount for replenishment, It would tell PC that the FM could have lodged a WA when expenditure reached the minimum amount of 30% of the initial deposit and there could be over bulking/ inefficiency.
7	Plus Total Amount withdrawn from bank accounts not yet claimed	xxx	This should cause the RUFIP III Coordinator to demand why money to this magnitude has been withdrawn but is not being included in the WA. The PC should always demand for a schedule of this amount—it reflects inefficiency and results in cash flow problems to have large amounts of money from bank accounts and take a long time to be replenished back. Secondly care should be taken that this figure is not only inserted as a *balancing figure*, which would reflect that the designated account is not well managed.

		USD	Management Tips
8	Plus Amounts claimed in previous Applications not yet credited at date of Bank Statement	xxx	The WAs in the pipeline, if they take long to be processed, could reflect that IFAD raised many queries on the quality of the WAs, in which case the RUFIP III Coordinator could request for staff training; or it could be delays on the side of IFAD and in which case the PC would still have to initiate follow-up from IFAD. It is advisable for the FM to always follow the status of the WA on ICP
9	Minus Interest Earned		
10. TOTAL ADVANCE ACCOUNTED FOR		xxx	If this total does not equal to the outstanding initial deposit, the PC should demand explanation. It is so serious to fail to reconcile the Authorised Allocation.

60. It is key for FM to know RUFIP III treasury position at all time in order to better manage the RUFIP III's liquidity position in a timely and efficient manner. The key goals are to ensure that:

a) There are sufficient funds in treasury to meet the RUFIP III's field activities for implementation.
b) the disbursement rate of the project closely follows the physical activity progress;
c) Increase in the performance level of RUFIP III and meeting it objectives

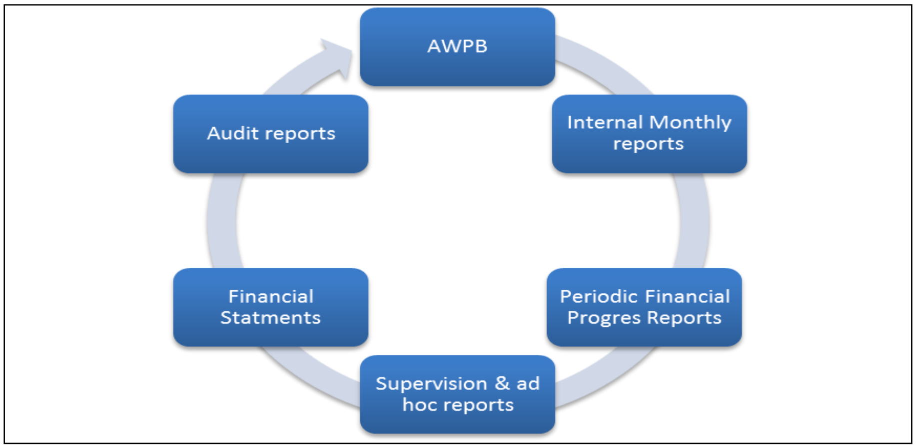
61. The key elements on project treasury position are:

a) Status of Designated accounts balances (Using the cash books as at reporting date)
b) Status of the operation accounts balances (Using the cash books as at reporting date)
c) The status of cash in hand (Using the cash book as at reporting date)
d) The money value of WA with IFAD for reimbursement
e) The money value of WA to be submitted to IFAD

62. FM should prepare regular cash and expenditures rolling monthly cash flow forecasts. This will help to detect periods of liquidity gaps so that appropriate adjustments in work scheduling or any other remedial actions can be taken proactively.

*3.5*Step 5: Financial reports and auditing

63. Periodic financial progress reports are a requirement of the IFAD Financing Agreement. Sufficient information must be made available about what the money is spent on, how much is spent and what the results are. The major financial reports include the following: AWPB, monthly financial reports, periodic financial progress reports, supervision reports, annual financial statements and audit reports. IFAD has now developed guidelines for Interim Financial Reporting (IFR) to guide the progress reporting. These have been included in the resource pack. The resource pack includes guidelines for each of the following aspects.



64. Under financial reporting IFAD missions will be looking for:

- Completeness, accuracy, usefulness, and timeliness of financial reports.
- Interim FM reports and linkage to progress reports - timely preparation, submission to IFAD.
- Preparation of reports showing actual vs budget income/expenditure and AWPB execution rate.
- Follow up of previous aide-memoirs fiduciary recommendations.
- Reasonable alignment between disbursement rate of recurrent versus investment cost categories.

AUDIT ARRANGEMENTS

65. **Statutory Audits:** The project audit is an ex-post review of financial statements, records of transactions & financial systems. It examines the adequacy of accounting systems & procedures, capacity to maintain appropriate accounts & documentation of the project/grant expenditures. The objective of the project audit is to provide credibility and assurance of accountability.

66. In accordance with the IFAD General Conditions and the IFAD Handbook for Financial Reporting and Auditing of IFAD-Financed Projects, the RUFIP III must have its financial statements audited by an external auditor acceptable to IFAD. The Audited financial statements need to be sent to IFAD no later than 6 months after the end of the fiscal year.

a) The detailed instruction regarding project audit are outlined in the IFAD guidelines for project audits available at http://www.ifad.org/pub/basic/index.htm

b) The Federal Auditor General [AG] is empowered by the Constitution of the Federal Democratic Government of Ethiopia, to audit all Government Funds. However, because of the human resource constraints, with his/her consent, a private practice auditor can always be appointed. The new changes in IFAD guidelines should be adhered to such as the single audit opinion but with requisite publication in widely circulated news media.

c) In addition to the audit report, the independent auditor will prepare a management letter. This will include comment and recommendations on the adequacy of the financial management system, and on the system of internal control. The management letter should also include a follow up section on the status of implementation of previous years' recommendations.

67. **Internal audits:** Internal auditing of RUFIP III is the responsibility of the Internal Audit Unit in the DBE. The internal audit unit at the DBE will review the financial transactions of the Project and submit reports which will include the:-

a) Timeliness and accuracy of the update of the project accounting records;
b) Timeliness and accuracy of the reconciliation of the bank accounts;
c) Accuracy of project expenditure and timeliness of the preparation and submission of the WA’s for the replenishment of the designated accounts;
d) Eligibility of Loan/grant expenditure; and
e) Adherence to the approval and authorisation process, internal controls and internal checks, including adherence to the FDRE Procurement process and Procedures

In accordance with the IFAD general conditions and the IFAD guidelines for project audits, the PCMU must have RUFIP III financial statements audited by an External auditor acceptable to IFAD. The Audited financial statements need to be sent to IFAD no later than 6 months after the end of the fiscal year. The detailed instruction regarding project audit are outlined in the IFAD guidelines for project audits available at http://www.ifad.org/pub/basic/index.htm

4 ANNEXURES

The forms and accounting documents as used under RUFIP I and II have been adopted for RUFIP III except that manual excel worksheets will not be accepted as substitute for accounting software.

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IFAD
Investing in rural people

The Federal Democratic Republic of Ethiopia

Rural Financial Intermediation Programme – Phase III (RUFIP III)

Design report

Component 1 – Building Capacity of Institutions and Clients
Working Paper

IFAD
Investing in rural people

Federal Democratic Republic of Ethiopia

Rural Financial Intermediation Programme – Phase III (RUFIP III)

Component 1- Building Capacity of Institutions and Clients

WORKING PAPERS

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List of Abbreviations

ABC	Acquiring Basic Competencies
AEMFI	Association of Ethiopian Micro Finance Institutions
AIFE	Alliance For Financial Inclusion
ALM	Assets and Liabilities Management
AWP & B	Annual Work Plan and Budgeting
ACSI	Amhara Credit and Savings Institutions
BCP	Business Continuity Planning
BPE	Business Process Engineering
CDM	Credit and Default Management
DFS	Digital Financial Services
DECSI	Debit Credit and Savings Institution
EFTRI	Ethiopian Inclusive Finance Training and Research Institute
EIFT	Ethiopian Inclusive Finance Technology
ETB	Ethiopian Birr
FCA	Federal Cooperative Agency
GOE	Government of Ethiopia
HRD	Human Resources Development
ICT	Information Communication Technology
ILUCF	Irish League of Credit Union Federation
IRFTCO	Improving Rural Finance Inclusion Through Cooperatives
MCR	Minimum Competency Requirement
MI	Micro Insurance
MITC	Ministry of Trade ,Industry and Cooperatives
MIS	Management Information Service
MSME	Medium, Small, & Micro Enterprises
NABARD	National Bank for Agriculture and Rural Development
NFIS	National Financial Inclusion Strategy
NGO	Non- Government Organization
NPA	Non –Performing Assets
O&M	Organization and Methods
ODI	Organization Development Initiatives
OSS	Operational Self –Sufficiency/ Offsite Surveillance
OCSSO	OMO Credit and Savings Institution
PACS	Primary Agricultural Credit Society
PCMU	Project Coordination & Management Unit
RPCA	Regional Promotion Cooperative Agency
PROFIRA	Project For Financial Inclusion in Rural Areas
RCT	Randomized Control Trials
SPM	Social Performance Management
TCAC	Training and capacity-building Advisory Committee
TA	Technical Assistance
TNA	Training Need Assessment
TOT	Training of Trainers
UMRA	Uganda Micro finance Regulatory Authority
UNCDF	United Nations Capacity Development Fund

Component 1: Building Capacity of Institutions and clients

1. **Significance of capacity-building:**

capacity-building of all Rural Finance Institutions (RFIs), particularly MFIs and Financial Cooperatives and their clients has been envisaged under component 1 of RUFIP III, with a focus on enhancement of institutional and individual capacity, systems and processes for efficient and effective delivery of financial services to targeted clients, on a sustainable basis. Strong RFIs with sound operative performance would ensure financial access to vulnerable people in rural areas and thereby financial inclusion effectively. The institutions would be incentivized to avail "line of credit" to implement the programme's targeting strategies, so as to provide focused support to poor and marginalized communities. The better informed clients by virtue of financial and digital literacy will be able to take appropriate financial decisions. Integrating Technical Assistance (TA) with financial literacy, training, skill development, Knowledge Management, enriching human resources (HR), management and governance, enhancing digital opportunities, collection of data, analysis and MIS, exploring policy issues, product development, support for client protection and Social performance management would facilitate fulfillment of programme objectives. These efforts will enhance donors' partnership, prioritization of capacity-building within RFIs, their greater resource allocation for such purposes, on a sustainable basis. With expanded outreach and financial services, RFIs would expand and diversify business and at the same time, would improve livelihoods and economic conditions of the targeted people.

1.1 Improving Capacities, Systems and Processes in MFIs:

Under component 1.1, improving capacity, systems and processes of MFIs would be the central focus. The microfinance sector in the country has grown rapidly in the last one decade and now has robust network of 38 MFIs serving over 5 million loan clients and 17 million Savings Bank accounts. The capacity-building efforts, however, have been sporadic, inadequate, non- strategic and non-systematic. Some of the MFIs have been providing 2% of their budget (minimum required by NBE) for capacity-building interventions. However, the sector is characterized by non-existence of HR strategy, inadequacy of skilled manpower, weak systems and processes and lack of adequate innovations. To address these issues of the sector comprehensively, the sub-component aims at giving primary responsibility to AEMFI as the nodal agency to implement various capacity-building interventions for MFIs envisaged. They could engage own staff and institution or engage suitable consultants, training institutions at the decentralized level, University faculties, trainers, researchers and development agencies. So, the past track record , present role and future perspectives of AEMFI have been discussed in greater detail ,while narrating the various capacity-building interventions to be pursued by them with Technical Assistance (TA) of RUFIP III.

2. Association of Ethiopian MFIs (AEMFI):

2.1 Introduction – Organizational Status:

AEMFI is a non-profit /non-government organization registered /licensed on 18 June 1997 by the Ministry of Justice, Government of Ethiopia for representing MFIs, created under the relevant Proclamation, 1996. It was envisaged to play a catalytic role in knowledge and information dissemination, lobby for development of enabling environment for micro finance sector and undertake training, research studies, performance monitoring and bench marking for the MIS, and governance. Over the years, it has been engaged in diversified and value added activities in the microfinance sector with the support of the Government of Ethiopia and several donor agencies including IFAD. It has made significant contribution for development of human capital, micro finance policy advocacy, financial inclusion, knowledge management and promotion of microfinance industry. It has set up separate companies like the Ethiopian Inclusive Finance, Training and Research Institute (EIFTRI) to give focused attention to research and training and the Ethiopian Inclusive Finance Technology (EIFT) to facilitate technology –based financial services. The legal status and broad functions of these institutions are outlined in the **Annexure I.** Whil**e** EIFTRI is wholly owned company of AEMFI, the later (EIFT) is owned by all MFIs and Share Company**.** EIFTRI is a business entity under AEMFI with separate staff, dedicated to research and training. Thus**,** AEMFI has assumed the role of technical resource organization providing institutional development support to the MFI sector. Its financial resources for the activities include membership fees/contributions, fees for training programmes, conferences and exposure visits, donations/ grant for various sponsored programmes, building rent income and publications.

3. Strengths and Accomplishments of AEMFI:

3.1 Brand name:

AEMFI has earned a brand name in the region with its continued leadership for the growing microfinance sector in the country .Among the MFI Associations in the continent ,it has made distinct name in its role in convening regional conferences, bringing out research publications and arranging exposure visits ,etc. overseas. It has been able to forge regional Cooperation & Network development including Africa Network (AFMIN) overseas. The continued leadership of its founding Executive Director (Dr.Wolday) for 2 decades had helped the process.

3.2 Training Infrastructure:

The institution is equipped with good infrastructure in Addis Ababa for imparting training – Conference Hall, class rooms, Computer lab, library, residential accommodation for trainees, etc. It had set up EIFTRI on 6 July 2012 to broad base and intensify training and capacity-building efforts primarily for the microfinance sector. The participants of its programmes, however, include MFIs, banks, development agencies, NGOs, RUSACCOS, Government and policy-making bodies.

3.3. Track Record of Studies& Research:

It has been major source of data on the MF sector for studies and research as also MIX Market. It has conducted baseline surveys and studies with sponsorship of various agencies including IFAD. Its studies and documentation covered all aspects of MF sector working. These include Randomized Control Trials (RCT) for financial services (in collaboration with Mannheim University), Status and Characteristics of Youth Entrepreneurship, the Conference Compilations, Occasional Papers, Micro finance (MF) development Reviews, etc. With the strength of available data, it has been able to monitor the performance of members and measure impact of the policies and programmes.

3.4. Advisory and Advocacy Services:

It has been leading the MFIs in consultative processes initiated by National Bank of Ethiopia (NBE) and Government of Ethiopia (GOE) for policy announcements, issue of regulations and legislative changes, having bearing on MFIs. It has been member of various advisory Committees of GOE and donor agencies covering areas of women entrepreneurship developments, MSME, food security and housing finance.

3.5. Pastoral Regions& Training Efforts:

It was associated with in implementation of a project of Farm Africa for Pastoral areas, mainly for undertaking capacity-building efforts in 3 pastoral regions (SNNP, Somali and Afar). It had organized 15 types of training programmes, undertaken exposure visits involving ACSI and DECSI, capacity development of new MFIs, Product diversification, risk management and, impact/gap assessment. The project would continue up to 2020.It has gained considerable experience in these areas.

The concept of Social Performance Management (SPM) was popularized by it through various sensitization programmes.

4. Support to AEMFI under RUFIP II-Expected Outcomes

Under RUFIP II, AEMFI was given major role and accordingly, TA budget of 81.43 million ETB was sanctioned in its favor. The list of activities along with purpose-wise budget sanctioned is given in the **Annexure II.** The role expectations and outcome of the envisaged interventions are outlined below:

a) Facilitating enhanced mobility and business expansion in new and interior areas;
b) Strengthening HRD and improving professional standards and leadership talents in the MFI sector aligned with growth ,innovative policies and business reengineering;
c) Standardized MIS aligned with appropriate technology;
d) Bringing about technology adoption and banking software by MFIs;
e) Addressing ownership and governance of MFIs;
f) Development of micro insurance policy and operational strategies;
g) Business Process reengineering covering better targeting, increased women participation development of client-driven products, Client literacy, Client business development, improved social performance management, etc.
h) Putting in place Risk Management strategies in MFIs;
i) Improved self –regulation ,covering customer protection and fair practices code, disclosure standards and grievance redressing mechanism;
j) Improved coverage in performance review publications including bi-annual sector reviews to start with and leading to annual sector review by the end of the programme;
k) Bringing effective linkages with commercial banks and financial institutions established for raising resources;
l) Facilitating emergence of service providers and support institutions (e.g. Rating agencies)' and
m) Overall, transforming MFI sector to a sustainable, dynamic and vibrant MFI sector capable of expanding its outreach in depth and breath.
   Although some of the outcomes have been accomplished, many are still relevant today.

5. **AEMFI's initiatives and progress with RUFIP Support:**

AEMFI has been a constant partner in the implementation of RUFIP I and RUFIP II. RUFIP II had sanctioned a number of interventions, involving TA of ETB of 81.43 million, the details of interventions envisaged are given in the Annexure III. Initiatives and progress under specific interventions are outlined below:

a) It had undertaken TNA studies (2015) and drawn Training Master Plan (2015-22) for MFIs by engaging local consulting Company .It had arranged overseas exposure study visits and convened regional and international conferences and documented relevant reference materials. Based on the TNA study in 2015, focused areas of training programmes for the different levels of management have been designed. Based on the same, training themes have been identified for various categories of personnel of MFIs in 2019. (Details are given in **Annexure IV).**
b) It has organized training programmes including Training of Trainers (TOT) for MFIs and developed related modules, with support of local consulting Company (Wisdom Consult Plc) under RUFIP II. MFIs' contribute 50% of the training cost for the training programmes for the lower level management. AEMFI has enlisted services of an Indian consulting Company (Skydive Technologies & Consulting Plc) for conducting training programmes. Lists of Courses,

Target Groups, Duration and Number of Participants (with Gender segregation) are given as **Annexure III A and III B.**

c) It has engaged international consultant(HORUS, France) for designing MIS project for member MFIs, with detailed implementation plan with detailed activities, estimating budget and time for the activities and implementation strategies with RUFIP II support .Under the MIS project, MFIs are contributing600,000 US $ (42% of for the hardware and software purchases).

d) AEMFI has been a member of the Steering Committee as also of Project Management Committee under RUFIP II.

e) While AEMFI could share the credit of expansion, growth and development of MF sector in the country, the delay in the implementation of various interventions provided for and non-utilization of budget come to the surface. While TNA study and Training Plan could make head way in 2015 and most of the progress were witnessed during the last 3-4 years. The fund allocated has not be fully utilized during the project period. Based on the experience gained and lessons learnt in RUFIP II and in recognition of future needs of the MFIs and their clients, the modalities for support for AEMFI under RUFIP III should be decided.

6. The Emerging Challenges in MF sector:

In the training and competency- building space, several challenges have been noticed, justifying the increased capacity-building intervention of AEMFI, as discussed in the Training Need Assessment (TNA) Study conducted by Golden Africa Capacity Centre PLc in August 2015.

a) The sector is growing very fast with increasing number of MFIs and diversification of business. MFIs are increasingly taking recourse to ICT products and services (i.e., CBS, ICT products, mobile banking, and agent banking), leading to enhanced customers' expectation. The knowledge, skill and competence of the staff need enhancement commensurate with the changes in the sector. There is distinct shortage of knowledge and experience in MFIs.

b) There is high turnover of staff (15 to 25% as estimated by TNA study).Total staff estimated then was about 21000.*The total employees' strength of 34 MFIs stood at 33,465(male: 22,741 and female 10,724) as at 31 December 2018, out of which 7.880 are Loan Officers.* There is need for fresh training for the new recruits and old staff to enable them to take up new responsibilities and cope up with emerging challenges.

c) There is marginalization of MF field in the educational institutions including the Universities. The students passing out of these institutions generally do not carry specialization in microfinance.

d) There are very limited training institutions with focus on micro finance services. The institutions like NBE's Ethiopian Institution of Financial Studies(EIFS), Ethiopian Management Institute, Addis Ababa Chamber of commerce and Sectoral Association, etc. ,do not give adequate focus to micro finance training.

e) ACSI, Bahar dar, DECSI, Mekele and OCSSCO, Hawassa &Sidama have their internal training institutions for training their branch level/sub branch level staff. However, they can only run one channel for 25-30 persons at a time.

f) **In this background, the TNA study referred to the above concluded "supply and demand shows that demand for training far exceeds the supply**." It also prepared the Training Master Plan for 2015-22 for AEMFI /EIFTRI to take up the training strategic interventions.

In the light of above challenges, the following interventions are proposed to be supported under RUFIP III.

7. TA Support For Various Interventions under RUFIP III-Role Expectations:

7.1 Transforming AEMFI as an Apex institution for Training &Development of Excellence:

There is no apex institution of excellence which can take a leadership position to direct, facilitate and monitor the training and capacity-building efforts for MFIs, on a sustainable basis. The Apex institute is expected to provide value-added training programmes, explore and innovate training approach, plan and execute need-based capacity –building programmes in the years to come, for furtherance of the sector. It is expected to develop smaller training institutions in the regions and encourage setting up new institutions, which could serve as satellite /affiliate institutions, supplementing the Apex. It could help the 3 training institutions of MFIs to improve their capability. It is expected to standardize training programme modules and materials as also support certification system, with a view to ensuring quality standards of the institutions, programmes and trainers. It should aim at becoming sustainable institution, so that it could run independently without any external financial support. *With a view to facilitating AEMFI for transforming itself as an institution of excellence for training &development, RUFIP III would support a study for organizational reengineering and carving out a road map for the next 6 years ahead.*

7.2 Completing and taking MIS project forward

With RUFIP II support, MFIs project is being implemented which has potential to improve significantly their systems and processes. A detailed implementation plan for MIS project has already been prepared. Therefore, participating MFIs would be implementing the project with technical support and capacity-building assistance from the Service Provider, coupled with oversight of AEMFI.NBE's inspection team is expected to look in to systemic and operational aspects during onsite inspection. The auditors (internal &external) would examine the relevant aspects. The relevant guidelines pertaining to Offsite surveillance System (OSS), exposure standards and reporting requirement need a relook. In order to ensure that MIS project is implemented in time and without hassles, it is essential that project is monitored scrupulously. The issue should be reviewed as a separate agenda in the MFIs' Conference convened by AEMFI regularly (say once in quarter). A standing Technical Committee can be constituted with inclusion of the service provider and three technically competent officer-one each from A, B and C category of MFIs as members, NBE official as special invitee and AEMFI /EIFT as the convener. At the end of RUFIP III, all MFIs should continuously get the attendant benefits of the project and would be able to manage, maintain and update information/data whenever necessary, without seeking external support. RUFIP III aims at timely, effective and prudent implementation of the project, leading to full internalization of the benefits by all stakeholders.

7.3 Positioning and Developing core Faculties in AEMFI/EIFTRI:

It is observed that AEMFI/EIFTRI does not have adequate internal faculties, leading to dependence on consultants/guest faculties. While taking recourse to guest/visiting faculties/subject matter specialists is inevitable, considering number of trainees, programmes and range of programme themes, there is need for core faculties, specializing in certain key disciplines. Faculties, specializing in the following disciplines should be positioned/groomed:

I. Regulation, supervision, inspection(onsite &Offsite), audit(internal & external), risk management, ALM, Prudential norms, rating, financial stability, governance and IFRS;
II. Promotion, operations, product development, financial services(savings, credit, remittance, leasing & micro insurance) , Appraisal of loans, portfolio analysis/Portfolio quality assessment, customers services and financial literacy;
III. ICT , Digital Financial services, MIS, Communication and digital financial literacy;
IV. Business Planning, Budgeting, Profitability analysis and Outcome assessment;

V. Social Performance Management, Social targeting, Climate Change, Impact assessment, Client Satisfaction Survey; and
VI. HRD –TNA, Staff Motivation, Performance measurement of staff, Staff retention, leadership development, O&M and ODI.

While faculties can be facilitated for undergoing TOTs and to acquire specialization, they may, in turn, conduct TOT for the benefit of identified officers, who have potential and interest to handle sessions locally, from MFIs, at least one each from C category MFIs and two each from A & B category of MFIs in the identified disciplines .RUFIP III would support Faculty development of AEMFI/EIFTRI personnel and enable them to organize TOTs increasingly.

7.4 Prioritizing training programmes on key areas

AEMFI/ EIFTRI has-been conducting 30-35 training programmes in a year and expecting funding support from RUFIP III. The programmes conducted by it are mostly designed in tune with recommendation of TNA study in 2015. Since the term of the training plan is 7 years (2015-22), RUFIP III support can be considered for TNA during2022 and accordingly future training plan can be drawn up to 2030.Each of the MFIs would be encouraged to make TNA and prepare training policy for the respective institutions. RUFIP III would support 15-20 programmes per year covering @25 officials in each programme in the following key areas:

- ✓ Risk Management and compliance strategies – Identification, prevention and mitigation mechanism;
- ✓ Digital Financial Services(DFS), ICT, MIS, Computerized environment -implementation, up scaling and safeguards of DFS, and Financial Inclusion Strategic Framework;
- ✓ Risk –based audit and supervision – Internal Control mechanism ,compliance to audit and inspection, internalization of findings (-mostly meant for internal auditors /supervisors of MFIs);
- ✓ Social Performance Management(SPM)-Scope, Social Inclusion and Targeting Strategy, Gender &Youth Main Streaming Strategy, Tools and techniques of implementation and measurement of SPM, rating and monitoring, PPI Survey and livelihood promotion;
- ✓ Codes of standards and Fair Practices, Customers Protection, grievance redressing, Client Satisfaction and feedback;
- ✓ Micro Finance Services-Product development, Pricing mechanism, Appraisal of Credit, Quality of lending, NPA management, environment protection and sustainable development;
- ✓ Business Plan preparation, Budgeting and budget control, Profit Planning;
- ✓ Leadership Development, Motivation and productivity, Work environment, team building and
- ✓ Corporate Governance and strategic management.

RUFIP III will support AMFI for conducting training programmes on the above key areas and bringing about greater coverage and impact of the programmes. AEMFI could selectively assess the impact of the programmes .The programmes would cover Board /Committee members, CEOs, officers at different levels , and perspective trainers , depending on theme as per the TNA.

7.5 Special Channel for Programmes for Pastoral Regions

Considering the ongoing experience of AEMFI in implementing training and exposure programmes for pastoral regions and keeping in view the thrust of RUFIP III in minimizing regional imbalance, it would be in the fitness of things to open a channel of training and capacity –building for the officials /non-officials of these regions. About 15 programmes per year @ 20 officers per programme attending such programmes would be supported by RUFIP III to enhance skill and insight of the participating senior Officers of the pastoral regions, who would disseminate the learning down the tiers. The training modules, wherever necessary would be developed, enlisting the services of domestic consultants with support of RUFIP III.

7.6 Workshops/Seminars /Conferences:

AEMFI has been conducting seminars, workshops and conferences at various levels, on contemporary themes from time to time**.** RUFIP III proposes to support some of the similar events, proposed to be conducted by NBE e.g. Credit Guarantee mechanism, responsible finance, financial liberalization, branchless banking, agency baking, are mostly policy issues. Under RUFIP II, AEMFI was earmarked study and piloting of securitization of loans of MFIs, greening rural finance, survey of products and gap analysis. There should be mutual coordination and consultation between MFIs, NBE and AEMFI, so that there is no duplication of efforts and the regulator, regulating agencies and MF Association collaborate in such events. RUFIP III would support AEMFI in organizing some of the events, more focused on experience-sharing, dissemination of field study findings and emerging operational issues. However, AEMFI may approach PCMU for clearance of the proposed event with broad objectives, programme framework, coverage and possible outcome before firming up the event.

7.7 Exposure Visits:

Limited number of exposure visits by MFIs, particularly Board /senior management personnel of MFIs would be supported, primarily to study success full institutions and their best practices with in the country (inside the region and outside) for cross learning. The MFIs working in difficult regions and upcoming MFIs, which are showing the signs of better performance, would be prioritized for exposure visits. Need-based exposure visit overseas would be supported very selectively, for very senior level officials (mostly combined teams of GOE, NBE, RPCAs, FCA, MFIs and AEMFI). The exposure visits overseas should be purposeful and result in policy –making. The exposure visits would be aimed at policy options in digital finance, MFI- CB linkage, Micro insurance regulation and development, deposit insurance and institutional protection, transformation of MFIs to other category of banks, etc.

7.8 Studies and Research:

AEMFI will be supported for undertaking field –based research studies on emerging themes, e.g. impact of microfinance on livelihood of the poor, empowerment of women through group lending, Appropriate Financial and non-financial services by MFIs in pastoral region. The studies could be jointly conducted by domestic consultant, AEMFI research associates and MFI officials.

7.9 Knowledge Management(KM):

AEMFI is expected to play a critical role in knowledge and information dissemination for MFIs and their clients and over all public. The practice of bringing out annual review of MF sector has been discontinued since 2017. Website is also not updated and the performance and progress of members are not available in the website. AEMFI should bring out comprehensive review of the sector periodically-say every quarter. It should bring out monthly e - newsletter reflecting developments of the sector and best practices by MFIs. Case studies and success stories can be disseminated. RUFIP III would support AEMFI /its affiliated Companies (I) redesigning and updating websites, ii) bringing out e - newsletters in English and local languages and (iii) bringing out quarterly/annual review of the sector.

7.10 Certification System:

AEMFI has organized Certification programme in partnership with Frank Fort School of Management for certifying skilled professional trainers in the industry. The efficacy of the system should be assessed .Certification system should be comprehensive enough for certifying training institutions and professionals. AEMFI should work for introduction of Competency Certification System, besides introducing Professional Certification Courses for encouraging professionalization in MFI industry. **RUFIP III would support for exploration and piloting of suitable system of Certification.**

7.11 Financial Literacy /Digital Financial Campaign

AEMFI will be supported to organize Financial Literacy/Digital Literacy programmes onsite for the benefit of MFI clients. Financial literacy tools, Videos and television and radio programmes, awareness literature with a focus on these clients would be developed/ disseminated by them.

7.12 Social Performance Management (SPM):

AEMFI had initiated steps for popularizing SPM system in MFIs through training /sensitization programme. RUFIP III would support AEMFI and MFIs for institutionalization of SPM concept and policy framework, awareness –building, reporting and manual preparation. AEMFI would be supported for training and sensitization of MFIs

7.13 Staff Support, Office Infrastructure & Mobility Support:

AEMFI and its affiliates would need support for staff, their mobility, office equipment and IT tools to effectively participate in the project. In the context of similar support extended to it during RUFIP I and II, their expectations and emerging needs for effective implementation of the envisaged interventions , budget provisions can be provided for the following;

a) Remuneration for 2 specialist staff to be placed on long term in AEMFI/EIFTRI to be exclusively used for RUFIP III interventions;
b) A 4 wheeler vehicle to be exclusively used for impact assessment studies, training programmes , financial literacy interventions and monitoring interventions at the field level
c) Provision of Office equipment, IT tools and training tools for EIFTRI/ AEMFI.

The present staff position of AEMFI as also details of staff engaged in MIS project are given **Annexure VA and VB respectively.**

7.14 Relationship between AEMFI, EIFTRI & ETIFT:

The relationship between AEMFI, EFTRI and ETIFT should be clearly defined and the accountability of each of the agencies under RUFIP III should be spelt out. This would ease the implementation process, programme management and monitoring /reporting arrangements.

8. Summary of envisaged Activities with RUFIP III Support:

In view of the past record of accomplishment in RUFIP I and II, the core strength and potential of AEMFI, it should be entrusted with following role and functions in RUFIP III:

a. AEMFI should be supported to complete the implementation of MIS project, pilot test and replicate in all MFIs and steer the system to stabilize and operate on sustainable basis, so to enable the sector to reap all benefits. All technical, operational and training requirements would be addressed by ETIFT.
b. AEMFI/EIFTRI is envisaged to assume the role of an apex training and development institution of excellence at the end of the project, to become the nucleus of training efforts &would provide value added training services. RUFIP III would facilitate a study to carve out road map for its transformation .
c. AEMFI to undertake fresh TNA study in 2022 and accordingly prepare Training plan up to 2030. It is to encourage each of the members to undertake TNA periodically in future and making training policy and plan as a part of corporate strategy.

d. RUFIP III would support faculty development within AEMFI/ EIFTRI through TOT programmes so to have specialized faculty in 6 core areas identified and these faculties, apart from organizing training programmes (15-20 programmes in a year) on prioritized themes identified would undertake TOT for 1-2 identified potential faculties in each of MFIs.
e. A special channel will be opened in AEMFI/EIFTRI to organize 10-15 special programmes annually (both onsite & offsite), especially for pastoral regions.
f. RUFIP III will support AEMFI (as also NBE) for organizing seminars/workshops/conferences. While NBE would be undertaking such events primarily for policy –oriented themes, AEMFI on sharing field experiences/studies Operational &strategic issues. NBE, AEMFI and MFIs should have mutual consultation and collaboration for identifying /firming up issues and organizing the programmes. AEMFI is to approach with relevant details (theme, programme contents and outcome) PCMU before finalization. Same approach should be taken for conducting studies on identified themes.
g. RUFIP III would support exposure visits, primarily with in the country, for upcoming MFIs and those working in difficult regions, with a view to having cross learning of the best practices in MF sector. Exposure visit overseas will be very limited and would be for policy exploration and be confined to the combined team of senior officials representing all agencies-GOE, FCA, AEMFI and NBE.
h. AEMFI will be supported to play greater role in Knowledge management and information dissemination. It has to revamp and update data /information regularly in its websites. It has to bring out comprehensive review report on MFIs on quarterly and annual basis. It has to compile case studies/success stories and circulate in e - newsletter in English and local language . It has to conduct field studies on the impact of microfinance on livelihoods of the poor households.
i. AEMFI has introduced Certification of Trainers' System in collaboration with Frankfurt School of Management. The certification should be broad based to cover all professionals and all training institutions. The efficacy of the system should be assessed before replication. Alternatively, other systems would be explored.
j. AEMFI would be supported for conducting financial literacy/Digital Literacy programmes for the benefit of MFI clients in various regions. They would be required to develop innovative financial literacy tools, radio/TV programmes in local language and focus in difficult regions.
k. AEMFI would be supported for accelerating implementation of SPM practices in MFIs
l. AEMFI will be given limited support for IT tools, office equipment, placement of specialist staff and mobility for furtherance of RUFIP III interventions.

The list of various capacity-building interventions for AEMFI, MFIs and Clients to be supported under RUFIP III is given as **Annexure VI.** The estimate budget for TA for the purpose is 7.8 USD M $. The details of budget (Physical and financial) under each of the interventions year-wise from 2020 to 2025 have been computed and given in an excel sheet separately.

9 .Outcomes expected of the supported interventions:

- ✓ Transformation of AEMFI to Apex institution of excellence;
- ✓ Development of Core Faculties with in AEMFI and a pool of faculties in identified disciplines;
- ✓ Stabilization of MIS in all MFIs;
- ✓ Training intensification in pastoral regions;
- ✓ Popularization of Digital Financial Services;
- ✓ Periodic Review of MF sector;
- ✓ Strengthening of prudential regulation, supervision, audit, risk management ,rating and governance and self- regulation;
- ✓ Social Performance Management, Customer protection and social targeting get sharper focus

- ✓ Financial Literacy campaign intensified
- ✓ Certification System in place’
- ✓ Financial Inclusion gets boost

Annexure I:
Status of EIFT and EFTRI
1.1 Ethiopian Inclusive Finance Technology (EIFT):
Ethiopian Inclusive Finance Technology as a Share Company was established in 2014 to provide ICT and related technology services to financial institutions in general and microfinance institutions in particular. The company was first initiated by the Association of Ethiopian Microfinance Institutions (AEMFI) and five bigger Regional Microfinance institutions in the country (ACSI, ADCSI, DECSI, OCSSCO, and OMO) and later on joined by other MFIs. The mission is to provide and facilitate ICT and related services which enable the MFIs to contribute their part to the growth and transformation plan of the country.

1.2 .Major Functions:

- ✓ Facilitation of Agent &Mobile Banking
- ✓ Implementation and management of Shared Service Centre;
- ✓ Linking MFIs with Centralized Credit Reference Bureau;
- ✓ Software Development to meet diverse needs of MFIs
- ✓ To support core banking system of MFIs in Ethiopia.

1.3. It is associated with technology-service providers and programmes .e.g., ICT PLC, AFDB, Safety Net Programmes, Mjobs, Delaphone Technology Ltd

2.1 **The Ethiopian Inclusive Finance Research and Training Institute (EIFTRI)**
It was established by AEMFI as income generating wing of the Association. It is fully owned by AEMFI. Cognizant to the human capital development limitation in the country, AEMFI had established the Ethiopian Inclusive Finance Training and Research Institute in order to fill the existing gap. Its building is located near AEMFI. The building consists of offices, training rooms and bedrooms for trainees/visitors; EIFTRI is providing its short term training programs at its own building. It has plans to introduce professional courses and certification programmes. It aims to "to support the inclusive finance sector with all the necessary skills and knowledge by greatly contributing to the development of human capital and economic growth of the country".

2.2 Core Activities

- Training
- Research
- Fund Raising and Management
- IT support for MFIs
- Knowledge Management- Resource Center

3. Relationship between the Organizations:

- EIFT is a separate company established by MFIs with their shares. Hence, it is a share company working on technology related matters to finance. As a technology company after the completion of the MIS project being handled by AEMFI under the RUFIP it will be transferred to EIFT. For this purpose, a MoU is to be executed between AEMFI and EIFT. Otherwise, in terms of personnel it has no relation with AEMFI.

- With regard to EFITRI, it is a research and training institution established under AEMFI It is .working as a business entity. It has the same board but different staff members as it requires different professionals unlike the AEMFI staff who are more facilitators and managers. As a training and research unit under AEMFI, its resources are being strengthened. They have the plan to promote it so to conduct training even in diploma and above levels.

Annexure II

Association of Ethiopian Microfinance Institutions (AEMFI)
MFIs and AEMFI

Summary of Budget for activities under RUFIP_II

2013-2019

Activities	**Budget**	**Remark**
Improvement of MIS		
Technical Equipment and Software	2,92,02,040.00	
Sub total	***2,92,02,040.00***	
Human Resource Development		
Board Level Training	36,27,000.00	
Top management training	36,81,000.00	
Middle level management training	40,50,000.00	
Lower Level Management Training	65,82,000.00	
Training manual preparation and revision	12,00,000.00	
Subtotal	***1,91,40,000.00***	-
Research and Knowledge Management		
Specific Studies		
Survey of products & gap analysis	39,60,000.00	
Study and piloting of securitization of loans of MFIs	10,00,000.00	
Greening Rural Finance	10,00,000.00	
Subtotal	***59,60,000.00***	-
Financial Literacy Support		
Consultancy and ToT for Financial Literacy	5,80,000.00	
Financial Literacy Media	12,81,200.00	
TOT Costs	1,60,000.00	
SPM Scaling up	6,00,000.00	
Sub Total	***26,21,200.00***	-
Knowledge management		
Knowledge Management	13,00,000.00	
Sub Total	***13,00,000.00***	-
Strengthening AEMFI		
Strengthening AEMFI-Launching EIFTRI's short term certification or shorter term training programmers	12,60,000	
Computers, desks and printers	2,17,800	
Enhanced Mobility-Vehicle	25,00,000	

Short term and long term Consultant	33,12,000	
AEMFI Staff Salary (Long Term High Level local consultant)	1,51,20,000	
AEMFI Staff training	,00,000	
Sub Total	***2,32,09,800***	***0***
Grand Total	**8,14,33,040.00**	**-**

Annexure III
A List of Courses, Target Groups, Duration & No. of Participants (with gender segregation)

S. No	Course	Date	Target Group			No. of Participants
				Male	Female	Total
1	Training Workshop on CT & LA Tech	May 21-23, 2018	Board and High-level managers	21	5	26
2	Refresher Training on SPM, PPI and Client Protection/Responsible Finance (SPM merged here)	May 24-26, 2018	Board and High-level managers	21	2	23
3	Corporate Governance and Strategic Management	May 30 - June 1, 2018	Board and High-level managers	12		12
4	Risk Management and Compliance for MF	May 14-16, 2018	Board and High-level managers	13	3	16
5	Leadership and Team Building	May 17 - 19, 2018	Middle level management	27	2	29
6	IFRS-1st round	May 7-16, 2018	High-level managers	32	12	44
7	IFRS-2nd round	May 21-26, 2018	Middle level managers and officers	34	4	38
8	The Role of MFIs and Financial Inclusion	June 4-5, 2018	Board and High-level managers	9		9
9	Financial Performance Analysis	June 11 - 13, 2018	Middle level managers			
10	Internal Controls	June 18-20, 2018	Supervisory and middle level management	36	8	44
11	HR Planning and Development	June 25-27, 2018	Supervisory and middle level management	16	4	20
12	Micro Insurance	June 4-6, 2018	Supervisory and middle level management	6		6

13	Business Plan Preparation	June 4-7, 2018	Supervisory and middle level management	21	1	22
14	Entrepreneurship	June 11-13, 2018	Supervisory and middle level management	5		5
15	Financial Inclusion and Basics of MF	June 18 - 20, 2018	Supervisory and middle level management	12	3	15
16	Customer Services in MFIs	June 21-23, 2018	Supervisory and middle level management	7	1	8
17	IFRS-3rdround	June 4-9, 2018	Middle level managers-operation	32	13	45
18	Strategic management/Adav Leadership	June 25 - 27, 2018	Board and High-level managers	7	1	8
	Total			**311**	**59**	**370**
	Ave. participants per training					21

Annex IIIB:
List of Courses, Target Groups, Duration& No. of Participants

S. No	Course	Date	Target Group	No. of Participants
	First Round Training			
1	Strategic Management	Jan 22-24	Board and High-level managers	22
2	Inclusive Financial Service	Jan 25-27	Board and High-level managers	16
3	Corporate governance	Jan 29-30	Board and High-level managers	19
4	Risk Management and Compliance	Feb 1-2	Board and High-level managers	19
5	Risk Management and Compliance	Feb 5-7	Board and High-level managers	17
6	Strategic Management	Feb 5-7	Middle level management	19
7	Management Information System	Feb 5-7	Lower level management	16
	Sub Total 1st Round Training			**128**
	Second Round Training			
8	The Role of MFIs in Financial Inclusion	Feb 12-13	Board, High level management, managers and officers	15
9	Product development	Feb 12-14	Middle level management	14
10	Business plan preparation	Feb 19-22	Supervisory management	17
11	Financial Literacy	Feb 19-21	Supervisory management	17
12	Saving Mobilization	Feb 26-28	Supervisory management	22
13	Internal Control	March 5-7	Lower level management	23
14	Credit Operations & Risk Management	March 12-14	Middle level management	13
	Sub Total 2nd round training			**121**
	Total			249
	Ave. participants per training			18

Annexure IV:

Focus Areas of Training Programmes Developed, based on TNA

Based on the TNA, the following are the major focus areas of the training program for the different levels of management by EIFTRI:

For the **Board of Directors management level**

- Risk Management and Compliance for MFIs*

For the Top Management level

- Strategic Management*
- Risk Management and Compliance*
- Inclusive Financial Services*

For the Middle Management Operation level

- Strategic Management+
- Credit and Operation Risk Management*
- Operations Management and Control+
- Electronic Banking+

For the Middle Management-Support level

- Motivation and Work Culture Management+
- Performance Appraisal+
- Management Information Systems+

For the Lower Level Management –operation level

- Customer Service for MFIs*
- Saving Mobilization*
- Islamic Finance*
- Team building and Time management +

At the Supervisory Management- Support Level

- Recruitment and selection+
- Saving Mobilization*
- Credit processing & management+
- Marketing of financial services+

For the Officers and Other Employees: Support level

- Islamic finance*
- Internal control*
- Computerized accounting system+
- Motivation and Team building *

For the Entry Level Employees: Operation-level

- Saving mobilization*
- Credit processing & management+

- Marketing of financial services+

For the Entry Level Employees: Support-level

- Financial Inclusion and Basics of Microfinance*
- Business Plan preparation *
- Microfinance Services in Ethiopia+
- Customer service in MFIs*

Notes:
* = denotes those existing training modules that will be **reviewed and revised**. These are a total of **16 focus areas.**
+ = denotes those training modules that will be **developed**. These are a total of **14 focus areas**.

Annexure VA:
Staff Position of AEMFI

ASSOCIATION OF ETHIOPIAN MICROFINANCE INSTITUTIONS (AEMFI)

Serial No	Designation	Number
1	**Executive Director's Office**	
1.3	Admin Assistant	1
	Sub Total	**2**
2	**Program Team**	
2.1	Program Manager	1
2.2	Financial Performance Monitoring Officer	1
2.3	Rural Finance & Food security Officer	1
2.4	SACCO Officer	1
2.5	Micro & Small Enterprises and Value Chain Officer	1
2.6	MIS Officer	1
	Sub Total	6
3	**Social Performance Team**	
	Social Performance Manager	1
4	**Finance and Administration Team**	
4.1	Admin and Finance Officer	1
4.2	Accountant	1
4.3	Driver/Purchaser	1
4.4	Security Guard	5
4.5	Office Assistant	1
	Sub Total	9
	Total	18

ANNEXURE VB
ASSOCIATION OF ETHIOPIAN MICROFINANCE INSTITUTIONS (AEMFI)
Staff Position

Shared MIS Project under RUFIP II programme
Staff list

S.No	Job Titles	Staff
1	Project Manager	1
2	Business team leader	1
3	Technical team leader	1
4	System & Network Admin.	1
5	Process Analyst	2
6	Data- base Administrator	1
	Total Staff	7

Annexure VI:
TA Interventions for capacity-building of AEMFI,
MFIs and their Clients

Institution	Theme	Intervention	By whom
ETIFT/AEMFI/MFIs	Improvement of MIS in MFIs	hardware and software development; training and capacity-building, development of Data Centre	Service provider engaged by AEMFI/ETIFT/AEMFI
MFI/ pastoral MFIs	Human Resource Development for MFIs	Training on identified themes relevant to RUFIP III, ToT (for trainers from MFIs), training module preparation, workshops and seminars. Special Chanel for Pastoral Region on identified themes (onsite and offsite)	EFTRI /Service provider/consultants
AEMFI and MFIs	Research and Studies	Studies on identified themes(4)	Service providers/ national and international consultants
Board of Directors and General Managers , Managers of all MFIs , including pastoral MFIs and top officials of policy-making institutions (overseas)	Learning Best Practices ,policy-making and strategic interventions	Exposure-study visits with in Ethiopia and overseas- special programmes for Pastoral regions, Impact studies	AEMFI with support of MFIs and Consultancy/development institutions
MFIs	Social performance management	Manual Development and training	AEMFI &Service Provider identified
Clients/user institutions ,particularly MFIs	Financial Literacy Campaigns	Literacy programmes, documentary films, radio programmes, publications, regional/national/international conference(4) for awareness-building, Knowledge management	AEMFI and service providers/agencies identified
AEMFI	Strengthening AEMFI	EFTRI certification programmes, study, trainings, TNA study ,Institutional development for upgrading EFTRI as an apex institution of training for MFIs, upgrading and maintaining websites of AEMFI and EIFTRI, *supporting long and short term consultants for various interventions*	National level technical service providers

PART II-Component 1.2 Improving capacities, Systems and processes in financial Cooperatives:

1. **Federal Cooperative Agency (FCA) - Initiatives& contributions:**

FCA has been a key partner in implementation RUFIP I and II since its inception. FCA was created under Proclamation in 2002 with developmental, supervisory and regulatory powers with respect to cooperative sector. It has been an effective link with the cooperatives in the Regions, Zones, and Weredas, which are governed by regional statutes. FCA has been member of the Steering Committee, Project Management Committee, Sub-Committees, & thereby, facilitating resolution of issues of all regions under RUFIP II.FCA implemented twinning arrangements with Irish League of Cooperative Unions Federation(ILCUF) ,which conducted a series of studies , on all important aspects of functioning, regulation, supervision and development of Financial Cooperatives had made important recommendations. The training programme modules, documents, manuals and toolkits prepared by ILCUF through the studies are helpful for capacity-building of personnel of financial cooperatives. The very participation of officials of FCA, RPCAs, Credit Unions and RUSACCOs for more than 2 years had provided considerable insights and exposures to the participating officials. FCA ,RPCA and financial cooperatives improved the data-base and reporting system, enabling them to prepare their Institutional Annual Work Plan and Budgeting(AWP&B) , applying for credit and grant in the prescribed manner. The periodic training of auditors, inspectors and supervisors did improve audit, inspection and supervision process to a certain extent. The establishment of separate Directorate in FCA and RPCAs for Financial Cooperatives brought the financial management and governance of RUSACCOs and Unions in to sharper focus. FCA started implementing from 2017, MIS project for RUSACCOs and Unions through a service provider. The MIS project involves MIS customized for 40 selected Unions along with training for the Union operational staff. The project financially supported positioning of two staff at Wereda level, thereby strengthened monitoring and mentoring RUSACCOs' working, to a certain extent. Further, mobility of staff at Wereda, Union, RPCA and FCA levels with the provision of motor cycles and four wheelers with project funding helped in monitoring and guidance down the tiers. Support was provided to eligible stakeholders with IT infrastructure (laptop, computers). Above all, liquidity support was provided to RUSACCOs and Unions during the project.

2. **Organizational Restructuring**:

It was provided in the RUFIP II design report that a "review of the organization of rural financial cooperative department at Federal, Regional, Zonal and Wereda levels should be made, advising on structuring the department with adequate terms of reference and functions, staffing patterns, etc for supporting a stable, sound and sustainable rural financial sector that would be a well functional rural financial subsystem in the Ethiopian rural financial markets". FCA had conducted study on Business Process Engineering (BPR), bringing out revised organizational structure, staffing pattern at FCA level and other levels in the regions and estimating staff at various levels. FCA had accordingly effected organizational restructuring, bringing about creation of separate Financial Cooperative Directorate within FCA, to give focused attention to Financial Cooperatives. It was to ensure that similar organizational arrangements need to be put in place in all regions. However, separate architecture for audit, inspection and supervision has not been created. Audit, inspection and supervision continued to be attended by the same staff for other kinds of societies including multi-purpose societies. *Under RUFIP III, the follow up action for separating Financial Cooperatives in FCA departmentation in terms of audit, inspection, and supervision from other cooperatives – dedicated arrangements in terms of HR for regulation, audit and accounting would be pursued*. A feasibility study, if needed may be supported under RUFIP III. Present Organogram of FCA is given in the Annexure I.

3. Twinning Arrangements with ILCUF:

Under RUFIP II, the twinning arrangement with Irish League Cooperative Union Federation (ILCUF) was implemented, which culminated study of various important aspects of policy, regulation& supervision, capacity-building and financial services. ILCUF had brought out 19 study reports ,covering (i)Accounting Manual,(ii) Introduction to SACCCOs (Part I &II),(iii) Book-keeping Manual,(iv) PEARLS ratio,(v) Internal Audit (vi) External audit ,(vii) Credit Management &Loan Officer Manual , (viii) Governance ,(ix) Financial Product Development and (x) Training of Trainers(ToT). They had conducted the Training Need Assessment (TNA) at the levels of FCA, RPCAs, Credit Unions and RUSACCOS. They had also looked at regulatory and supervisory systems and organizational structures. As these study reports were brought about from latter part of 2015, FCA had started examining and internalizing the findings, during the subsequent years from 2015.ILCUF has been working with FCA to assist the Organization in choosing and developing institutional arrangements for strengthening RUSACCO movement, based on the studies. ILCUF is currently engaged in the pursuit of setting up of national and regional federations and related aspects. *Under RUFIP III, FCA's twinning arrangement with ILCUF may be supported for initial 2 years to implement need-based interventions and to conduct studies in the new and emerging areas.*

4. Training Need Assessment (TNA):

TNA study (2015), which was conducted in Tigray, Amhara, Somali, Oromia and SNNPR regions by ILCUF under the twinning arrangements with RUFIP II support had identified and prioritized several important needs of staff and management at various levels. The areas flagged for training included (i) Book-keeping ,accounting &financial management (ii) PEARL, Risk management, (iii)Governance, regulation and cooperative principles,(iv) accounting, audit, inspection &internal control,(v) Savings promotion and credit management,(vi) Business planning ,sustainability and budgeting ,(vii)MIS and IT ,(viii) Micro insurance &(ix) Social Performance Management(x) System Development. The study had identified several constraints in delivery of training, which included staff turnover, lack of appropriate training material, training personnel, logistics, budget/funding and prioritization by supporting institutions. The constant changes in trainees due to staff turnover and changing Boards/Committees added to the need for reinforcements of training and mentoring. The study emphasized training programmes for (i) Acquiring Basic Competencies (ACB), (ii) Continuing Professional Developments (CPD) and (iii) Minimum Competency Requirements (MCR). The study had focused the needs of various instruments of capacity-building-(i)institutional training,(ii) Training of Trainers,(iii) On the Job training(learning by doing),(iv) Coaching and mentoring, (v) Exposure visits &experience- sharing (vi) Communication skill (vii) Competency transfer(learning through peers),(viii) Repeat/refresher programmes. Although certain follow up training efforts have been taken by FCA, with the support of ILCUF, much more needs to be done for developing appropriate training policy, systems and strategies, designing suitable training plans, implementing programmes effectively and evaluating the impact of the interventions. Other modes of capacity-building and Knowledge Management (other than classroom training) have not been adequately tried. *Under RUFIP III, some of the related interventions, which make the capacity-building more sustainable, may be supported. Since TNA was undertaken in 2015 under RUFIP II and TNA is being undertaken with support of Improving Rural Finance Inclusion Through Cooperatives (IRFITCO), a fresh TNA can be supported in 2022. A system may be developed for annual updating of TNA by FCA/RPCAs through structured feedback in online mode. As and when the national /regional federations are set up, they can institutionalize it, on a systematic basis.*

5. Training Infrastructure & Building of apex/regional training institutes of excellence:

Training is supported by a National Training Coordinator at the FCA level and is supplemented by Regional Training Coordinators in several regions (e.g. Amharic, SNNPR, and Somali).All the training programmes supported under RUFIP II were organized at FCA, regional, Zonal, Union and Wereda levels by the officials (designated as subject matter experts) of FCA, RPCA at regional and zonal levels. They train staff at the Zonal and Wereda levels and are primarily responsible for on-going capacity-building support to the RUSACCOS and Unions**.** Training infrastructure at the decentralized levels is, however, weak. Development of Faculties / professional master trainers at the grass root level is the major challenge. Sometimes, faculties from the academic institutions are invited as guest speakers. ARDAITA, which was expected to assume as an institute of excellence to provide leadership role in terms of designing, planning, developing and adding values has not been involved in training efforts for financial cooperatives. They do not have any channel for financial cooperatives or expertise for the financial cooperatives. ARDIATA has the potential in terms of infrastructure, but they have limitations and have not been built up on federal pattern, so to have decentralized units in regions for training delivery. AEMFI is totally dedicated to MFIs and has limitations. Ethiopian Institute of Financial Studies (EIFS) is devoted to banking and other NBE regulated entities totally .An institutional design with decentralized training outfits in regions is necessary for sustainable capacity-building interventions for financial Cooperatives. Instead of carrying out of capacity-building interventions on ad hoc basis, institutional architecture for capacity-building of all stakeholders, on a sustainable basis, for the financial Cooperatives segment should be evolved/ set up at the national and decentralized levels. The current efforts for setting up of the national and regional federations are intended to fulfill the need for suitable training institution(s) for delivery of value added training services, on a sustainable basis. Proposed federations are envisaged to be technically and financially equipped to meet liquidity, training, information and policy advocacy requirements of the sector. Considering the magnitude of training programmes and other types of capacity –building interventions undertaken, ideally one training institution at the national level and one each at the regions should be set up to ensure quality standards . *If those kind of institution-building efforts are planned and executed, a training certification system, based on the Indonesian and Indian models can be piloted, with the support of RUFIP III.* The joint Bank Indonesia, Ministry of Finance and the then GTZ programme on Promotion of Small Financial Institutions (PRoFI) had, as part of their efforts to support the development of a sound and viable microfinance sector in Indonesia, had established a capacity-building scheme, the CERTIFF system. It was very successful. Based on that learning,Centre for Professional Excellence in Cooperatives (CPEC) was set up in 2009 ,with GIZ support, in Bankers Institute of Rural Development (BIRD),India (www.birdcpec.in)to streamline the training system in Cooperative Credit Structure(CCS), which would ensure availability of professional staff with Cooperatives ,for efficient delivery of banking and financial services .Introduction of the system for professionalization of CCS and Certification process is conceptually a part of overall training strategy visualized for sustainability of cooperative reform programme in India. *A brief note on the concept, modus operandi and the benefits of CPEC is given in Annexure I .The institution can be further studied through exposure-study visit through RUFIP III support. While RUFIP III would support setting up of any exclusively SACCO- led federations at the national and regional levels, which serve as institution of excellence for training and development, until such institutions are set up and made operational, FCA may identify suitable service provider to assume leading role in training plan and its implementation by a twinning arrangement as suggested in earlier paragraph.*

6. National Financial Inclusion Strategy (NFIS) and Financial Cooperatives:

Ethiopia had adopted National Financial Inclusion Strategy framework (2015-20) in 2015 and had set various benchmarks and strategies to achieve the committed targets. It has been member of AIFE and has been to signatory to Maya Declaration. In 2014, it was estimated that 78% of the population are financially excluded and under NFIS, it had, therefore, set a target to reduce the exclusion level to 60% by 2020. Although financial cooperatives facilitate financial inclusion through their credit, savings and insurance services and they are statutorily regulated and supervised by FCA/RPCA, their progress in this direction is not computed for financial inclusion as they are not deemed as regulated entities. To quote NFIS document," Moreover, there was about 18000 Savings & Credit Cooperative Societies, spreading throughout the country, mainly rural areas. The number of accounts held by the members of Savings & Credit Societies, which is estimated to be around 1.8 million was not computed in this figure, but will be considered for the purpose of monitoring and follow up of financial inclusion level, as data about the sector become more reliable." *While RUFIP III would support strengthening of* *regulation & supervision of financial cooperatives and also its data-base/MIS, as a policy advocacy measure, FCA should take up the issue at appropriate level for the sector's inclusion in NFIS data and support mechanism.*

7. capacity-building Projects–Support Synergy from ATA & other Agencies:

Agricultural Transformation Agency (ATA) has been implementing a RUSACCO sector capacity-building programme with support of FCA and UNCDF and has drawn a 5 year road map in 2015. The project has 6 components ,e.g. (1)Business Area and Production Promotion,(2) capacity-building diagnostic framework,(3) Other priority Strategic interventions, (4) Policy and Regulatory enhancement (v) Preparation of road map for implementation of governance and management &(6) Monitoring and evaluation. They had estimated US $ 21-27 million for most priority intervention and additional US$ 7-10 million for other priority interventions. The broad objectives of their project are as under:

a) Business area and product promotion to quickly enhance the products and services offered by RUSACCOs;
b) Roll out of a standardized capacity-building (i.e. diagnostic and inventory prioritization) programme to plan, prioritize and coordinate capacity-building efforts with individual RUSACCOs and drive collection of data for regulatory oversight activities;
c) Prioritize strategic interventions for government and other partners to execute programmes to rapidly build sector capacity;
d) Strong implementation of governance and management by FCA and associated parties to drive change in the sector, and
e) Monitoring & evaluation of the road map implementation.

In view of the commonality of thrust in capacity-building, there should be coordination between RUFIP III and ATA's capacity-building efforts, so that there is no duplication. It is reported that they are working in five regions (e.g., Oromia, Tigery, SNNP, Somali, and Afara).

Notwithstanding the broad objectives, their main focus is identifying capacity gap and prioritizing intervention areas. NGOs like Self Help Africa works with SACCOs in capacity-building interventions. Agra Tera has interventions, but very limited in scope. In PCDP, HBAP, etc. programmes have interventions related to capacity-building of RUSACCOs.

RUFIP III may coordinate with all donor-driven /private sector- led projects / ATA having bearing on capacity-building of financial cooperatives, for possible synergy.

8. Preparing/ implementing a comprehensive Cooperative Development Policy and Strategy:

There is no consolidated and comprehensive policy document for cooperative sector including financial cooperatives. FCA was in the process of collecting /consolidating scattered policy documents for ease of reference and substantiation. As policy frame –work should precede the strategy formulation and statute -making, a comprehensive and forward-looking policy frame- work for Cooperative Development for the country should be evolved and all regional authorities should be persuaded to adopt the same, with necessary modifications as per local requirement. *It would be more appropriate, if they could evolve separately financial cooperatives development policy (2020-25), through a consultative process with all stakeholders.*

9.* Consolidation of Unions & RUSACCOs*:

During the 16 years of RUFIP I & II, RUSCACCO movement has reached new heights in terms of number (12263 RUSACCOs & 124 Unions) with client base of 1 million. The strategy under RUFIP III would be strengthening of the existing RUSACCOS/ Unions, with sustainable viability, prospects of greater business scale, diversification, profitability and social performance. *In that context, the various studies, policy& product explorations, HRD, customer's education, digital infrastructure and funding support would be facilitated under RUFIP III. Strengthening of regulatory and supervisory arrangements would be supported. It would be worthwhile to look at capacity-building intervention strategy undertaken and lessons learnt under IFAD's PROFIRA project in Uganda .The Status and Risk Assessment of institutions is essential for their proper capacity –building intervention . The gist of background and learning is given in the box below:*

BOX: Capacity Development Approach in Uganda under PROFIRA:

After many years of consultation and negotiation, Ugandan Parliament had passed Tier 4 MFI and Money Lenders Act in 2016. Under the Act, Micro Finance Regulatory Authority (UMRA) had been set up. UMRA's role is to bring greater financial discipline and prudential behaviour to Tier 4 institutions by way of addressing the problems of collapse, dormancy, fraud and mismanagement that have bedeviled SACCCO sector in particular and undermined public confidence. In Uganda like growing number of countries, has adopted legislation to integrate SACCOS in to formal financial sector as licensed, prudentially supervised financial institutions. Under IFAD's Project for Financial Inclusion in Rural Areas (PROFIRA), systemic risks in the SACCO sector can be gauged from the level of PAR, OSS, and governance and business volumes. SACCOs are classified under A, B and C with no current risk, one risk, and two or more risks respectively. Under the project, the service providers (SP) are providing Credit &Default Management (CDM) and six other packages of training. Within purview of the Standardized Training Module, residential and online training programmes have been evolved and implemented. Under the Residential –Onsite programmes , issues like(i) financial management ,(ii)savings and other product development and (iii),strategic planning are covered ,while under the Online programmes , (i):Financial literacy (ii) Governance and Business Development Skills are imparted. Under the project , it has been learnt that the capacity-building could ,indeed ,strengthen sustainability and growth in SACCOS that are already at a reasonable level of sustainability .Such results ,on the other hand ,may not be realized for SACCOS that are having difficulty covering their cost and their recovering their loans . The status and risks of the institutions need to be assessed. Their experience demonstrates that it cannot be assumed that all SACCOS can be benefited without initial assessment of their readiness to respond to training and extent to which they must prioritize resolving critical risks. The further details of background and progress are given **in Annexure III.**

10. Training & capacity-building Advisory Committee:

Considering various strategic interventions suggested/supported for training and capacity-building of HR of the FCA system under TA component and also Credit support to be made available through Unions for financing RUSACCOs for on lending to members, it is suggested that a standing Training & capacity-building Advisory Committee (TCAC) may be constituted by FCA with the following objectives and members. National Training Coordinator may be the convener of the Standing Committee:

1) Director , FCA, Chairman
2) Director, Ethiopian Institute of Studies, BE
3) Director , ARDITA
4) Executive Director, AEMFI
5) 2 RPCA Directors (by rotation)
6) Professor of Cooperative Banking , Addis University
7) National Training Coordinator, Convener
8) The Service Provider, special invitee

Objectives:

A) To review the progress , trends, and impact of various capacity-building interventions ;

B) To guide FCA and other partners for value additions and qualitative improvement of the programmes;
C) To suggest changes in strategies of implementations & contents of the programmes, based on studies and feedback;
D) To discuss the findings of the studies conducted for policy development and designing training modules ; and
E) Any other matter relevant to the above

11. Capacity-building support for Cooperatives-Summary

Under RUFIP II, technical assistance was provided for training and capacity –building of all key officials involved in policy- making, promotional activities, regulation, supervision, audit and governance. *Under RUFIP III, in the light of expansion and growth of Unions & RUSACCOS, focus would be laid on consolidation of the existing institutions and enabling them to have competitive advantage to serve the target people in rural areas. They should be sustainably viable. All RUSACCOs and Unions would be classified under business parameters including audit class, business volume, profitability and clients served. capacity-building support would be available under the existing programmes with a new orientation, exposure visits, conference/workshops, for limited persons. Mentoring, guidance, feedback, reporting etc., would be facilitated through improved MIS and online communication. However, new and emerging areas would be studied and training strategies redrawn, besides financial literacy for members. The focus would be laid on quality and effectives of interventions, training of trainers, training infrastructure development, feedback and impact assessment, training certification, standardization of training institutions. For FCA, RPCAs, Unions, and RUSACCOs, training of supervising officials, auditors, accountants, policy -making officials including Board of directors would be covered under Supervision & regulation Component. The critical areas like training certification system, budgeting profit planning, Business Continuity Planning (BCP), risk management, internal control, SPM, governance enrichment, new products and services (, e.g. Micro insurance, digital financial services, linking with informal group, agency service, value chain financing, , financing pastoral communities , women and youth , customer protection, codes of standards and fair practices and financial inclusion) would be focused in training interventions. Appropriate Financial literacy for members would be supported. Studies would be conducted to explore the possibility of integration of RUSACCOs/Unions with payment system, credit reference bureau, etc.*

Accordingly, the TA of11.5 M US$ for various capacity-building interventions have been envisaged under RUFIP III as given in the Annexure II. The details of budget (financial & physical) for each of the interventions year –wise for the project period have been calculated and given a separate excel sheet in the prescribe proforma.

Annexure I:

Centre for Professional Excellence for Cooperatives (CPEC) - An overview

Creating a cadre of professionally competent persons in the Cooperative credit institutions, ensuring institutions' adherence to basic banking principles and developing Human Resources capabilities for business development and diversification were major challenges before the cooperative credit structure in India. To address these challenges, a Centre for Excellence for Cooperatives (CPEC) was set up in Bankers' Institute for Rural Development (BIRD), in India. CPEC was established with technical assistance of NABARD-GIZ-Rural Finance Institutions Programme (RFIP), on the lines of the Indonesian experience. BIRD is an institution of training excellence set up by National Bank for Agriculture for Rural Development (NABARD), which is the apex development bank of the country, dedicated to integrated rural development. After closure of NABARD-GIZ –RFIP from 2015, CPEC continues to function in BIRD.

The broad objectives of the institutional architecture of CEPEC were as under:

Objectives:

- To develop system to standardize and accredit the decentralized training system, leading to quality standard for training and course curricula ;
- To encourage professionalism in the individuals in Cooperative Credit Institutions and develop building of professional competence in the sector ;
- To put in place performance –oriented staff and management in the institutions;
- To develop process of accreditation of training institutions, put in place certification of courses ,programmes and cooperative professionals, and
- To coordinate training efforts of Cooperative Training Institutions (CTIs)' in the decentralized cooperative training system.

Strategic Interventions:

a) It extends accreditation to training institutions, which ensure desired standards of training and conform to the parameters of accreditation, developed by it.
b) It has instituted a system of Certification of professional competencies of Trainers / Cooperative Staff and Officials and students. It conducts examinations for certification.
c) It facilitates preparation of standard training materials, study kits. It conducts studies, research, Training Need Assessment (TNA), Consultation meets, seminars and conferences for designing training courses and materials.
d) It has finalized several training modules, study kits, examination patterns, rules and regulations for trainers' certification. It has developed Certified Trainers for financial Cooperatives, Certified Cooperative Bankers, Certified leaders and Secretaries of Primary Agricultural Cooperative Societies (PACS).
e) It has developed Distance Learning Programmes for perspective candidates and also has been conducting examinations for trainers of member institutions, employees and open candidates. It has set enrolment process for institutions and individuals and specified passing criteria for various levels of examinations. The papers cover (i) Accounting and Audit, (ii) Business Management, (iii) Bank Management, (iv) Indian Economy and Cooperative Credit System.
f) CPEC has evolved specialized training programmes for Chief Executive Officers (CEO) and senior executives covering management, governance, business planning and development.
g) It conducts Training of Trainers (TOT) programmes regularly. It also assesses continued adherence to parameters by the accredited training institutions through periodic reports, visits and verification.

Thus, CPEC is dedicated to encouraging professionalism in the Short Term Cooperative Credit Structure in India.

Annexure II:

TA for capacity-building of RUSACCOs/ Unions/ FCA and RPCAs

Institution	Theme	Intervention	By whom
RUSACCO/ Union/ FCA	capacity-building of RUSACCOs and Unions	TOT, Exposure Visit, Refresher training	Internal experts of FCA,RPCAs and institutions identified
RUSACCOs & Unions &their members	Financial Literacy	Awareness cum Training	Subject matter specialist /Trainers from RPCA / identified agency
RUSACCO &Unions	Customer Protection	Awareness cum Training	Identified Agency
RUSACCO &Unions	Social Performance Management	Awareness cum Training	Identified Agency
FCA RUSACCOs/ Unions	Impact assessment studies	Studies	Service Provider
FCA and RCPA	Development of Policy and strategy , learning best practices	Exposure visits - Internal and Overseas, Conferences and workshops	Service provider to be identified and engaged under a twinning arrangement
FCA and RCPA	Product development and Policy= New financial services and products; digital financial service, deposit guarantee schemes	Studies and preparing policy and operational framework	Service Provider (s)
	Institutional Development		
RUSACCOs	IT Infrastructure	Hardware and Software Development.	Service Provider
FCA	Setting up SACCO-based Apex National/ Regional bodies	Study ,exposure ,preparatory measures	Service provider to be identified
RUSACCOs &Unions	Linking RUSACCOs to Unions-improving communication, capacity of RUSACCOS	Reimbursement of Communication &other Expenses	Identified Unions and RUSACCOs and intermediary agency
RUSACCOs ,Unions	Setting up National level training institute of excellence	Study & preparatory framework and related support services	Service Provider
FCA, RPCA RUSACCOs, Unions	Setting up of Training institutions for Financial Cooperatives at decentralized levels	Setting up /strengthening existing Institutes	Service Provider
FCA ,RPCA	Setting up Certification System for professional and institutional excellence	Explorations ,preparatory &support measures for	Service Provider

		Developing Training certification systems	
FCA /RPCA	Pilot testing new products	New product development and testing	Service Provider and Unions/ RUSACCOs
FCA/RPCA	Training Need Assessment	Study	Service Provider
FCA/RPCA	Viability and Transformation ,Impact Studies for Unions and RUSACCOs	Study	Service Provider
FCA/RPCA	Integrating Financial Cooperatives with Financial Inclusion Programme with their participation	Policy initiatives and developmental measures ,	FCA and service Providers
FCA	Integrating SACCOs/Unions with Payment Systems	Policy initiatives and technology development	Service Providers
FCA	Integrating Unions/ SACCOs with Credit Information system	Policy initiatives ,Study and technology development	Service Provider
RUSACCOs/ Unions	Mobility Support for Union/ RUSACCO staff	Purchase of motorcycles	FCA
Unions	Technical Staff Support for Unions	Recruitment of one technical staff each for Unions	FCA/RPCA with support of Unions

ANNEXURE III:

capacity-building for SACCOs in Uganda under PROFIRA

Progress of SACCO capacity-building (as of April 2018)

TABLE

Standardized Training Module	No. of SACCOs Targeted	SACCOs Trained	Persons Trained*	Completion Rate
RESIDENTIAL				
Credit & Default Management	453	361	1444	80%
1. Financial Management	330	330	1320	100%
2. Savings & Other Product Development	330	300	1200	91%
3. Strategic Planning	330	200	23,000	61%
ON-SITE				
4. Financial Literacy	330	256	29,440	78%
5. Governance	330	247	28,405	75%
6. Business Development Skills	330	223	25,645	68%

*Estimates based on 4 persons (Board and staff) per SACCO for residential trainings and 115 targeted for on-site.

BACK GROUNDOF SACCO DEVELOPMENT

:Based on SACCO census data for 2013, 453 SACCOs were identified that could meet the somewhat moderated criteria for PROFIRA support, while another 46 were identified as needed "turnaround" support to address a specific problem (such as fraud or governance) and referred to the Department of Cooperative Development in the Ministry of Trade, Industry and Cooperatives (MTIC) for action. ***Many of those that qualified for training have succeeded in expanding their membership and operations and moved closer to sustainability.***

PROFIRA was designed to pilot such support, including upgrading MIS systems to the level needed for off-site supervision, as well as capacity-building to help SACCOs achieve financial sustainability (also a criterion for licensing, since regulatory authorities avoid licensing unprofitable institutions for which they would be held accountable). IFAD made clear that continuation of such support beyond PROFIRA would be possible only if another agency with expertise in financial sector regulation, such as the World Bank, took the lead.

It is clear that the vast majority of registered SACCOs – even the majority of those currently operating – do not meet the minimum criteria for a "Category A" SACCO as defined under the Act and that not more than 20% (about 900) of those on the Register are actually operational with a permanent registration . Furthermore, many of these are facing substantial risks that may lead to dormancy or collapse. It will be necessary to clean up the Register to eliminate those that are defunct or never completed the requirements for permanent registration in order to begin rebuilding public confidence *in SACCOs as a viable business model, before effective regulation of all those that are operational can be implemented.*

Once the non-existent and not fully registered SACCOs are eliminated, then UMRA and MTIC can work out a strategy for dealing with three main categories of registered SACCOs that have a verified presence "on the ground":

(1) licensed and being supervised by UMRA;

(2) meet the minimum savings and capital criteria for licensing by UMRA but have not yet applied or qualified for a license;

(3) fall below the UMRA "Category A" but are operational.

(Source: IFAD reports)

IFAD
Investing in rural people

The Federal Democratic Republic of Ethiopia

Rural Financial Intermediation Programme – Phase III (RUFIP III)

Design report

Component 2 – Improving regulation, Supervision and Institutional discipline
Working paper

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Federal Republic of Ethiopia

Rural Financial Intermediation Programme – Phase III (RUFIP III)

Component 2- Improving regulation, Supervision and institutional discipline:

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Component 2

List of Abbreviations

ACCOSCA: African Confederation of Cooperative Savings and Credit Association
AEMFI: Association of Ethiopian Micro Finance Institutions
A2II : Access to Insurance Inclusion
ANOI: Adjusted Net Operating Income
ALM: Assets and Liabilities Management
AML: Anti- Money Laundering
ATA: Agricultural Technology Agency
BCBS: Basle Committee of Banking Supervision
BIS : Basle Institute of Supervision
BOS: Board of Supervision
CAGR: Compounded Annual Growth Rate
CBS: Core Banking Solution
CCA: Canadian Cooperative Association
CGAP: Consultative Group to Assist the Poor
CGFC: Capital Goods Financial Companies
CFT : Combating Financial Terrorism
CRAR: Capital to Risk Assessment Ratio
DFS: Digital Financial Services
DMFS: Directorate of Micro Finance Supervision
DIS : Directorate of Insurance Regulation
EIFS: Ethiopian Institute of Financial Studies
ETB: Ethiopian Birr

FC: Financial Cooperatives
FCA: Federal Cooperative Agency
GAPP: Generally Accepted Accounting Principles
GFC: Great Financial Crisis
GIRAFE: Governance Information management, Risk analysis, Activities, Funding, Efficiency
GOE : Government of Ethiopia
GTP: Growth and Transformation Plan
G2 P: Government to Person
IASB: International Accounting Standard Board
IAIS :International Association of Insurance Supervision
ILO : International Labour Organization
ICT: Information and Communication Technology
IFRS: International Financial Reporting Standards
ILCUF: Irish League of Credit Unions Federation
IRAC: Income Recognition, Asset Classification
Asset Classification
IRFITCO: Improving Rural Financial Inclusion Through Cooperatives
ISAB: International Accounting Standard Boar
KYC: Know Your Customers
MIC: Micro Insurance Centre
MIDP: Micro Insurance Development Programme
MOFEC: Ministry of Finance and Economic Cooperation
NAAB: National Accounts and Audit Board
NBE: National Bank of Ethiopia
NPA: Non –Performing Assets

OECD: Organization for Economic Cooperation and Development
OSS: Offsite Surveillance System /Operational Self-Sufficiency
OFAG : Office of Federal Auditors General
P2 G : Person to Government
POS : Point Of Sales
PEARLS : Protection, Effective Financing, Asset quality, Rates of Returns, Liquidity, Sign of Growth
RBA : Risk- Based Audit
RBS: Risk-Based Supervision
RFI: Rural Finance Institution
ROA : Return On Assets
RCPB : Regional Cooperative Promotion Bureau
ROE : Return On Equity
RUSACCO: Rural Savings and Credit Cooperatives
SRO : Self- Regulatory Organization
SPM: Social Performance Management
TA: Technical Assistance
TNA: Training Needs Assessment
TOT: Training of Trainers
UNDP: United National Development Programme
UNCDF: United Nations Capital Development Fund
WOCCU : World Council of Credit Unions

PART I : Improving Capacity and Systems in NBE for Microfinance regulation and Supervision and Institutional Discipline

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PART I

RUFIP III-Component 2- Improving regulation, supervision and institutional discipline

2.1 Strengthening capacity and systems in NBE for microfinance regulation and supervision

The core strength and resilience of the financial sector in Ethiopia speaks eloquently of the prudential regulations and risk-based supervision led by NBE. The country has been free from any external shocks and systemic failures. Within the financial sector, the micro finance sector has also been prudentially regulated by NBE and the sector has been strong and stable. The RUFIPII design had an exclusive component on regulation and supervision of MFIs and accordingly, had incorporated several interventions aimed at strengthening NBE in this regard. Subsequent supervision/implementation review and support missions & Mid- Term Review missions had reviewed the progress and focused on scrupulous implementation of the envisaged activities. The broad interventions envisaged and the expected outcomes there-under are outlined below.

1. **RUFIP II Support for NBE:**

Design report of RUFIP II envisaged support for(a) capacity and competence enhancement of the Directorate of MF Supervision through HRD interventions, support for purchase of laptops, development of revised and updated supervision manual ; (b) policy development through conduct of studies ,seminars and exposure visits on identified themes ,(c) Knowledge management and dissemination through awareness literature, documentation, financial literacy programmes, auditors' sensitization,(d) Technology upgradation in offsite surveillance,(e) facilitating MFI sector integrating with payment and settlement, credit information bureau, branchless banking (f) institutional development by way of setting up of Apex Development Bank and (g) promotion and development of micro insurance regulation and development. The expected key outcomes of the proposed interventions were as under:

a) A well trained staff of Micro Finance Supervision Directorate of NBE, with enhanced skill and competence in onsite inspection and offsite surveillance (OSS);
b) A revised and updated Manual to conduct Risk-based supervision (RBS);
c) Adequate Staff placement and development for timely completion of onsite inspection and implementation of technology –based OSS;
d) Policy and operational system and policy framework for MFIs joining the national Payment & Settlement System and credit information system;
e) Bringing about an improved internal audit and statutory audit framework for audit of MFIs;
f) Periodical review of regulations and regulatory standards to promote product innovation and diversification as also fostering MFI sector stability and growth;
g) A continued policy dialogue and consultative process between NBE and other stake holders in RUFIP II for policy refinement;
h) Development of regulatory framework for Micro -insurance and promotion of the sector; and
i) Setting up of Apex Development Bank for supporting MFIs in capacity-building, meeting liquidity needs of MFIs and overall development.

Under the budget, besides allocation for capacity building through training, exposure visits, studies and documentation, and for policy, system and institutional development, a budget of USD 200,000 for OSS, USD 120,000 for micro insurance, USD 120,000 for branchless banking, USD 105,000 for payment&settlementandUSD45,000 for governance enhancement of MFI was envisaged. Under RUFIP II, significant initiatives were taken for staff capacity building by way of deputing 130 numbers of staff for various training programmes/exposures visits. However, several systemic interventions remained incomplete and unimplemented.

2. Financial Sector Reforms and Changing Policy Environment:

In the financial sector of Ethiopia, there are 18 Commercial banks, 38 Micro Finance Institutions ,17 insurance Companies (1 state-owned and 16 private), and 5 Capital Goods Finance Companies, -all of which are regulated by the National Bank of Ethiopia (NBE). Under the Growth and Transformation Plan II (GTP II), NBE increased the minimum capital of private banks to 2 billion Birr ($90 million) and required all sixteen private banks to increase their paid up capital to 2 billion Birr by 2020. Similarly, MFIs are required to have minimum capital of 10 million Birr by 2020.GOE continues to prohibit foreign ownership in the financial sector. Foreign banks are not permitted to provide financial services in Ethiopia and the market is closed to foreign retail banks. Recently, GOE has decided to initiate reform of the financial sector along with broad economic reforms in the country. Currently, Ethiopia has allowed a few foreign banks to open liaison offices in Addis Ababa to facilitate credit to companies from their countries of origins. The other liberalization measures, which are likely to impact the financial sector including rural finance, are as under:

a) Opening up foreign investments for Ethiopian nationals abroad;
b) Changing ownership of top MFIs so as to have 100% ownership by Government;
c) Making moveable assets as collateral for loans;
d) Inclusion of MFIs and Lease companies in credit reference mechanism;
e) Bringing out changes in business processes, so as improve Ethiopian ranking in the ease of doing business from 158/179;
f) Private Banks to provide credit @27% of their total to DBE through NBE for facilitating lending to priority sector;
g) Amendment to Banking Business Proclamation, consequent to opening up the economy to Ethiopian nationals abroad;
h) Revising ceiling of SME for banks, MFIs and Lease Companies facilitating DBE to finance them differentially;
i) Review of Various Proclamations (Banking business, Insurance business, Micro Finance Business, etc.) in the light of proposed reforms; and
j) Establishment of an Apex Development Bank for microfinance sector.

3. World Bank Support for Reform Strategies:

The World Bank has been working with GOE and NBE for facilitating the carving out of a road map & formulating reform strategies. A Task Force has been constituted to carry forward the measures. The World Bank has been supporting NBE/GOE in the following areas:

a) Increasing modernization of the Payment & Settlement System;
b) Opening up Ethiopian market, including financial sector;
c) Setting up of Capital Markets &its policy and operational framework;
d) Reviewing progress under Financial Inclusion Strategy and carving out a road map;
e) Developing framework for customer protection;
f) Financial Education Strategy &framework;
g) National Financial Capability Strategy;
h) Banking regulation and supervision;
i) Lease Capital Regulation;

j) Reform of Development Bank of Ethiopia(DBE);
k) Legal framework for micro finance; and
l) Insurance business including micro insurance regulation and development.

The areas outlined above, are very vast and diversified. There is considerable scope for NBE and other related agencies to look for external support for policy and regulation development and their operationalization.

4. Major functions & initiatives of National Bank of Ethiopia (NBE):

NBE Establishment Proclamation spells out the role, functions, structure, powers, especially with respect to its relationship with Government, banks, insurance companies and other financial institutions. It has powers to issue regulations, penalties and directives. It aims to foster monetary stability and a sound financial system, and maintaining credit and exchange conditions conducive to the balanced growth of the economy. It performs the role of regulation and supervision of CBs, MFIs, insurance companies, Capital Goods Companies and Payment and Settlement architecture. Lack of access to finance is a significant constraint for inclusive economic development and accordingly it has been undertaking policy and strategic role for financial inclusion in recent years. In 2015, NBE allowed commercial banks to provide mobile banking service and agent banking. Pursuant to NBE's permit, many of the commercial banks added mobile and agent banking in their line of services. Important directives issued to banks included licensing and supervision, branch opening, penalty for non-compliance, fraud monitoring, exposure limits, interest- free banking, etc. The organogram of NBE is given in **the Annexure I,** which reveals its diversified activities.

4.1 Role of Micro Finance Institutions Supervision Directorate (MFISD), NBE:

NBE has been consistent partner/stake holder in the implementation of RUFIP I and II, as strengthening of regulation and supervision of MFIs remained an exclusive component and the MFISD served as the nodal unit in the implementation of various interventions envisaged under the component. The main objective of MFISD is to maintain a sound, safe and stable microfinance sector. Through its supervisory framework, there had been tremendous growth and diversification of MFIs in the country over the years. The Directorate has taken several initiatives for review and refinement of regulatory /supervisory processes, tools and systems, tailored to MFIs. It has issued a series of directives to MFIs covering areas of prudential regulations, public savings, licensing, lending discipline, liquidity , financial and operational information reporting, minimum capital requirement, CRAR, mobile and agent banking, fit and proper criteria for Board & CEO, lease financing , etc. It has adopted risk-based supervision for MFIs and has guided MFIs to adopt risk management systems. It has put in place an elaborate consultative process for finalizing regulations/directives. It has been convening/participating in the National Rural and Micro Finance Policy Steering Committee, constituted under RUFIP II. Besides MFISD, other Directorates like Banking Supervision, Insurance Supervision, Payment & Settlement, and Financial Inclusion are also supportive of the microfinance sector and are associated with various interventions having a bearing on the MFIs and financial services. The capacity building of HR in all the related Directorates of NBE is very important and relevant in the light of C-GAP guidelines[1]," *to craft and enforce regulation with a financial inclusion objective , the regulator must understand the distinctive characteristics of micro finance, including clients and their needs ,products ,services and institutions providing those products and services ."*

[1] Consensus Guidelines on Regulation and Supervision (2012) :

4.2 Staff Strength of Directorates of NBE connected with Financial Services:

The following Directorates are associated with the financial Sector, particularly with respect to the regulation and supervision of financial institutions and financial Inclusion. Their HR position is as under:

Table 1: HR Position of Directorates of NBE

Name of Directorate	Number of Staff
1. Micro Finance Institutions Supervision Directorate (MFISD)	30
2. Insurance Supervision Directorate (ISD)	18
3. Payment &Settlement Supervision Directorate (PSSD)	39
4. Banking Supervision Directorate (BSD)	90
5. Financial Inclusion Secretariat (FIS)	8

5. Developing a technology-based Offsite Surveillance System (OSS):

For effective offsite supervision of MFIs**,** RUFIP II design had given considerable focus to adopting technology-bases OSS in NBE. With the fund allocation of USD 200,000 under RUFIP II**,**MFISD had planned for implementation of the activity and has been pursuing the procurement process of identifying a suitable international consultant till June 2015.An international bid was floated, leading to the selection of the winner technology provider. In 2015-16, they discontinued the efforts made in the direction and explored the possibility of procuring the Banking Supervision Application (BSA) from Mozambique Central Bank for adoption by all supervised entities, including MFIs. The matter regarding its adoption by MFIs, which would involve certain additions / changes in the software, was under discussion with the Mozambique Central Bank. The technology-based automatic OSS, envisaging generation of broad-based outputs concurrently at the levels of the Regulator and the regulated MFIs was incorporated in the design report, based on the technology developed by the Tata Consultancy services (TCS) for Rural Financial Institutions(RFIs)in India.

BSA is a system for providing automatic generation of supervision reports. It provides web-based solutions for securing submission, analysis and report generation. It envisages stringent data validation process, ensuring data quality .The system is in vogue in SADC (South African Development Countries),Central Bank of Kenya and several other regulatory authorities. Since its inception, the system had three major updates and currently it is running Version 3.0. NBE has deployed Version 3 .0 and its pilot period ended in 31 December 2017. *Considering the need for a strong OSS, as envisaged under Basle Principles of Supervision, and also the emerging need for periodical updating of the system, TA provisions have been made under RUFIP III, for the purpose. Moreover, all training and sensitizations programmes for supervising officers of NBE would discuss OSS- related operational procedures and use of the outputs. Besides the MFIs would be required to be sensitized about the inputs to be provided, reports to be generated and expected compliance to be submitted by them in the programmes envisaged under RUFIP III.*

6. Onsite Inspection- Technology Adoption:

While technology application and automation have been built into the Offsite Site Surveillance System adopted by the Central Banks across the world, it is likely that technology would hold the key to the onsite supervision system with the increasing use of technology in the supervised institutions. Financial Stability Institute(FSI) has documented the experience of various Central Banks, .e.g., Central Bank of Republic of Austria (OENB) ,National Bank of Rwanda (BNR),BangkoSentral ng Philipinas (BSP), UK Financial Conduct Authority (FCA) , US Securities and Exchange Commission, Monetary Authority of Singapore, Basle Committee for Banking Supervision (BCBS) ,Accenture ,Federal System of Banking (FSB) and Toronto Center in this regard. These agencies have done pioneering work in data collection, data reporting, data storing/ managing, data validation, data visualization, cloud computing, processing, real time monitoring, market analysis and intelligence, etc. "Innovative Technology in Financial Supervision (SUP TECH and REG TECH) –The experience of early Users "[2]has been summarized as under:

a) SUP TECH refers to innovative technology used by Supervised Agencies themselves to support supervision. It is the result of the emergence of relevant advance technology in the economy. Digitization of reporting and monitoring the risks are hall marks of the new focus.
b) REG Tech is already a familiar word in financial sector. It refers to application of innovative technologies that support compliance with regulatory and reporting requirements by the regulated financing institutions.
c) A number of Financial Sector supervisors are already using innovative ways to effectively implement Risk Based Approach (RBA) to supervision. Early Warning Signal (EWS), centralized data-warehousing, risk indicator dash boards are being used. In the post –crisis regulatory reforms, better data reporting, growth in storage capacity, computing power and advances in data Science have taken place.
d) "Sup tech" supports core objectives of regulation and supervision. Innovative technologies can be applied at the design stage of new regulations to assess the potential impact of policy proposals.
e) The relevant challenges of Speech include standardization of data, data quality and data completeness, legal, operational and reputational risks. To overcome challenges, technology-oriented approach, robust risk-management framework, collaboration with other partners is necessary.

Several supervisory agencies use 'chatbots' to answer consumer complaints automatically and provide virtual assistance to supervised entities. In the area of data analysis, the key areas like market surveillance, misconduct analysis, and macro prudential supervision are carried out. Many Sup Tech applications help in detection of possible AML (Anti-Money Laundering) and CFT violations. Neural networks can be used to detect liquidity crisis. Machine learning, image recognition and language processing are being increasingly used. Some of the concluding remarks of the authors of FSI as under are significant.

a) Innovative technologies, together with increased data availability create scope to strengthen financial supervision;
b) Sup Tech for data collection purposes is likely to benefit both supervisor and supervised agencies, which need to appreciate the risks and limitations of Sup tech. They need to be cautious of growing data knowledge gap.
c) Management support is critical in exploring the opportunities and benefits of Suptech;
d) Supervised agencies engaged in Suptech need specialized human resources;

[2] Dark Broeders and Jerry Perenio (July 2018)

e) The use of Suptech reinforces the case for further improving risk management of supervisory agencies;
f) The supervised agencies can learn from each other, it is important to seek opportunities for collaboration.

In the light of the above, there is enormous scope of technology application in various onsite inspection processes. However, for MFIs, as compared to commercial banking, there are limitations, which need to be kept in view. The TA support for NBE has been envisaged under RUFIP III for the following:

1) *Development of IT tools for automation of Onsite supervision System;*
2) *Preparation of Manual for Policy &Procedure for handling policy formulation, licensing and onsite/offsite supervision;*
3) *A study on MIS and appropriate exposure and reporting system;*
4) *Training Programmes on Risk Management and Risk-based supervision;*
5) *Exposure Visit on operation and Regulation of digital Financial Services, and*
6) *Annual Conference of Supervising Officials of NBE.*

These programmes would provide perspectives of regulation and supervision due to technology adoption in both at the levels of NBE and MFIs.

7. Legislation and regulatory framework for Cyber Security:

In 2016, GOE had had passed a Proclamation on computer crimes. The proclamation deals with a host of issues ranging from illegal access to computers, number of criminal offences committed, preventive and investigative measures, evidentially and procedure provisions, etc. The threat and impact of cyber-attacks on the financial sector is increasing across the world and the supervisory authorities are increasingly looking to addressing cyber risks and threats. The financial sector is more vulnerable and as per the estimates, the customers of financial sector suffered 65% more cyber-attacks in 2016, as compared to other sectors. The supervisory framework for Cyber Security is, however, still evolving. Basle Stability Institute in its Policy Implementation Series has dealt with regulatory approaches to enhanced cyber security of banks.[3] The broad guidelines suggested are as under:

a) Any cyber security risk framework should be aligned with overall operational risk and enterprise risk management strategy;
b) Cyber Security regulation should require banks to develop an effective control and prepare response framework for cyber risk;
c) Any regulation relating to cyber risk should consider as starting points the existing technical standardization in cyber and information security;
d) A critical element of any regulatory framework is to promote cyber security awareness among staff.

In India, for instance, the supervisory agencies - Reserve Bank of India and National Bank for Agriculture for Rural Development (NABARD)have issued very detailed guidelines to the supervised entities on addressing the cyber security menace, in the light of laws passed in the country. In its guidelines to Cooperative Banks, NABARD emphasizes on the following:

a) Each bank should have Board approved Cyber Security policy;

[3] *Regulatory Approaches to Enhancing banks' Cyber Security -by Juan Crloss ,CrisantoJermyPenio –August 2017

b) Cyber security should be distinct from broader IT /IS security plan;
c) There should be continuous surveillance by supervised institutions;
d) Network and data-base security should be ensured;
e) Each supervised institution should frame cyber security Management Plan; and;
f) Supervisory reporting framework on this aspect should be enforced.

In the light of international trends and practices, NBE needs to look at the adequacy of the existing laws and should also frame appropriate regulatory and supervisory directives/ guidelines for MFIs. Under TA component, an exposure study overseas on operation and regulation of digital financial services, digitization of groups and also Cyber security has been provided for NBE. Other training programmes and interventions on IT and digital financial services, risk management and risk-based supervision should also cover cyber security aspects.

8.1 Audit and Accounting System:

All MFIs in Ethiopia need to be audited annually, as per legal requirement. Under RUFIP I& II, focus was laid on NBE's taking steps for improving audit quality and effectiveness of the MFIs. The suggestions like reorienting audit in the computerized environment, introducing audit classification/rating norms, were given and support was provided for NBE for conducting annual sensitization programmes for auditors, etc. However, these were not given adequate attention.

8.2 Audit, Accounting &Reporting Policy Environment:

The state of audit, accounting and reporting environment was studied by the World Bank and IMF, in 2007 and their report[4]brought out the gaps in the statutory provisions (including Commercial Code),the audit profession, education and training arrangements, accounting and audit standards, quality of financial reporting, etc.

In the light of prevailing situation in the country, the following policy recommendations were made in the above report with a view to ensuring a holistic, multi-disciplinary approach for implementation:

- Revise the Commercial Code 1960 and the other relevant laws and regulations for banks other financial institutions, ,insurance companies ,state –owned enterprises and NGOs ;
- Enact a financial reporting law;
- Establish a National Accountants and Auditors Board.
- Set accounting standards ;
- Mandate International Standards on Auditing (ISA) for all auditors;
- Establish a strong accountancy professional body, with IFAC membership;
- Establish a local professional and technician accountancy qualification;
- Enhance the capacity of all regulators to enable them to effectively discharge their responsibilities and to handle IFRS related issues in the regulation;
- Conduct awareness campaigns and related programs.

This report recommended the establishment of a National Steering Committee to coordinate the financial reporting and auditing reforms and develop a country action plan. Pending these broad-based reforms, the Office of Federal Auditor General (OFAG) had introduced certain interim measures. During RUFIP II, design and supervision reports, it was emphasized that necessary audit and accounting reforms should be carried forward for furtherance of financial sector.

[4]Observance of Standards and Codes (ROSC)

8.3 Scope of Proclamation to Provide Financial Reporting:

In the above backdrop, Ethiopia adopted International Financial Reporting Standards (IFRS) and International Standard on Audit (ISA) in December 2014 through enactment of Proclamation No: 847/2014. The Proclamation to provide for Financial Reporting 2014 envisaged establishment of the Accounting & Auditing Board of Ethiopia; prescribed International Financial Reporting Standards (IFRS), IRS for SMEs, and international Public sector accounting standards applicable to Charities and Societies; mandated audit of financial statements by qualified auditors; provided for auditing standards; & prescribed quality assurance review of auditors. It emphasizes the independence of auditors and their professional competence and enforcement of penal provisions for professional misconduct. It envisages setting up of a professional Accounting Body /Association of Accountants and an Institute of Certified Public Accountants of Ethiopia. Failure to meet the reporting mechanism will result in imprisonment.

8.4 Progress of Implementation of the Proclamation:

Although the enactment of the above Proclamation is considered as an important mile stone, several provisions envisaged in the Act and several recommendations of ROSC cited above have not yet been implemented. Other policy recommendations, such as, reviewing commercial code (1960), establishing strong accounting professional body with IFAC membership and establishing a local professional and technician accountancy qualification, are not realized. Hopefully, the newly established Accounting & Auditing Board will take steps to enforce IFRS requirements and enhance compliance practices of reporting entities. It would take steps for establishing accountancy professional institutions to fulfill the stated objectives. Ratified in 2014, the Financial Reporting Proclamation gave five years to the entire business to enter the new system.

After the full implementation of the new system, the GAAP will be outdated. Organizations like banks, insurance companies and public enterprises will begin using IFRS starting this fiscal year. IFRS is considered to be the latest financial language enabling local companies to easily communicate with each other globally. Asset revaluation was a critical step in the first stage. Some banks brought consultants and experts from overseas to undertake the process. In the second stage, banks will start using the software before reaching the reporting stage

Addis Ababa University is expected to upgrade its accounting curriculum this year in light of the developments.

8.5 MFIs' Implementation of Risk-based audit:

With the adoption of Risk-based supervision for MFIs, there is an emerging need for scrupulous implementation of risk-based audit. So capacity building of auditors in this regard assumes significance. *Under the modern external as well as internal audit, it is simply unrealistic to perform a 100 % audit. The task of an external auditor is to do sample audit and to express his/her true and fair view on the audited institution's financial state.*

8.6 Process Improvement in audit:

In Germany, DGRV introduced a new audit software last year which is process-driven. The idea is to find out if there is an internal mechanism in place in the audited institution that is likely to identify mistakes on their own (internal control). When the auditor identifies such controls he/she can reduce the extent of auditing individual transactions. The software is designed in Canada, by the name "Audit Agent". There is need for the use of innovative technology & software as audit tools by auditors (internal & external) engaged by MFIs with the approval of NBE.

In this background, implementation of IFRS and IAS has assumed urgency and NBE and MFIs need to take expeditious steps for understanding IFRS & IAS and internalizing the concepts. RUFIP III has envisaged support for Auditors' sensitization conferences as also Supervising' Officers Annual meets, inter alia, to discuss about modalities of implementation of IFRS & IAS. The programmes should discuss audit quality and effectiveness, audit planning, strengthening risk-based audit, system audit, audit process innovation, compliance to audit, internal audit mechanism and internalization of audit findings. The TOR for related Studies and design of capacity –building programmes to be supported by RUFIP III should accordingly be framed. RUFIP II had enabled NBE to come out with detailed internal audit and external audit regulations. Although it was reported that relevant draft guidelines have been prepared, it is yet to be issued. RUFIP III expects appropriate guidelines, based on the study, experience and best practices to be issued.

9. Deposit Mobilization, Safety & insurance:

Some of the policy and regulatory measures such as statutory provisions, enabling MFIs to tap public deposits**,** prudential regulations, linking loans to savings in MFIs, branch expansion, etc., have led to growth of deposits in MFIs. The concept of compulsory and voluntary savings have helped saving mobilization. MFIs are expected to cover 80% of their loans from savings. As per Growth &Transformation Plan II (GTP II-2015-20), MFIs are required to increase their outreach through 10,000 branches by 2020 (from the present level of branches), so as to cover, at least, 50% of rural keels. Increasing thrust on financial inclusion under National Financial Inclusion Strategy envisaging, inter alia, increased outreach, providing financial services through savings accounts, developing savings culture through financial literacy and introducing new savings products suited to customers' needs by MFIs are likely to lead to tremendous augmentation of their deposit in the years to come. Moreover, Deposit insurance will have an impact on increasing deposit mobilization and lowering the risks of MFIs. Although deposit insurance, which provides stability, safety and reliability to deposits, has been provided under the statute, a deposit insurance framework has not been put in place in the financial sector. To quote CGAP Consensus Guidelines on Regulation and Supervision of MFIs, (page 97) – *" if a country requires commercial banks to participate in deposit insurance scheme, then it may wish to consider imposing same requirement on prudentially supervised deposit-taking MFIs as well (including ,at least, larger Financial Cooperatives).*" As small depositors of MFIs, covering women, farmers, etc., are more vulnerable, they should be protected. In order to enable NBE to develop appropriate deposit insurance/safety scheme and regulations, technical assistance for the development of appropriate regulations, systems and processes and implementation of the scheme for the savers would be extended under RUFIP III. To expedite the same, an exposure study visit oversees for this purpose has been included in TA budget.

10.1 Insolvency regime and Financial Stability System:

Ethiopia's insolvency policy framework is currently outdated and lacks many modern practices, such as an effective reorganization framework for restructuring corporate debt, priority for post-commencement financing and a modern regime for regulating insolvency practitioners. These imply that once a business experiences financial distress, there will be difficulty in its survival as a going concern and its continuance to provide value into the economy. The 'Doing Business 2018 Resolving Insolvency data' shows that recovery level by creditors is currently less than 30 percent of the loan at 27.7 cents on the dollar. In this situation, the creditors have inadequate incentive to lend, thereby leading to stifling of entrepreneurship. Moreover, without efficient recovery mechanisms for creditors, financial institutions face the risk of increasing NPA (Non-Performing Assets) in the system. This can lead to deteriorating level that threatens financial sector stability. The Ministry of Commerce, GOE is undertaking a revision of the Commercial Code which includes the Bankruptcy law. The World Bank Group (WBG) Insolvency Team is assisting the insolvency drafting team in finalizing the Bankruptcy Code in line with best practices. Government of Ethiopia has an ambitious time-frame for finalizing this law and it is recognized to be a part of the strategy for financial sector liberalization, financial stability and ease of doing business.

In this background, and considering the significance of the financial stability of the growing MF sector, TA support for NBE under RUFIP III include the following:

a) Documentation of Micro Prudential Assessment and Finance Sector Stability;
b) Documentation &Guidelines on Stress Testing Policy and Procedure for MFIs;
c) Training Programme on Portfolio Quality & Delinquency Management;
d) Exposure Study on Operation and regulation of Digital Financial Services, and;
e) Training on Troubled Assets Relief Programme.

10.2Stress Testing:

Stress tests have become well established tools for authorities to assess the resilience of individual banks and other financial institutions in the financial sector,subsequent to great financial crisis (GFC). Sector-wise stress tests differ widely in their design and implementation. Stress tests can have micro prudential or macro prudential policy objectives. Stress tests are most effective when their design is fully aligned with the policy objectives of associated units. Federal Stability Institute Insight on Policy Implementation[5] has identified three building blocks in the set-up of any stress test and relates them to policy objectives. In Ethiopia, MFIs in general are not familiar with stress testing nuances. *With a view to having greater familiarity and application of stress testing in policy and procedures, by NBE and MFIs, the documentation on Stress Testing and relevant guidelines as above would be supported under RUFIP III.*

10.3 Portfolio Quality & Delinquency Management Programme:

It has been observed that performance analysis, based on recovery performance, profitability and various other ratios (e.g. OSS, FSS, ROA, ROE, PAR, etc.) are not regularly and adequately reviewed and disclosed by MFIs. The programme envisaged under RUFIP III is designed for senior and middle management of MFIs and other financial institutions for the purpose of strengthening knowledge and building their capacities in the field of loan portfolio, measurement of portfolio quality, macro credit risk management, causes and effects of delinquency and accounting for delinquency. This would also bring about greater awareness for the regulator and regulated entities as also AEMFI on institutional performance, portfolio analysis and delinquency management. The programme could discuss the need for checking and monitoring, measuring and tracking delinquency; PAR analysis; provisioning policy; client exit /drop outs; credit life cycle; total quality management; group approach; etc. Besides, institutional performance, based on various ratios should be discussed.

10.4 Trouble Assets Relief Programme:

This programme was initially designed by the Federal Reserve System, subsequent to the financial crisis. The programme was intended to strengthen stability of the financial sector through development of policies, tools and standards. It, inter alia, covered monitoring and supervising of individual institutions& their infrastructure, putting in place sufficient crisis management tools and temporary liquidity guarantee arrangements, evolving a capital purchase plan and introducing costing, pricing and accounting system , carrying out financial management and ratio analysis, and pursuing

[5] CF. Paper No12 on Stress Testing in banks –A comparative Analysis by Patricia Baudino ,RonandGoetsch*Mann-November 2018*

delinquency management. Thus, the programme is a customized trouble shooting programme. NBE's supervisors and select MFI personnel should go through the programme, with TA support to be made available from RUFIP III.

11.1Diversifying financial products and services:

Financial institutions have been empowered to introduce demand-based products and services, in conformity with NBE regulations. The institutions have been given autonomy and flexibility to fix interest rates on deposits and loans. The development and diversification of products and services of financial institutions could include savings, credit, money transfer, micro insurance, leasing, group lending, bank linkage, availing of guarantee funds and introducing business development services**.** There is need for organized efforts for introduction of new and innovative products, based on client satisfaction survey, capability-assessment of the poor/ultra poor, client profile- building in various geographical locations. More pilots on financial services products in livelihoods promotion projects and agricultural value chain programmes are deemed necessary, considering the potential for up scaling. While replicating/up scaling good products and services, the prudential guidelines and risk-management safeguards evolved by NBE should be kept in view by the financial institutions. Despite recent positive developments in the supply of financial services, there is a need for a greater diversity of financial products targeting the underserved segments of the society. While AEMFI and MFIs are expected to take necessary initiatives, under RUFIP III, NBE would be given TA support for developing financial products in certain key emerging areas for further development, e.g., Islamic finance leasing, digital payment services, micro insurance, securitization of assets and greening finance.

11.2 Islamic Finance:

Given the Muslim population of more than one third of the total population, there is a significant demand for Sharia-compliant financial services which needs to be further developed. The formal directives on Islamic law compliant finance were issued by NBE in 2011. Islamic law compliant MFIs have also sprung up in Afar region. SAMFI is one such institution, which has a vision to become a Shariat Compliant bank. Under RUFIP II, during 2018-19, a few officials were deputed for training in Islamic Finance to Malaysia. Further, TA for NBE for facilitating participation of their own supervising officers as also concerned officers of MFIs in suitable training programmes on regulation and supervision of Islamic financial services has been envisaged under RUFIP III. The programmes are expected to enhance the understanding of the regulator and regulated entities regarding the concept, product, process of implementation, regulatory and supervisory framework for Islamic financing.

11.3 Securitization of Assets:

The securitization of assets is a process of pooling loan receivables and selling them for related cash flow to third party investors as securities. This frees up capital, which can be used for fresh lending. The microfinance institutions which are in stress can come together to create a common pool of assets for doing securitization deals with banks. The common pool, essentially by smaller MFIs, is aimed at creating economies of scale and making it easier for banks to buy it. Bigger MFIs can contribute to the pool. This system would help those MFIs that are facing stress in the absence of fresh funding from banks and non -banks in mitigating the tight liquidity condition. In Ethiopia, necessary legal and regulatory environment needs to be created for development of securitization of assets as a financial instrument. With that perspective, RUFIP III envisages to support NBE for engaging appropriate agency for conducting a study on securitization of assets, with a view to evolving required policy, operational framework, regulatory guidelines and supervisory approach in this area.

11.4 Financing against moveable Assets:

As a part of the reforms and liberalization of financial sector, NBE is slated to issue regulations permitting financial institutions to finance customers against moveable assets. This changing policy environment would spur access to finance through regulated institutions. In a survey covering 73 countries[6], the impact of introducing collateral registries for moveable assets on firms' access to finance was examined. It compared the firms' access to bank finance in 7 countries that introduced collateral registries for moveable assets against control groups; firms in all countries that did not introduce a registry, firms in a sample of countries matched by location and income per capita to countries that introduced registries for moveable assets and firms in countries that undertook other types of collateral reforms but did not set up registries for moveable assets. Overall, the analysis finds that introducing collateral registries for moveable assets increases firms' access to bank finance. There is evidence that the effect is larger among smaller and younger firms. In view of the significance of the policy of financing against moveable assets, impacting access to finance, support to NBE for participation of its officers and those of select MFIs in suitable training programmes, has been included in the TA .The programme is expected to provide inputs on policy, operational aspects including risk management and supervisory safeguards and case studies, etc., on the subject.

11.5 Greening Finance:

In the context of policy focus for mainstreaming biodiversity, climate change and sustainable land management objectives and practices into agriculture, there is an emerging need for supporting greening finance by MFIs. The overall objective of greening finance is to catalyze transformative change to support achievement of national and global environmental benefits and conservation of critical biodiversity and forest landscapes. NBE &MFIs need to support harmonization between the country's agricultural and environmental sector priorities and investments so that the achievement of national and global environmental benefits can be fully realized without compromising country's ability to strengthen rural livelihoods and meet its food and nutrition security. In view of the focus on environmental aspects in RUFIP III design and also national and global priority, NBE would be supported for mounting a study on the potential and possibilities of new financial products for greening finance with necessary safeguards, which would help in evolving required policy and operational framework for MFIs and supervisory approaches for NBE.

12 .1 National Financial Inclusion Strategy (NFIS) Framework:

Under RUFIP II, it was envisaged to support NBEs for financial inclusion efforts, including financial literacy. NBE had been pursuing the process of engaging a consultant for "developing financial education and consumer protection strategy and implementation framework". IFAD had approved an enhanced allocation from 100, 000 USD to 440,000 Usably reallocation from other interventions and had identified an international consultant. However, in the light of certain delays and difficulties in engaging the consultant under RUFIP II framework, NBE had preferred in 2015 to take recourse to the support of World Bank, in line with the strategy evolved for National Financial Inclusion Strategy (NFIS). A National Council for Financial Inclusion (NCFI), an apex policy body had been formed comprising the senior ministers with the chairmanship of Minister for Finance and Economic Development (MOFED), for playing leading role in implementing financial inclusion framework including financial literacy; the Governor, NBE is also a member. The Financial Inclusion Secretariat (FIS)was established in NBE for coordination, monitoring and evaluation of the Financial Inclusion Strategy and to assist NCFI. This project is fully funded by international organizations, with a leading

[6]Iness Love, Maria Soledad MartizezPeria and Sandip Singh

role for the World Bank. The Financial Inclusion Strategy was ratified in January 2017 and launched in October 2017. It aimed at achieving universal access and use of affordable and high quality financial products and services and services in Ethiopia by 2025. The Strategy has 4 pillars, viz., (a) Protecting Consumers, (b)Developing suitable Financial Products and Services, (c)Strengthening Financial Infrastructure, and (d)Improving Financial Capability & Awareness. However, considering the financial inclusion objective of RUFIP III, IFAD's support and participation in the Financial Inclusion framework including financial literacy would be relevant.

12.2 World Bank Mission's Identified Key Policy Action:

Ethiopia has made good progress during the last few years in terms of expanding financial inclusion**.** However, two- thirds of Ethiopian adults still don't have a transaction account and the country lags behind its neighboring countries. Based on the assessment by using Findex2017 data and in consultation with NBE, which has adopted G-20 high level principles to advance financial inclusion, the World Bank mission identified the following key policy actions: (I) digitize large-volume, recurrent payments, most notably, Government to Person (G2P) and Person to Government (P2G) payments; (ii) promote digital approach to financial inclusion; (iii) provide an enabling legal and regulatory framework for digital financial inclusion;(iv) diversify financial products and services such as digital financial services, factoring, invoice financing; (v) put in place a consumer protection framework; and (vi) develop a financial capability strategy. The World Bank proposes to support NBE to develop an Action Plan for implementing the above listed policy actions under its ongoing technical country Support programme on financial inclusion.

12.3 Broad Technical Assistance (TA) Support to NBE under RUFIP III:

Although the World Bank will support NBE in evolving a road map for various activities under Financial Inclusion Strategy Framework, the RUFIP III funds would inter alia, be directed for supporting MFIs and Financial Cooperatives, both from demand and supply side, for financial inclusion through NBE,AEMFI and FCA. Thus, suitable budget for TA is provided under RUFIP III to all the three nodal agencies for financial inclusion interventions including financial literacy. *NBE (MFSD) is expected to facilitate(a) development of policy, regulatory, strategic and operational framework for financial inclusion,(b) encouraging innovative financial literacy tools suited to the targeted poorer clients 'serviced by the MFIs and (c) Support adoption of technology-led products, services and instruments for furtherance of financial inclusion including digital and financial literacy. In this direction, special focus should be laid in the pastoral regions. NBE should also coordinate with AEMFI for facilitating qualitative improvement of their programmes and to ensure exchange of experience and elimination of duplication of efforts. Moreover, the experience in this regard should be shared with FCA through PCMU forum as also the proposed Board of Supervision and Training and Capacity Building Advisory Committee for FCA &Financial Cooperatives. The TA support forth exposure-study programme on Digital Financial Services, Boulder MF training, programmes, etc., envisaged for NBE would also provide value addition to Financial Inclusion including Digital/Financial Literacy interventions outlined above.*

13.1 Legal Framework & Financial Sector liberalization:

The Government of Ethiopia had issued a number of Proclamations concerning financial sector. These include (a) NBE establishment Proclamation-2009,(b) Banking Business,2009,(c) Micro Finance Business,2010, (d) Money Laundering -Prevention and Suppression 2010,(e) National Payment System,2012, (f) Capital Goods Leasing Business -2013,(g) Insurance Business -2012,(h) Financial Reporting Law 2014,&, (i) Cooperative Societies Proclamation 2016. In view of the financial sector reforms envisaging liberalization of economy, there will be need for refinement of the Proclamations and consequent related regulations. Moreover, separate legislation for micro insurance, Cyber security; Insolvency Codes, etc., are necessary. *With a view to studying the scope of amendments to the existing Proclamations and drafting new legislations, TA is envisaged in the RUFIP III budget. It is also envisaged that RUFIP III would support NBE to conduct a conference to discuss implications and challenges of financial sector liberalization. The Conference is expected to enable the policy makers and implementing agencies, particularly MFIs, to prepare themselves to face the emerging challenges. The whole focus of IFAD support to NBE is to strengthen its regulatory and supervisory role for MFIs within the wide ranging financial sector reform policy, programme and strategy, being formulated under the behest of World Bank Mission.*

13.2 Financial Inclusion & Digital Financial Service:

The Financial Inclusion strategy outlines digital financial services as a driver for financial inclusion. It envisages increase in the uptake of electronic payment by adults to 40 percent in 2020 (up from 6 percent in 2015). To meet this target, on the supply side, the strategy envisages increasing the number of ATMs, POS machines, and agents. Ethiopia has around 41.1 million mobile subscribers as of 2018 (Ethio-telecom data). But only 0.3% of adults had a mobile money account in the same year, according to Findex. About 13 million people with a mobile phone are unbanked. This illustrates that mobile phone adoption alone isn't sufficient to drive mobile financial services. The development of regulatory framework, financial technology innovations, digital literacy / skill sets and institutional architecture are four important preconditions for promotion of digital financial service including mobile financial services**.** The mobile and agent banking directive issued in 2012 helped in starting mobile money in Ethiopia. There have been visible developments in this space in the banking sector in recent years in the country. This covers mobile banking, net banking, payment and settlements, transfer of funds, branchless banking, CBS and other technology –based financial services. *However, given the current sophistication and size of the market and in view of the experience gained over the last seven years, the directive needs to be revised to further develop the digital financial market.* The improvements in the National Payment Systems and Financial Infrastructure would enable increasing participation of private sector in financial services; enhancing retail payment markets and enabling greater usage of digital payments by government and private sector.

13.3 Digital Financial Services: World Bank Group (WBG) Support Vis –a-Vis RUFIP III:

The scope of engagements of WBG in payment systems covers retail payments infrastructure like the Automated Clearing House and the National Inter-bank Switch, government payments and collections, remittances, payment aspects of financial inclusion (PAFI), oversight, and the development of Central Securities Depository (CSD).Despite the many steps taken by the NBE to develop the oversight of payment systems and services, there is room for improvement. Oversight aims at safety and efficiency of payment systems and services, financial inclusion, financial consumer protection, ensuring competitive market conditions, avoiding market fragmentation, and keeping trust in the financial system as part of trust in the currency in general. The scope of development in oversight will include review of existing regulations, recommending updates or amendments to those regulations which will feed into the Roadmap. The TA support from WBG will also provide capacity building of payment systems staff at NBE, developing procedures for the oversight unit, and developing off-site reporting and on-site inspection processes. However, the focus of WBG support would be the commercial banks. The activity focusing on MFIs' integration was envisaged in the design report of RUFIP II and an amount of 50,000 USD was earmarked for the purpose. MFISD had not planned for it during the initial 3 years. They had subsequently decided that the concerned Directorates (Directorate of Payment &Settlement as also Directorate of Banking Supervision) would examine the issue further (including MFIs' integration with branchless banking and credit reference bureau) and take appropriate action. The discussions with some of the MFIs indicated that with the Common Banking Solution(CBS), being in place, they would be willing to join NBE-led system fully. NBE should, therefore, encourage/facilitate MFIs join the payment system in all its aspects, not limiting to remittance within the country. In the meanwhile, with the full implementation of MIS project under the auspices of AEMFI, integrating all MFIs, eventually all MFIs could be users and managers of the future with respect to the CBS. This would pave the way for MFIs' participation in the payment & settlement, branchless banking & credit reference systems. NBE should plan for RUFIP III support for capacity building related to the roll out of the system to smaller MFIs. Meanwhile, leading MFIs on their own have introduced CBS, mobile banking, agency banking in view of regulations already issued by NBE. The efforts have, however, been sporadic, with limited coverage and effectiveness. *The road map for MFIs' participation and internalization of the interventions in branchless banking should be drawn for accomplishing financial inclusion and attendant benefits under the initiatives outlined. Accordingly, TA support to NBE has been envisaged for the following under RUFIP III:*

a) *Study for need and modalities of commercializing mF sector;*
b) *Study of Payment and Settlement system, facilitating integration of MF sector; and*
c) *Conference on Assessment of current Status, challenges and future perspectives of enhancing branchless banking services by MFIs including policy recommendations.*

It is expected that the above interventions would enable, enlarge, expedite and enhance MFIs' participation in payment and settlement as also branchless banking.

14. Credit Infrastructure:

Credit bureaus play a crucial role in facilitating and enhancing access to finance, particularly rural consumers and small borrowers. The credit information on individuals or small business borrowers provided to lenders help in quick decision-making. Accurate and timely credit information also allows financial institutions reduce risks, loan processing time, costs, and default rates. For borrowers, detailed credit information and a modern credit reporting system often lead to lower interest rates, making loans more affordable and more available. Credit bureaus also support responsible lending practices, and help borrowers avoid over-indebtedness. These benefits of advanced credit reporting systems make a major contribution to increasing access to finance, accelerating credit flow to rural poor and speeding up economic growth.
In this context, the design report for RUFIP II envisaged TA for NBE for the purpose of contracting consultancy services to analyze the current position and facilitate MFIs to join the Credit Information Center. However, no progress was registered with regard to MFIs' integration with the system, although it was technically feasible. Some of the MFIs had been taking recourse to information-sharing at local level and in limited scale. IFC's Africa Credit Bureau Program is providing advisory services to central banks, national bankers' associations, and other private sector stakeholders in several countries in Sub Saharan Africa. During the period, IFC had studied the system of Ethiopia under the programme, culminating in setting up of the Bureau with CBs' participation.
Under the Ease of doing business, Ethiopia has not been awarded any marks with respect to Credit Reference, as it was stipulated that the Credit Bureau at NBE must report in its database at least for 5% of the adult population. This will only be possible if the MFIs' and CGFCs' portfolios are reported to the bureau.

The IFC programme has provided advisory support to NBE to upgrade their existing Credit Information Centre in to a state of art facility. The programme aims to review the legislative framework around credit information sharing and support awareness and sensitization campaign for all stakeholders. The major goal is to build the NBE's capacity to implement and operate the Credit Information Centre Initiatives. An external evaluation of the Credit information system in Ethiopia was conducted in December 2018 to assess the existing overall service/product provision, technical condition and governance & management issues of the credit reference bureau of NBE; and; to identify and analyze gaps in line with the international best practices. The preliminary assessment indicates absence of credit information of borrowers from the existing credit reference bureau .*The consultancy service also assessed the technical infrastructure of the potential participating and existing financial institutions (i.e. Banks, MFIs and CGFCs). The documents are currently being reviewed by NBE.* The WBG team proposed to NBE a two phase approach: Phase 1) complete the assessment of the system in its current form and identify the gaps and enhancements needed to continue delivering (in a sustainable manner) credit information services to the credit providers for a reasonable time (about 18 months), until the new complete solution can be properly deployed; Phase 2) based on the results of the analysis, provide assistance to NBE to design an action plan to procure a new solution using a public-private partnership (PPP) approach. The specific needs of the banking sector as well as MFI sector and other stakeholders that may become part of the credit information ecosystem in the future need to be assessed. *NBE sought support* to replace the current Credit Reporting application with a complete solution to procure the new system and an action plan to implement it*. NBE shall commit full time resources to form several departments including IT to implement. NBE needs to be exposed to various scenarios of credit bureau structures through study tours and visits to countries with similar characteristics, including successful Public Private Partnership models (Cambodia and Morocco). (Based on discussion with World Bank)*

NBE has issued a new directive (CRB/02/2019) on establishment and operation of Credit Reference Bureau. NBE could leverage the directive issued by the Ministry of Finance and Economic Cooperation(MOFEC) in 2018 to implement Public -Private Partnerships, to consider such ownership structure. In the scenario, NBE remains the chair of the Board of Directors and ultimate decision maker; while significantly improving the Credit Bureau Operation through an experienced provider. Major challenges would be staff capacity building on core technologies associate with credit Bureau, adoption of IT service approach, inclusion of portfolios of MFIs and CG FCS in credit Bureau data- base

a) There is need for capacity building support on core technologies (application, database, IT service management) to operate and support the credit bureau system for at least the time required to replace it with a new complete solution.
b) Adopt an IT Service management approach. Stabilization of the system and inclusion of MFIs (also Capital Goods Financing Companies -CGFC) portfolios to the Credit bureau database (a Doing Business indicator for Getting Credit),procurement of additional infrastructure to facilitate system upgrade, allotment of Unique ID for MFIs' borrowers and drawing a workable action plan/road map
c) It would be desirable that RUFIP III supplements NBE and MFIs in its efforts. So, a study on Credit Reference Bureau –its setting up, it's functioning and as also supervisor's role for assessing and guiding MFIs has been envisaged to strengthen the process.
d) Conduct a detailed analysis of MFIs and available technology to ensure that data collection processes and systems interfaces are workable and draft an action plan.

It is gathered in the meanwhile that from April 2019, select MFIs have been asked to provide data to NBE reference bureau, on a pilot basis

15.Customers' Grievance Redressal:

"The consumers' ability to lodge complaints and seek redress is an important part of consumer protection. For micro finance consumers, judicial recourse will not be a viable option for many reasons (including expenses and time), so the focus needs to be alternatives".[7]A policy framework, institutional mechanism and operational system should be put in place to address customers' grievances in the MFI sector. The issue was also included in the RUFIP II design report. While the sector and institutional issues of MFIs get addressed at the level of AEMFI, proper analysis, disclosure of customers' complaints and feedback are yet to be strongly put in place. The systems that are generally followed as best practices include maintenance of records, time-frame of addressing complaints/grievances, designating /displaying name of nodal officers, installing toll free number, instituting Internal Machinery to hear grievances, constituting Standing Committee for customer' care and showing sensitiveness, courtesy and care for the customers. MFIs do not have such comprehensive policy and arrangements. The Boards of MFIs should review client grievance data and auditors should make random checks. These need to be included in the Codes of Standards and Fair Practices to be evolved with the initiative of NBE and AEMFI and in consultation with MFIs. NBE would be supported to initiate steps to create a conducive policy environment& MFIs would be facilitated for setting up institutional mechanism in this regard. A under RUFIP III envisages Conference /Seminar/workshop on financing Consumer Protection, consumer grievances, development of codes of standards and fair practices and improvement of centricity of MFIs. The programmes could be participated by NBE Officers and select officers of MFIs.

16.Evolving Codes of Standards &Fair Practices:

With a view to instituting appropriate, fair, customer- friendly and commonly acceptable/ reasonable standards for financial and non-financial services in MFI sector, issue of regulations on the subject was emphasized in the RUFIIP II design report. Generally, Associations of MFIs and Self-Regulatory Organizations (SROs) evolve/implement voluntary codes of standards and fair practices through consultation mechanism. In some of the countries like India, Central Bank has taken the initiative for banks and set up a separate institution like Banking Code Standard Board of India (BCSBI). Such standards could cover charges and fees for various services, norms of marketing, advertising& sales, etc., to avoid arbitrariness, unfair and exploitative practices in the sector. NBE should consider taking initiative in this direction for MFIs. AEMFI should ensure that their members accept and comply with the Codes of Standards and Fair Practices. MFIs can get Code of Conduct Assessment (COCA) through external agencies.

17.Social Performance Management (SPM) system:

The SPM principles for microfinance have emerged from an industry-wide international initiatives aimed at making micro finance more effective in achieving social mission. Social goals include greater coverage of poor and the excluded people, improving quality and responsiveness in financial and non-financial services, optimizing benefits for customers, enhancing social responsibility of MFIs, etc. Apart from giving weightage to financial performance of MFIs, focus would be laid by NBE, AMFI and MFIs on their efforts to meet social ends. NBE, MFIs and AEMFI should direct their efforts to get MFIs' business processes aligned to achieving both social and financial objectives, outcomes and benefits. *RUFIP III would provide technical support for MFIs to get appropriate training and capacity to introduce assessment, monitoring system and reporting framework with regard to SPM accordingly.* AEMFI has been associated with SPM Task Force and is in the process of sensitizing its members on the concept and spirit of SPM. Technical support has been envisaged for AEMFI to further enhance its efforts in capacity building of MFIs in this regard. NBE should also direct their efforts to get MFIs' business processes aligned to achieve both social and financial objectives, outcomes and benefits. The MFIs need to be motivated /guided by NBE to reorient their efforts, assessment system and reporting framework with regard to SPM. The services of Rating agencies could be used for SPM assessment and

[7]Consensus Guidelines on Regulation and Supervision of MFIs-CGAP-2012

rating of MFIs. TA support to NBE under RUFIP III included Conference on Responsible Finance for NBE officials as also those of MFIs.

18. Self- Regulatory Organization (SRO)

With a view to encouraging branch expansion in rural areas and excluded regions, NBE needs to consider relaxation in licensing norms for such difficult areas. They may consider recognizing AEMFI as a self-regulatory organization for promoting self-regulation and monitoring the functioning of MFIs. The recognition by NBE carries considerable weightage in the eyes of the industry, borrowers and lenders and builds up their confidence. It also increases responsiveness and compliance by member MFIs to the guidelines issued by the SRO. In India, Reserve Bank of India has accorded SRO status to Sa-Dhan and MFINs, the voluntary associations of NBFCs/MFIs, and given specific mandate to them for limited oversight. The concept and mechanism can be further studied by NBE. RUFIP III has envisaged exposure study on exploration and development of SRO by upgrading AEMFI.

19. Fraud Control, Monitoring and Prevention:

Fraud is a deception deliberately practiced in order to secure unfair or unlawful gain by resulting loss to financial institutions. Prevention, identification and control of Frauds and misappropriation have been great challenges for regulators and regulated entities. The MFIs need to have fraud identification/detection and control strategy. Frauds do occur due to laxities in the internal control system of financial institutions. The vulnerable areas include collusions, diversion of recovery and disbursements, gaps in client entry and group meetings. Manipulation and false reporting, tampering of records, misappropriation, cash thefts, fake claims, unauthorized expenses, creation of ghost clients are various facets of frauds. Regulators generate periodic data on frauds and misappropriation through returns from the regulated entities. Although NBE had issued a directive on fraud monitoring in 2014,envisaging data reporting by MFIs to NBE, analysis of the modus operandi, putting in place credit risk management policy to address the incidence of frauds, and MIS are not developed by MFIs. Sector and institutional data should be available in the public domain. NBE should take steps to frame suitable mechanism for periodic review and report from strengthening internal audit and monitoring mechanism in MFIs.

20. Vigil Mechanism (Whistle Blower Policy) :

Vigil mechanism (other-wise known as Whistle Blower Policy framework) enables customers, employees and directors and all stake holders to report their genuine concerns about actual or suspected dishonesty or illegal activities or violations of law or rules /regulations of the Organization or fraud or corruption taking place in it. The objective is to provide a framework to promote responsible and secured vigil mechanism in the organization. It helps the Organization to identify and take appropriate action against fraud or suspected fraud, misappropriation or abuse of position or any other unethical practice. It encourages employees and other stakeholders to bring ethical or legal violations they are aware of to the notice of the internal authority, generally the Chairman of the Audit Committee of the Board. The term “whistle blower” originates from the practice of British Policemen who blow the whistle whenever they witnessed any occurrence of crime. Whistle blower could be employees (former or existing), customers, directors, and a member of any outside organization, who have the willingness to take corrective action. This kind of mechanism or policy is not in vogue in MFIs. It is therefore suggested that NBE should facilitate by way of guidelines for MFIs to evolve appropriate policy and implementation framework for the purpose. TA support for NBE includes development of policy in this regard.

21. **Corporate Governance**:

Three directives (Corporate Governance, External Audit framework and Internal Audit guidelines) were drafted and discussed with both internal and external stakeholders, but not yet issued. *The directives in the areas of exit policy, trigger points for supervisory action, codes of standards & fair practices, compliance function, financial inclusion, customer protection and disclosure standards have not been evolved/issued. NBE may consider evolving these regulations, if necessary with RUFIP II support.*

Basle Core Banking Supervision (BCBS) includes, 'sound corporate governance, which underpins effective risk management and public confidence in individual banks and banking system'. Under RUFIP II, support was provided to NBE for a study on development of corporate governance in MFIs and preparation of appropriate regulatory and supervisory guidelines. Although at one stage in 2015, it was reported that the draft directive and guidelines were ready and would be issued shortly by NBE, it was later felt that further consultations with all concerned would be necessary. Subsequently the guidelines were not issued. It is proposed that RUFIP III would continue to provide support to MFIs to put in place robust governance mechanism and to NBE to assess the system through proper supervisory approach till the Corporate Governance Guidelines are issued.

OECD has documented parameters for corporate governance and also principles of Corporate Governance. The principles include effective governance framework, rights of shareholders, equitable treatment of shareholders, their role in governance, disclosures and transparency and responsibilities of Board. "Corporate Governance, to me, is about maximizing shareholder value legally, ethically and on a sustainable basis, while ensuring fairness to every shareholder, the company customers, employees, investors, vendor-partners, the Government of the land and the community''.[8] In India, there is a comprehensive Companies Law which, inter alia, contains elaborate Board responsibilities. A sound governance by the Board of MFIs should aim at achieving the following:

a) Clear Board Structure, robust Board procedure, coverage &categorization of agenda issues, proper record of minutes Greater engagement of Board with MFIs, independence of directors, a policy on conflict of interest;
b) Proper selection and appointment of directors, formation of Committees /Sub-Committees, with defined functions and their rules and procedures;
c) Adoption of code of conduct for Board, Key Performance Indicators (KPI), periodic evaluation of performance of Board;
d) Board's commitment to its role and responsibility, ensuring responsible finance by MFI, maintaining fairness, accountability, transparency, disclosures, customer service;
e) Ensuring MFIs' compliance to its mission, the country's laws, regulations issued by Regulator, internal and external audit findings, terms of investors and lenders; and;
f) Facilitating Policy development, their implementation, and company's orderly growth and development.

NBE, while finalizing the directives and guidelines on corporate governance, should keep the above in view. RUFIP III TA budget includes programmes for sensitization of Board of Directors' of MFIs, which discuss best practices in corporate governance.

[8] Narayan Murthy, quoted from " Governance Practices among MFIs in India by Micro Save -2015

22. Leasing Financing Regulation & Supervision:

As on 30 September 2018, the lease finance sector constituted DBE and 5 Capital Goods Lease Finance (CGLF) Companies that are operating in four regions, e.g., Oromia, Amhara, SNNP& Tigray and Addis Ababa City Administration having 50 branches. These institutions are providing capital goods financing services to 3,118 lessees. As on the same date, total credit in the form of capital goods finance stood Birr 577 million, as compared to Birr 429.3 million, demonstrating a 34% growth in one year. The sector's total capital goods finance formed only 14.3% of the total assets. Besides, total assets and total capital of the sector reached Birr 2.88 billion and Birr 1.67 billion, indicating 8% and 2% growth respectively compared to the last year.

GOE had issued a Proclamation on Capital Goods Leasing Business (CGLB) in 2013 .Accordingly, NBE had issued a series of directives on various policy and operational aspects. These directives covered (i)Requirement of licensing of CGLFB in February 2013,(ii) Manner of financial and operational information reporting in March 2016, (iii) Minimum CARR(10%) in April 2016, (iv) Penalties on failure to comply with regulatory requirements of CGLB directives in June 2017, (v)Minimum paid up capital requirement directive (2nd replacement) in July 2017,(vi) Limit to CGLF to single lessee in September 2018,(vii)Ceiling on aggregate finance to be granted to any single lessee (2.5% of the total capital of the Company),SMEs and others in February 2019, (viii) Capital goods modality directive in February 2019. Under the Act/Directives, for the first time foreign companies were permitted to invest. "Foreign Companies permitted to invest, as defined in the directive; means capital goods companies licensed by NBE wherein shares are partly or wholly owned by foreign nationals or organizations fully or partially owned by foreign nationals." The aggregate sum of capital goods finance granted to and outstanding at any one time to any single lessee shall not exceed 2.5% (two and half %) of the total capital of the company."[9]

"Capital goods business includes financial lease and hire- purchase. Lessee under the agreement is defined as obtaining capital goods from lesser and has right to use the capital goods, against payment of rent on agreed period of time. Leasing is a means of providing access to finance and may be defined as a contract between two parties wherein one party (lesser) provides an asset for use by another party (the lessee) for a specified period of time in return for specified rent. Leasing, in effect, separates the legal ownership of an asset from economic use of that asset." Leasing fosters economic development and job creation by providing access to finance to micro, small and medium businesses that often cannot have access to other form of financing. In a country where the lease market has already built up encouraging competition, lowering of financing rates and expanding of financing volumes can occur. It leads to rapid growth in sustainable equipment (i.e., energy efficiency, renewable energy and cleaner production). Because leasing is asset-backed and generally cash flow-based, it is a particularly relevant product to finance such equipment.[10]

MFIs in Ethiopia have been doing micro leasing sporadically of small equipment on informal basis since 1998.However; operational lease, financial lease, and hire-purchase lease have high potential in Ethiopia. The legislation; involvement of five MFI- affiliated leasing Government Companies in Oromia, Afar, Somali ,Rays; besides perspectives of Private companies in view of provision for participation of foreign investors; and the regulatory initiatives of NBE in issue of several directives and interventions under PRIME(Pastoralist Areas Resilience Improvement through Market Expansion) to address the

[9] NBE directive, 06 February 2019
[10] Leasing in Development- Guidelines for Emerging Economics- 2005-IFC

leasing sector gaps would go a long way to expand lease eco system. Renting is more common in the construction sector. Leasing is limited to a few larger MFIs that lease small irrigation equipment, bee hives, etc., to farmers. There are, however, several bottlenecks for a vibrant leasing sector in Ethiopia, which include lack of funding, technical expertise about machinery and equipment, accounting including introduction of IFRS, supplier identification, clarity about regulations, taxation, registration and ownership, and comprehensive training arrangement. A series of directives issued by NBE during the last 6 years gives evidence of the trial and error process continuing in the emerging sector.

In 2018-19, ten officers from NBE had attended a 4 days' training programme on lease finance in Turkey. In this background, an exposure-study visit has been included in the TA budget of RUFIP III to enable NBE, GOE, and other stakeholders for exploring the best possible policy options, regulatory &supervisory framework and best practices, so as to address the various gaps indicated above. The training programmes by NBE and AEMFI can also enhance the awareness among all stakeholders in this regard.

23. Exploring Transformation and upgradation of Leading MFIs:

The five big- sized MFIs (ACSI, DECSI, OCSSCO, Omo and AdCSI) continued to dominate the market share (almost 90%) with respect to total deposits, net-loan outstanding, total assets, and number of clients. The details of their performance have been analyzed in the demand of credit analysis separately. *The big five have been demonstrating their capacity for further growth, diversification and potential to reach new heights. Considering their size and capacity, a transformation policy should be evolved for their future. The question of upgrading these MFIs as 'community banks' to provide them scope for expanded and diversified services can be considered. It would need separate statute and regulations. Alternatively, they can be given license as commercial banks, but with a precondition that they would continue to serve micro fiancé clients. Under RUFIP III, NBE can conduct a study for this purpose, which would facilitate policy decision –making, evolving suitable regulation, and carving out a strategy for their transformation.*

24. Establishment of an Apex Development Bank:

In the design report of RUFIP II, setting up of an 'apex development bank' to address the liquidity problem of MFIs was emphasized and three exploratory visits to other countries were envisaged for the purpose, with allocation of USD 105,000.The select officials from the policy-making institutions had undertaken exposure visits to NABARD, India and PKSF, and Bangladesh for the purpose. However, top level policy-making officials of NBE and GOE had not then evinced interest. NBE and GOE have now desired to take a fresh look at this in the changing policy environment. Besides, certain countries in Asia and several countries in the ESA region have set up Apex Development banks for up-scaling funds flow for agriculture / rural sector. These include Tanzania Agriculture Development Bank (TADB), FARE (a wholesale financial institution in Mozambique), MF Support Centre (in Uganda), etc. The Vice-Governor, NBE during the discussions revealed that since earlier exposure visit teams did not comprise top level officials of the policy-making authorities, a fresh team with relevant officials will undertake an exposure visit. The learning from the earlier exposure visits and further exposure visit(s), if organized should be discussed in the stakeholders' workshops, as envisaged, to facilitate participatory & information-based decision in this regard.

25. Agency Banking- Business Correspondence Model:

In India, the Reserve Bank of India (Central Bank of the country) had allowed banks in 2006 to appoint entities and individuals as agents for providing basic banking services in remote areas where they practically cannot open a branch. These agents are called Business Correspondents (BC), which are retail agents engaged by banks to provide limited banking services at a low cost. The basic services BCs provide at door step include saving bank small deposits, recurring deposit, remittance, micro credit and general insurance facilities. Thus, door step delivery, especially cash in and cash out transactions, addresses last mile problem and accelerates financial Inclusion. BC model is an innovative technology-based banking model which enables people in remote areas to access formal financial institutions. In 2017-18, a BC registry portal has been launched to enable Commercial Banks to upload data pertaining to BCs deployed by them. Many MFIs are increasingly going in for a BC mode of operations as it frees them from the problem related to accessing funds from banks and financial institutions. It also provides them with an income source by way of commission. It eases the banks' task of achieving Priority Sector target stipulated by the Central Bank. The recovery responsibility lies with the MFI concerned. Considering the liquidity problem of Ethiopian MFIs and the reluctance of Commercial Banks to serve rural areas, this model appears to be relevant. In this context, an exposure study on agency banking –linking MFIs with CBs has been included in TA for NBE, for policy explorations. Select MFIs, CBs and representatives from AEMFI, FCA and MOFED can be included in the visit. Other areas of learnings from India, related to TA interventions explained in the foregoing paragraphs are as under:

a) Financial inclusion strategy and the role of Central Bank;
b) Functioning of Self-Regulatory Authorities (SRO) recognized by Central Bank;
c) Working of Development Banking, particularly NABARD;
d) Self-Help Group-Bank Linkage Programme, particularly digitization of groups;
e) Apex institute of excellence in Training –Bankers' Institute of Rural Development (BIRD) and Training Certification System; and;
f) Supervision and regulation of rural financial institutions.

26. **Documentation of Manuals and Guidelines:**

With RUFIP I and II support, NBE had been facilitated in preparation of manuals and guidelines for reference of supervising officials, auditors and MFIs. NBE, as regulator, has been undertaking various policy, regulatory and supervisory initiatives to develop its own capability and also strong financial institutions. To this end, the Bank has issued directives that require the MFIs to increase their capital within the given time-frame. In the event of some of the MFIs not being able to comply with NBE regulations, especially on capital requirements and any other supervisory prescriptions, there is a need for appropriate policy and strategy for merger, acquisition, rehabilitation, liquidation or exit, depending on their financial health and overall compliance capability. NBE has also conducted studies for developing regulations for merger and liquidation of MFIs. With RUFIP III support, more documentation of manuals and guidelines would be undertaken by NBE for the guidance of their own officers and those of supervised entities. Besides, various studies envisaged including exposure study visits and seminars/conferences, to be conducted with RUFIP III technical support should be documented for internalization of learnings. Specific Manuals and Guidelines that would be supported with TA under RUFIP III are as under:

a) Policy & Procedure Manual for handling policy formulation, licensing, onsite inspection and Offsite Surveillance(including updating the existing Risk-based supervision manual);
b) Reorganization & merger of MFIs- Developing Strategies for crisis management and problem resolution framework;
c) Stress Testing Policy and Procedure for MFIs; and;
d) Macro Prudential Assessment & Financial Stability ;

With a view to enabling NBE to evolve required policy and regulations and operational guidelines for MFIs, technical support to NBE would be provided**.** Wherever necessary, hiring of suitable consultant will be supported.

27. Electronic File Management:

This intervention is intended to enable NBE to develop modern file/record management, build up folder culture, optimize Meta data, bring file infrastructure online, build up archives, prepare backups, and plan for retention and dumping the deadweight. The staff should familiarize themselves in creating files in logical hierarchy, developing file naming conventions, filing as they go, culling files regularly, and, making nest folders within folders. The support under RUFIP III will enhance the capacity of NBE, leading to efficiency, speed and scale. A consultant can be engaged by NBE for study and documentation. Under RUFIP II, support was given to MFISD for acquisition of laptops and processing of servers. TA support is also provided for training of supervising officials in advanced excels management through workshops.

28. Web Page Development:

It is observed that the website pertaining to the Directorate is inadequate and there is considerable scope for improvement. The general public, supervised entities, investors, donor agencies and researchers look to NBE's website for knowledge management and guidance. Critical information on financial performance of MFIs, concepts and developments in regulatory environment, best practices in regulation and supervision, study and research findings, draft guidelines, directives and proclamations for public views, etc., should appear in the website. NBE should also encourage and provide support for enriching the website of MFIs and AEMFI for public good. Besides, NBE could have a good intranet package on Regulation+ for the benefit of internal staff of NBE. RUFIPIII has provided suitable TA for NBE for the purpose of development of webpage.

29. Regulation& Supervision in Pastoral region:

With a view to ensuring closer supervision and regulatory compliance in the Pastoral regions, it is deemed necessary to have a Regional Office for pastoral regions. The Supervision Department of Bank of Mozambique (Central Bank) has established six Regional Hubs /outlets with inspection units in different provinces to operate closer to the supervised rural finance institutions. In India, Reserve Bank of India (RBI) has Regional Offices in each of the major States with necessary powers and HR to, inter alia, undertake supervision of financial institutions, including MFIs. *The pastoral region financial institutions need differential regulatory and supervisory approach as also focused financial inclusion efforts. MIS for financial services made available in the regions should be developed to facilitate necessary supportive and monitoring interventions. In this back ground, TA support to NBE has been envisaged under RUFIP III.*

30. Coordinating &Support Officer in NBE:

TA support for a large number of interventions, involving NBE and MFIs has been provided under RUFIP III. It is necessary to have the services of an exclusive Officer to initiate, coordinate and monitor the interventions for expeditious and effective implementation. Notwithstanding the positioning of more number of specialist staff in PCMU under RUFIP III, it would be more useful and result –oriented, if a competent officer is positioned in DMFIS, NBE on a long term basis, with RUFIP III technical assistance. Accordingly, necessary budget has been provided for TA for the purpose.

DBE in its PCMU RUFIP II second Quarter Performance Report for the Budget year 2018-19 had outlined challenges in NBE handling Regulation & Supervision -related TA action which included difficulty in getting adequate response from consultancy agencies, delay in finalization of procurement process and heavy workload with NBE. To quote, "Huge work load to handle project activities as the task is being done parallel to other regular activities of the Bank".

31.Development of Policy, Regulations and Road Map-Summary:

As mentioned earlier, RUFIP support was taken by NBE for participation in training programmes, exposure visits, for conducting several studies, documentation of Manuals, acquiring IT tools and engagement of consultancy agencies for various interventions, with a view to evolving new regulations, revising existing regulations and documentation, for strengthening their supervisory capacity and compliance by supervised MFIs. In the light of certain unfinished interventions, the financial sector reforms, specified priority needs of NBE, the focus of RUFIP III and other emerging requirements as explained above, regulations, operational guidelines and road map/strategies for the following should be expeditiously developed and internalized and implemented if necessary with further TA support under RUFIP III:

a) Development of corporate governance regulations, governance codes and manual;
b) Development of policy, regulations, procedures and road map for merger, acquisition and liquidation of MFIs;
c) Development of crisis management and problem resolution framework for MFIs, Trigger Points for supervisory action and warning signals, depending on stress situations;
d) Stress Testing Policy and Procedure for MFIs;
e) Strengthening Risk management architecture in MFIs and enhancing risk-based supervision;
f) Guidelines for treatment of loans in case of natural calamities;
g) Detailed guidelines for internal and external audit of MFIs; strengthening risk-based audit;
h) Adoption of IFRS in MFIs;
i) Fraud prevention, monitoring and control;
j) Transformation and upgradation Policy and Procedure of MFIs-road map; assessing need, risks and implementation modalities of transforming MFIs in to other category of financial institutions including commercial banks;
k) Grievance Redressal mechanism –guidelines, Customer protection, Whistle Blower Policy and guidelines;
l) Guidelines &Policy for self- regulation, Upgrading AEMFI as Self-Regulatory Organization(SRO):
m) Regulation for deposit Insurance system;
n) Regulation and guidelines for MFI-CB linkage;
o) Development of codes of standards and fair practices;
p) Social Performance Management rating- Development of responsible finance;
q) Developing policy for securitization of assets, greening finance, financing against moveable assets, Islamic finance, lease finance;
r) Upgrading MIS and evolving exposure norms and reporting system;
s) Review of all Proclamations, regulations and supervisory guidelines in the light of financial sector reforms;
t) Adoption of new technology in onsite inspection, offsite surveillance and audit;
u) Integrating MFIs with Payment and Settlement System and Credit Reference Bureau;
v) Regulation for digital financial services, enhancing branchless banking;
w) Cyber Security policy, regulations, directives and guidelines ;
x) Setting up of Apex Development Bank, or support to MFIs, particularly liquidity and developmental needs;

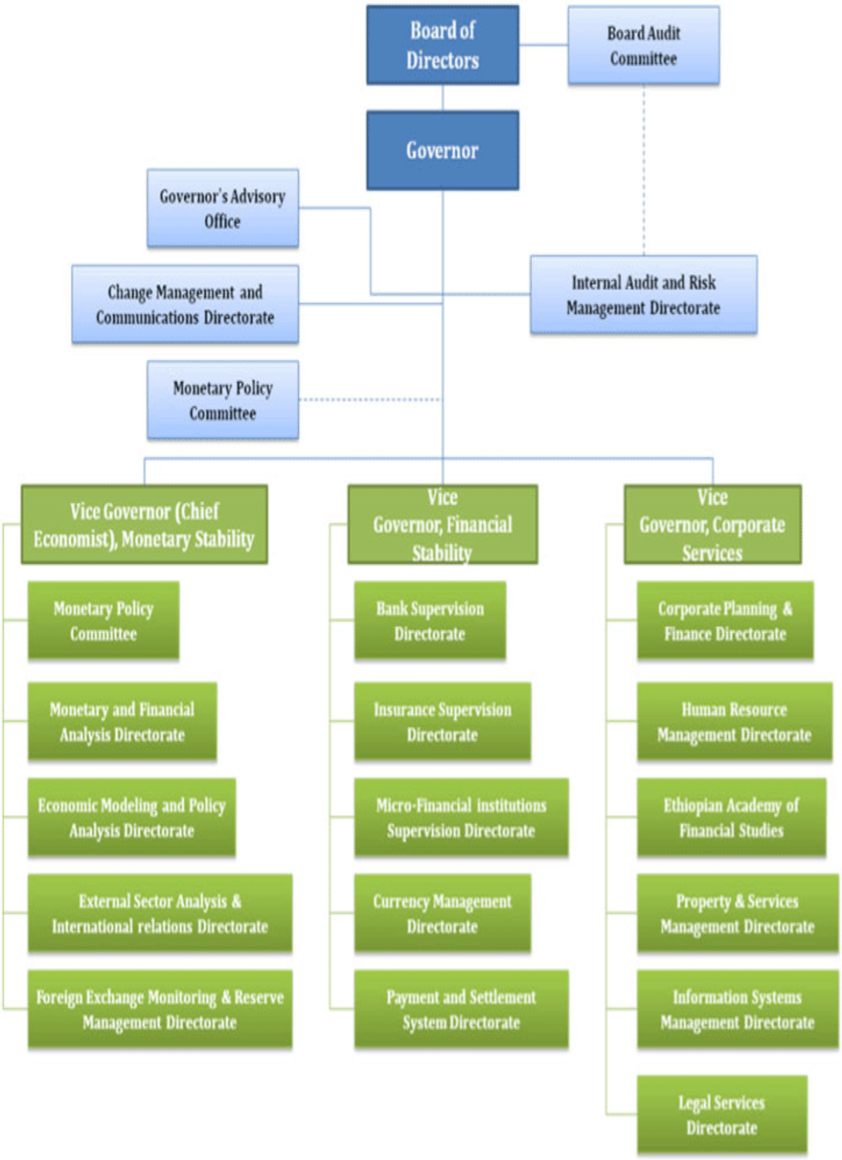
y) Development of Manuals ,documentation of Guidelines for new systems, products and services and policy implementation, electronic file management, web page development for DMFIS;
z) Setting up of regional office in Pastoral areas for better insight and supervision;
aa) Development of new training packages for capacity building of Officials of DMFIS and other related Directorates of NBE, besides officers of MFIs and AEMFI, particularly in financial inclusion, digital literacy, delinquency management, portfolio quality management, risk management, troubled assets relief, etc.

The list of TA interventions to be supported under RUFIP III is given in tabular form **as Annexure II**

Hopefully, with implementation of the above interventions in a timely and effective manner by NBE, there will be all-round development of regulatory and supervisory capacity, greater stability of microfinance sector, enhanced customer satisfaction, better preparedness and resolution for any sort of crisis, considerable improvement of functioning of MFIs and above all, fulfillment of the objectives of RUFIP III. NBE and MFIs will be able to sustain the systems and processes for smooth functioning in changing policy environment, when RUFIP III exits in 2025.

Annexure I

Organogram of NBE



Annexure II

List of TA interventions to be supported for improving capacity and systems in NBE for microfinance regulations and supervision

NBE - Directorate of MFI Supervision(DMFIS)

Institution	Theme	Intervention	By whom
Clients of MFIs	Financial and Digital literacy	Literacy Programmes	DMFIS, Financial Inclusion Secretariat(FIS) ,NBE ,Ethiopian Institute of Financial Studies (EIFS),select MFIs or any agency identified/engaged
MFIs	Support for Technology Innovation	Financial support for expanding technology innovations ,with a focus on the excluded regions	NBE (DMFIS &Other related Directorates)
NBE	Policy and Strategic Interventions	Development of strategic policy interventions	NBE(DMFIS & Other related Directorates)
NBE(Officers of DMFIS & Other related Directorates) & MFIs	Training and sensitization on the operationalization and implementation of movable asset collateral registration system by MFIs.	Training	Consultant/ EIFS& Senior officers of NBE.
NBE and MFIs	Risk Management and Risk- Based Supervision for MFIs.	Training	Consultant/EIFS/any institute identified
NBE(DMFIS & other related Directorates)	Regulation and supervision of	Training	Consultant/EIFS/any institute identified

	Islamic financial service		
NBE and EIFS	Boulder Microfinance Training	Training	External Service Provider
NBE and MFIs	Portfolio Quality and Delinquency management	Training	External Service Provider
NBE and MFIs	Troubled Assets Relief programme	Training	External Service Provider
NBE, AEMFI, Related Departments	Operation and regulation of digital financial service ,cyber security and digitisation of groups	Exposure Visit	Oversees organisations
NBE, AEMFI, FCA, MoFEC, GOE	Establishment and operation of Deposit Insurance Scheme for MFI savers	Exposure Visit	Oversees organisation(s)
NBE, AEMFI,MFIs &Leasing Companies	Lease Financing regulation and Operation	Exposure Visit	Oversees organisations
DMFIS,NBE, Commercial banks, AEMFI, FCA and Directorate of Banking Supervision, Payment & Settlements	Linkage of MFIs - Agency banking by Commercial Banks through MFIs	Exposure Visit	Oversees organisation(s)
NBE, AEMFI, MFI	Development of self- regulation and institution of Self-Regulatory Organization (SRO) by upgrading AEMFI	Exposure Visit	Overseas organisations(e.g. Sa-Dhan, MFIN and RBI
NBE , Auditors, AEMFI and MFIs	Adoption of IFRS by MFIs and its impact from Regulatory Perspective	Workshops	NBE and Consultant and Accounting &Audit Board of Ethiopia, Professional Accounting bodies for CAs
MFIs & Auditors	Annual auditors 'Conference**	Conference	NBE and Consultant
Directorate of MFI Supervision, NBE& Supervisors	Annual Supervisors' Conference	Conference	NBE ,DMFIS & Directorate of Banking Supervision

NBE, AMFI MFIs, Commercial Banks	Implementation and operationalization of Credit Guarantee Scheme (CGS) framework on MFIs	Workshop	NBE and Consultant
NBE, AEMFI and MFIs	Responsible financing and financial consumer protection (customer grievances, codes of standards and fair practices and improving customer centricity of MFIs)	Workshop	NBE and Consultant
NBE , AEMFI and MFIs	Supervision and regulation of MFIs in the context of financial sector liberalization including Policy, regulation and Supervision Development	Workshop	NBE and Consultant
NBE and MFIs	Assessment on the current status, challenges and future prospects of enhancing branchless banking services by MFIs including policy recommendation.	Workshop	NBE and Consultant
NBE , AEMFI and MFIs	Training and sensitization on Bank Supervision Application (BSA)-Possibility of upgrading OSS (Offsite Surveillance System)& consequent	Workshop	NBE and Consultant, Directorate of Banking Supervision, Technical Service Providers

	Reporting Framework		
NBE.(DMFIS)	Advanced use and application of Excel application for Supervisors	Workshop	NBE and Consultant(IT trainer)
MFIs, NBE, FCA ,AEMFI	Conference on Social performance management	Conference	NBE and Consultant
NBE, AEMFI,	Assessment on the need and implementation modalities of commercializing Microfinance sector in Ethiopia.	Study	Service Provider/suitable consulting agency, select CBs
NBE, AEMFI, MFI,MOFED,GOE	Assessment on the need, risks and implementation modality of transforming MFIs into other form of financial institutions including into Commercial Banks.	Study	Suitable Consultant and NBE, select CBs
NBE,GOE	Assessment on the adequacy and effectiveness of law enforcement instruments and actions of the NBE on MFIs.	Study	Suitable Consultant
NBE	A study on the need and modalities for setting up a Credit Reference Bureau and its functioning	Study	Service Provider ,MFIs &a few CBs
NBE	A study for evolving policy and system for securitisation of assets	Study	Suitable consultant
NBE, FCA	A study for developing new financial products	Study	Suitable Development

	with necessary safeguards for greening finance		agency ,Related Ministry of GOE
NBE and AEMFI	A study on MIS and appropriate exposure norms and reporting systems	Study	Service Provider/Suitable Technical expert
NBE, MFIs, MOFED	A study on Corporate Governance, Preparation of regulation, Corporate governance codes	Study	Service Provider ,Consultant
NBE,(DMFIs ,DBS, DP&S Supervision) AEMFI and MFIs	A study on Payment Settlement System ,facilitating integration of MFIs	Study	Service Provider/technical experts , Telecom Authorities, a few top MFIs
NBE	Electronic file and management system	IT interventions	Service Provider
NBE	Automation of the onsite supervision system- innovations and refinements	IT interventions	Service Provider/Regulation expert
NBE	Developing web pages for Directorate of MF Supervision	Website improvement	Service Provider
NBE	Development of Policy and Procedure Manual for handling Policy formulation, licensing and offsite surveillance of MFIs	Manual Preparation	Service Provider/Consultant
NBE(all supervision Directorates),CBs, MFIs, Related Ministries of GOE	Development of Crisis Management and Problem Resolution Framework for	Framework Development	Service Provider/Regulation Expert

	MFIs; reorganisation and merger of MFIs		
NBE	Development of Stress Testing Policy and Procedure for MFIs.	Policy and Operational Guidelines	Service Provider/Consulta nt /Regulation expert
NBE	Macro prudential Assessment Framework and Financial System Stability	Preparation of financial Stability Reports	Service Provider/Regulatio n expert.
NBE,MOFED,FCA and DBE	Institutional support for setting up of an Apex Development Bank	Liquidity and Developme nt Support	NBE and Consultant
Regional Office	Study for setting up of Regional Office of NBE in Pastoral Region	Study	NBE &Consultant, if needed
NBE	Appointment of long term consultant in NBE for overseeing NBE interventions	Appointmen t of consultant	NBE and Consultant

PART II- Strengthening Capacity and Systems in NBE for Micro Insurance Regulation & Supervision and Financial Discipline

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PART II

Component 2 : Improving regulation ,supervision and Institutional Discipline

2.1 (b) Strengthening Capacity and Systems in NBE for Micro Insurance Regulation , Supervision and Development

1.Insurance sector in Ethiopia: Overview:

In Ethiopia, there are 17 insurance companies including one state- owned Ethiopian Insurance Company (EIC) and 16 private insurance companies operating in the market. Among them, 7 are general insurer while ten of them are composite (carrying on both general and long term business) insurer. Since June 2016, a reinsurance Company (Ethiopian Reinsurance S.C) has been operating in the market. As at 31 December, 2018, the total number of branches of insurance companies stood at 554, reflecting branch to population ratio 172,807 in the country. The ratio has improved from 180,308 in the previous year .Moreover, 2,254 Insurance Agents, 57 Insurance Brokers,97 Loss Accessory and 3 Surveyors are operating in the market. As at 30 September 2018, total assets, total capital. ,investment, gross premium and net income stood at Birr 18.45 billion ,Birr 6.43 billion, Birr 11.79 billion, Birr 2.51 billion and 197.6 million respectively. Moreover , a growth of 23.0%,39.9% and 10.9% was registered in total assets ,total capital and investment ,while a decline of 5.5% and 3.8% was registered in gross premium and net income ,compared to previous year's same period.(which was Birr 14.99 billion, Birr 4.59 billion, Birr 10.63 billion,2.66 billion and Birr 205.5 million). [11] Insurance sector is fairly strong and stable. The Directorate of Insurance Supervision, NBE has been mandated to undertake regulatory and supervisory functions related to the sector and they have put in place onsite inspection and offsite surveillance system for the related institutions.

1.1 Comparative Financial Performance of Insurance Sector:

A comparative position of financial performance of Insurance Companies as on 31 Dec 2018 and 31 December 2017 is given in the following table:

Table No: 1 Financial Performance of the Insurance Sector

Dec 2018 Vs Dec 2017

In millions Birr

		Dec-18			Dec-17			Overall growth
No	**Item**	**Non-Life**	**Life**	**Total**	**Non-Life**	**Life**	**Total**	**(%)**
1	Total Asset	18,037	2,110	**20,147**	14,355	1,834	**16,189**	**24.5**
2	Total Capital	5,725	600	**6,325**	4,296	354	**4,650**	**36.0**
3	Investment	10,568	1,792	**12,360**	9,518	1,648	**11,166**	**10.7**
4	Gross Premium	5,204	295	**5,499**	4,738	279	**5,017**	**9.6**
5	Net Premium	3,704	267	**3,971**	3,539	258	**3,797**	**4.6**
6	Retention (%) (5/4)	71	91	**72**	75	92	**76**	**-5.3**
7	Net Earned Premium	2,932	267	**3,199**	2,760	258	**3,018**	**5.9**
8	Net Claims Incurred	1,968	102	**2,070**	1,817	91	**1,908**	**8.5**
9	Loss Ratio (%) (8/7)	67	38	**65**	66	35	**63**	**3.2**
10	Net Income	646	-	**646**	477	-	**477**	**35.5**

[11] Data taken from NBE

1.2 Regional Imbalance:

A table (Table no. 2) giving Region –wise and insurance Company wise branch distribution is given below. As in case of MFIs and commercial banking sector, regional imbalance is evident in branch distribution of Insurance companies. Addis, Amara, Roomier and SNNP – 4 regions- had share of 89.8% of the branches as on 30 September 2018.

Table No: 2 Insurance Companies' Branches Regional Distribution as at September 30, 2018

Insurance Companies' Branches Regional Distribution as at September 30, 2018

No	Company	AA	D.D	Afar	Amhara	Tigray	Oromia	SNNPS	Benishangul Gumuz	Somali	Harar	Gambela	Total
1	EIC	25	2	2	12	6	18	14	1	1	3	1	**85**
2	NILE	20	1	1	6	3	4	5	-	-	-	-	**40**
3	Nyala	15	1	-	3	2	5	4	-	1	-	-	**31**
4	NICE	21	1	-	4	1	5	5	-	-	-	-	**37**
5	Awash	27	1	-	2	1	11	3	-	-	-	-	**45**
6	United	25	1	-	4	1	4	2	-	-	-	-	**37**
7	NIB	26	1	-	4	1	4	3	-	-	-	-	**39**
8	Africa	16	1	-	4	2	3	3	-	-	-	-	**29**
9	Global	8	1	-	2	1	1	1	-	1	1	-	**16**
10	Lion	16	1	-	5	3	4	2	-	-	-	-	**31**
11	Oromia	19	1	-	2	1	15	1	-	-	-	-	**39**
12	Abay	13	1	-	7	1	1	1	1	-	-	-	**25**
13	Berhan	10	-	-	1	1	1	2	-	-	-	-	**15**
14	Tsehay	12	1	-	3	1	1	1	-	-		-	**19**
15	Ethio-Life & General	15	-	-	1	1	2	1	-	-	-	-	**20**
16	Bunna	12	-	-	3	1	1	1	-	-	-	-	**18**
17	Lucy	12	-	-	-	1	1	2	-	-	-	-	**16**
	Total	**292**	**14**	**3**	**63**	**28**	**81**	**51**	**2**	**3**	**4**	**1**	**542**
	% ge	**53.9%**	**2.6%**	**0.6%**	**11.6%**	**5.2%**	**14.9%**	**9.4%**	**0.4%**	**0.6%**	**0.7%**	**0.2%**	**100.0%**

2.**RUFIP II and Micro Insurance Regulation and Development:**

In RUFIP II framework, it was inter alia, envisaged that NBE should undertake potential assessment /scoping study and evolve regulatory framework for orderly development of micro-insurance sector. However, World Bank mounted a stock-taking study on regulatory and supervisory framework in 2012. GOE had issued Insurance Business Proclamation n 2012, covering all relevant aspects of insurance business comprehensively. However, there was no separate Proclamation or Chapter in the existing Proclamation for exclusively micro insurance. (Notwithstanding the advice given in the RUFIP II design /supervision reports to the effect). NBE had finalized the regulation on micro-insurance (, in consultation with the World Bank) and issued the same in pursuance with the authority vested in it by Article 4(10), 4(4) coupled with Article3 (2) (a) of MF Institutions Proclamation No: 626 of 2009. MFIs have been operationalising their own insurance schemes, by virtue of the power vested with them with regard to micro insurance. NBE was considering to issue 4 directives via: (a) licensing and supervision of micro insurance agents, (b) distribution channel, (c) prudential regulation. Based on the study report and technical assistance , NBE had issued one directive in January 2015 on 'Licensing, license renewal and Product approval for Micro insurance providers '' which covers regulations relating to the organizations exclusively dealing with micro insurance and those as an additional function (like MFIs). No license has so far been issued to any company for micro insurance business exclusively. Although RUFIP II design and supervision reports, the commitments for micro insurance development and regulation have been reiterated to NBE and a budget of US $ 120,000 was earmarked for engagement of international consultant for the micro insurance potential assessment and policy development study, no support from RUFIP II has been taken recourse to. Notwithstanding availability of World Bank support for the 'sector' study in the past and their continuing support for agricultural insurance development, the Directorate of Insurance was keen to have the support of IFAD for strengthening capacity of NBE for regulation and supervision of micro insurance sector. Possible interventions with RUFIP II support include the following:

a) Exposure visit to developed micro insurance markets and where there is a well-functioning micro insurance supervisory regime;
b) Enhancing internal supervisory capacity and creating a core team specializing on MI business;
c) Developing a road map/strategy for the development of Micro-insurance business in the country in general;
d) Preparation of Supervisory Manual;
e) Intensifying financial literacy; and
f) Preparing Product design and pricing models.

It was suggested that NBE might direct its effort for popularizing micro insurance as also putting in place prudential system & mechanism for effective regulation of micro insurance sector, by taking recourse the above interventions, with need-based support from RUFIP II.

3. Present Policy environment:

In the absence of legal framework, issue of regulation by NBE was considered irregular and accordingly, the above regulation/directive was withdrawn subsequently (April 2018) .The NBE has been working on a project called" Promoting Inclusive Insurance in Ethiopian with the World Bank First Initiative". A demand survey was conducted, products were designed and developed based on the survey, insurers and other stakeholders were engaged throughout the process to partly build their capacity and to encourage them to rollout the products. Nonetheless, the process is very slow and the piloting is still pending.

4.Joint Project of ILO / UNCDP in micro Insurance in Ethiopia (2008-13):

Joint programme on micro insurance was implemented by ILO and UNCDP in Ethiopia. The project had 3 components – (I) Regulation &supervision, (ii) Product development and (iii) market development & had focused on participation of MFIs and Financial Cooperatives in the project. The broad objectives and activities of the project are given **in Annexure I.** Considering commonalities of focus, possible collaboration with the UN agencies might be explored under RUFIP III. The study under the project identified the following challenges:

- ✓ Special benefits for MFIs and cooperatives might discourage the participation of insurers in the micro insurance market;
- ✓ Reaching momentum of agricultural insurance pilots requires joint efforts from all stakeholders ;
- ✓ Lack of technical capacity is a major challenge for micro insurance providers; and

- ✓ Lack of consensus between stakeholders hinders a multi-stakeholder approach for local ownership

With a view to supplementing RUFIP II in financial inclusion, a special project was prepared/submitted by ILO and UNCDP with financial outlay of US$ 20 million in 2012. The project envisaged technical and financial support covering mapping demand and supply data for financial services, simplified data reporting system by cooperatives /MFIs, strengthening product development, financial education, micro-insurance, branchless banking /mobile banking /mobile money and lease financing. UNDP, WFP and FAO were expected to provide technical and financial support for the initiatives. Somehow, the collaboration with RUFIP II did not make much headway.

5. Potential of Micro insurance:

Micro-insurance service has been playing pivotal role in changing the livelihood of Ethiopian smallholding farmers. The insurance service being provided in drought -prone areas of the country in collaboration with donors and micro-finance institutions has created confidence among the farming and pastoral communities and upgraded the production and productivity of low income farmers. Index- based and indemnity- based insurance packages were offered to the farmers.* "Index based insurance system is used for tackling drought in pastoralist society who depends on pasture for their animals, whereas the indemnity insurance is multi-purpose insurance which is mostly provided for agro-pastoral society to pay compensations for accidents relating to fire, flood, pest and drought. World Bank study brings out the increasing demand for micro insurance. To quote" the market itself shows broad potential for micro insurance purchase by up to 10 million House hold or 50 million Ethiopian. The potential could be met with a market -segmented approach.[12]

6.Emerging Challenges:

Various crop and livestock insurances have been promoted by several international agencies in collaboration with various actors including insurance companies. In recent years, the attempt to introduce and expand index- based crop and livestock insurances has shown some progress even if the number of households remained low. Insurers are hesitant to aggressively go for micro-insurance service even though there is a good potential ,due to various reasons. Firstly, most of the insurers have no experience in micro insurance and so capacity is one of the key problems as far as insurers are concerned. NBE and the industry have a considerable knowledge and experience gap. The key skills, such as, actuarial and product development are non- existent. NBE has no actuary and this is one of the key skill deficiencies of the Bank. Financial support in building an internal capacity is critical to promote micro insurance and the mainstream insurance as well. Supervisory system proportionate to micro Insurance business is another area warranting support. Secondly, lack of strong partnership between the state and private companies in developing and promoting micro-insurance is another challenge. Thirdly, absence of legal frame work aimed at promoting Micro insurance is also another major hindrance for sector growth. Fourthly, the absence of a coordinating agency that bring together all actors and the state ,particularly in promoting crop and livestock and other insurances for the vast majority of farmers and pastoralists is another challenge. Finally, Micro insurance products require a different kind of business model and MFIs have such no expertise. Particularity index- based products

[12]What People want: Investigating Inclusive Insurance Demand in Ethiopia- World Bank Group-2018

are not easy to deal with even by the insurers themselves. Thus, diversification of MI products by such institutions is a challenge. Data-building is also another challenge.
Companies which introduce any new product need to report to NBE and get concurrence. NBE reputedly has not received any formal application in this regard. MFIs and other cooperatives provide Credit life. NBE does not have concrete data on Credit life.

7. Role of Agricultural Transformation Agency (ATA):

ATA has been in the forefront in popularizing and developing micro insurance. They have been doing pioneering work in implementing Input Voucher Sales System, Ethiopia Agri business platform and Micro Insurance. A consortium led by ATA (under Ministry of Agriculture) with Public Finance Enterprises , Kefia-Financial Technology agency and Ethiopian Insurance Company had worked to promote weather, livestock, crop insurance, vegetable index policies in collaboration with insurance companies in mostly Oromoa and Tigray regions. MFIs, (ACSI, Omro, etc) and RUSACCOs/Unions have been working as agents in Amarah, SNNP and Tigray regions. A national level standing Task Force with ATA as lead has been constituted to work for promoting sustainable agricultural insurance policy and regulatory framework in the country. An insurance Facility Fund with ATA as lead has been set up for addressing issues of premium subsidy and guarantee fund .Four Companies are part of this fund. One consultant has been conducting field study on An Affordable insurance and the report is being awaited .Earlier Micro save and Kefia Financial Technology had been engaged for study of micro insurance products. In view of the strategic position, ATA could assume greater role in facilitation of micro insurance in future.

8.Possible Support under RUFIP III:

8.1 Development of Regulatory &Supervisory Architecture: Considering the potential of micro insurance, particularly to improve the overall stability of low income population and to stabilize their income and to meet the risk management needs of such people in the vulnerable regions, comprehensive support could be supported under RUFIP III. Development and growth of Microfinance sector could be possible in the country due to forward-looking legislation, a strong risk-based supervision by NBE and continued support by RUFIP I &II .Similarly, micro insurance sector should be upscaled with a comprehensive support from RUFIP III. The subcomponent should also cover strengthening regulation and supervision by NBE and regulated entities including insurer, MFIs and Financial Cooperatives. It is expected that suitable legislation and regulation would be carried out within a year or two. Policy advocacy in this regard can be pursued. The interventions in the post –legislation/regulation would include capacity building efforts for policy –making officials, supervisors, officials of insurers, agencies like MFIs/Financial cooperatives and insured people. Sensitization programmes, training programmes and exposure visits for supervisors and supervised entities, customers would be supported.

8.2 The willing insurance companies would be encouraged to develop products suitable for clients of MFIs and Financial cooperatives and later as distributive agents for expanding coverage of larger number of people in rural areas with varieties of products. Integration of RFIs with Insurer will be explored. The integration between insurer and RFIs would be deepened .Potential survey, new product development, financial literacy campaign, customer protection and impact assessment would be supported.

8.3 Technology application for MIS, service delivery, propagation and dissemination and feedback mechanism would be supported. Data –base for monitoring progress of micro insurance would be strengthened.

8.4 Efforts may be made to include ATA in the whole endeavours. ATA's experience, networking with other insurers and strategic support would be of help.

8.5 The collaboration with ILO and UNCDF, in the back drop of their experience in micro insurance space in Ethiopia , should be explored.

9.Capacity Building interventions – Broad Approach for TA to NBE:

In the light of the above background, under RUFIP III, it is envisaged to provide technical assistance (TA) to NBE for exploring various policy options, to develop appropriate regulation and supervision framework, to enhance capacity of supervising officials, Insurers , select officers of MFIs and other related policy and implementing institutions and enhance awareness of all stakeholders . It is proposed that the Directorate of Insurance Supervision , NBE should be the nodal agency for implementation of all interventions, while Directorate of MFI Supervision should be actively associated to supplement former's efforts . The broad framework of such interventions, giving who should participate in such programmes and activities and whose support should be enlisted for organizing identified activities are given in a tabular form (**Annexure II).** The supervisory officers of Directorate of Insurance Supervision, Directorate of MF Supervision and officers of Financial Inclusion Secretariat of NBE, officials of MFIs, Insurers and AEMFI would be generally the participants and the composition of the participants of any programme would vary depending on the theme and nature of intervention. The representatives of ATA, FCA and MOFED,GOE can be co-opted for exposure-study visits and training programmes. Among the countries, Kenya , India, Philippines and Peru are possible destinations for overseas learning. Support can be enlisted from the international organizations which have experience in Ethiopia in this regard .These include World Bank, WFP, UNCDF, JICA, ILO, ILRI and Kliffya Financial Technology . As far as practicable, the services of local agencies including Ethiopian Institute of Financial Studies (EIFS) should be enlisted for TA support. Some of the overseas training/development institutions, Regulatory authorities and consultancy organizations ,which can be tapped for organizing training programmes ,exposure-study visits , convening conferences /seminars, conducting studies and documentation are cited below for reference:

a) National Insurance Academy ,Pune ,India (www.insurancepune.org)
b) Micro Insurance Academy, (MIA),New Delhi (headed by Dr. David Dor , Erasmus University Professor (mia.org.in)
c) KM Dastur Reinsurance Brokers Pvt Ltd (General Manager, AyandevSaha, E-mail address ayandev.saha@hotmail.co.uk)
d) Micro Insurance Centre (MIC)), General Manager, Michail J. Cord, E-mail address:mjmccord@microinsurancecenter.org.
e) Delight Professional Summits ,Nairobi, Kenya (Daniel Cheg: Chege@deligtsummit.com)-website: www.delightsummits.com
f) . Risk shield Consultants Ltd, Managing Director, AgrotoshMookerjee, E-mail address: agrotosh@googlemail.com.
g) South African MI Regulatory Framework ,National Treasury Policy Department, Republic of South Africa (micro insurance @treasury .gov.za,)
h) Insurance Regulatory & Development Authority (IRDA), Hyderabad, India.
i) Tanzania Insurance Regulatory Authority (TIRA).Website: www.tira...go.tz
j) The Access to Insurance Initiative(A2ii) (It is a global partnership with the mission to inspire and support supervisors to promote inclusive and responsible insurance, thereby reducing vulnerability . GIZ Rural Insurance Services Programme, India had a bilateral technical co-operation which was implemented by the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) under the supervision of the Department of Financial Services (DFS), Ministry of Finance, and GOI.

k) Institute of Actuaries of India ,Created under Act (ASI 2006) to promote ,uphold and develop standards of professional education ,training, knowledge ,practice and conduct among actuaries.

9.1 Separate Micro Insurance Proclamation & Regulation:

With a view to accomplishing orderly and comprehensive micro insurance development of micro-insurance sector in the country , it would be appropriate to frame separate and comprehensive micro insurance regulation backed by separate law or suitable and adequate provisions on micro insurance in the " insurance business proclamation". A well designed regulatory framework is a major factor for efficient and effective provision of micro insurance services. South Africa , Peru ,Philippines ,Kenya ,Ghana, Tanzania and India have evolved good regulations, put in place institutional mechanism and brought about other related developmental interventions for up scaling micro insurance. The regulatory and developmental initiatives in these countries are outlined in the **annexure III**. Each of the countries have special features in their policy, regulations , institutional safeguards and best practices in implementation. Some of International agencies have conducted studies, implemented developmental interventions and documented learnings and guidelines.

9.2 Contours of Integrated Approach for Insurance Supervisors:

International Association of Insurance Supervisors (IAIS)and C-GAP working group had stated that the Insurance Supervisors could enhance certain strategic elements in their (regulator) policies and actions as under and thereby, foster an environment that makes micro insurance sustainable and feasible in an integrated manner by combining the following aspects:[13]

a) "Developing a micro insurance policy and promoting its implementation;
b) Facilitating the availability of key information /statistical data in micro insurance business;
c) Enabling clear laws and regulations in accordance with internationally accepted standards that encourage insurance coverage for low-income households and its compliance while limiting regulatory arbitrage;
d) Contributing to the policy to enhance access to financial services which can be used as basis for discussion with legislation and also between departments and supervisors;
e) Contributing policy dialogue with government so that social insurance schemes are conjunction with social insurance;
f) Limiting moral hazards and fraud by promoting awareness and putting in place controls and incentives systems ;and
g) Promoting consumer education and raising awareness to instill an insurance culture among low income households."

[13]IAIS and C-GAP Working Group report -2007

9.3 World Bank's MI Development Programme (MIDP): Objectives:

World Bank had implemented Micro Insurance Development Programme (MIDP) in 3 phases (2013-18) with the objectives of making strong foot notes in 15 carefully selected countries .Activities chosen from the following 5 areas:

a) Raise consumer awareness;
b) Invest in new product development and build market infrastructure;
c) Build public-private partnerships;
d) Strengthen the enabling environment; and
e) Catalyze investment in micro insurance providers and intermediaries

The insurance programmes of World Bank covered life ,disability ,weather ,agriculture /crop, assets, health ,demand and supply.

9.4 Suggested Provisions in Micro-Insurance Proclamation and Regulation:

In the light of various literature on laws ,regulations and practices, the following areas are suggested for inclusion in the proposed proclamation and regulations in Ethiopia:

a) Define the general features of micro insurance ;
b) Define duties and responsibilities of all stake holders;
c) Define entry and exit norms and procedures;
d) Protect the customers through various provisions including their awareness, rights, access and grievance redressal;
e) Protect financial viability of the institutions ,particularly insures ;
f) Spell out prudential requirements of MI products; Filing of MI Products
g) Facilitate digital financial services , holistic risk management and smart partnerships;
h) Incorporate Right to information and supervisory interventions by Regulator;
i) Prescribe Code of conduct and financial discipline ;
j) Stipulate Penal Provisions in case of non-compliance to regulations ;
k) Mandate for Capacity building of all stakeholders;
l) Define Underwriting. and
m) Spell out Crisis resolutions

10. Overseas Exposure-Study Visits –Objectives:

The objectives of the three proposed exposure study visits with TA support are the following :

a) Development of Regulatory and Supervisory Framework: Evolving appropriate Micro Insurance legislation, regulations and supervisory tools ;
b) Learning about best practices and products in micro insurance: Product design and delivery mechanism, client protection .The study visit can enlighten the team about institutional mechanism for distribution of micro insurance policies and Partnership among stake holders;

c) To study the approach to financial inclusion through micro-insurance up scaling, financial /digital literacy strategy, with focus on insurance awareness of the consumers . It will also enable them to explore avenues for capacity building of stake holders in micro insurance space.

10.1 Guidelines for Visits:

The participants for such exposure visits will include the senior officials of Directorate of Insurance Supervision, Directorate of MFI Supervision , MFIs, Insurers and Key Officers of FCA,MOFED,ATA and AEMFI . For effective exposure visits in micro insurance, detailed guidelines for micro insurance practitioners are available in ILO publication.[14] The following broad guidelines, specifying fundamental questions that should be posed during such mission:

a) Institutional Self-assessment: *Can your Organization really benefit this from an exchange visit?;*
b) Learning Agenda: *What do you expect to learning on the exchange visit?;*
c) Structured Observations: *How to keep afloat the torrent of new information and impressions in the new environment?;*
d) Translate Observation in to Action: How *to translate new insights into improving changes?; and*
e) Document lessons learnt and developing a plan for implementing changes*: What are the main findings from the exchange visit and how could this benefit the Organization?*

The exposure study visits should be treated as serious business and the lessons drawn should be taken forward for replication.

11 . Training Programmes in MI: Themes, objectives and Safeguards:

Technical support from RUFIP III has been envisaged for organizing training programmes on emerging themes as under, for the benefit of all stakeholders, primarily for officers of NBE, select officers of MFIs, CBs and Insurers. Insurance Literacy Programmes would be for customers of MFIs . Depending on the theme, representatives of FCA, ATA,AEMFI and EIFS can also be facilitated for participation.

1. In Social Performance Management (SPM) in micro insurance- to ensure SPM through micro insurance & to develop SPM parameters and to Internalize the concept in MFIs;
2. Product Development in micro Insurance- to familiarize with the scope of various products, on life events –accidents, sickness and death, agriculture and livestock (egg. - Credit Life, Index-based crop insurance, multi-peril crop insurance, vegetation index crop insurance , multi-level livestock insurance), their operational framework, prospects of innovation ,bringing cost-effectiveness and possible benefits. Review of products, based on demand of rural poor. Marketing of products.
3. Managing Partnerships between MFIs , Financial Cooperatives ,CBs and the Insurer –Developing agreement and communication tools; The programme should enable preparation of suitable MoUs , spelling out rights and obligations
4. Inspection-Oriented Programme- developing supervisory capacity in onsite inspection and offsite surveillance, risk management, prudential regulations, compliance mechanism; technology application in supervision and regulation, MIS &reporting by supervised entities;

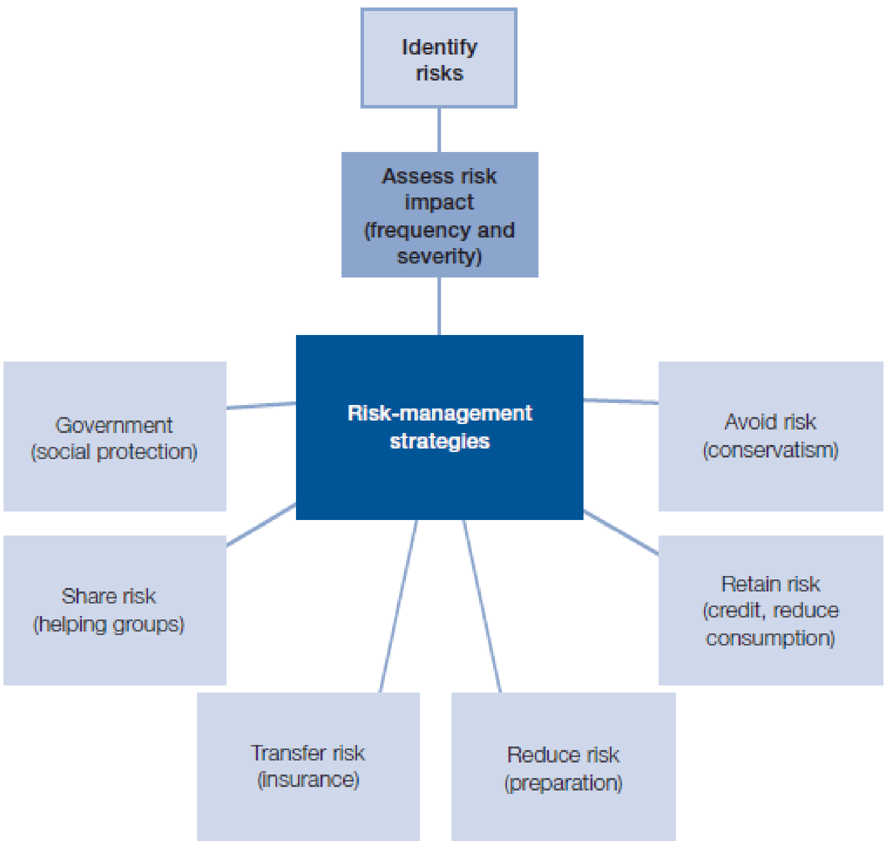
[14]Exchange Visit Guide, by Roland Steinmann to ILO, (April 2010)

5. Process mapping/ reengineering for MI operation and claim settlements(all insurers); Reviewing/ spelling out procedure of enrolling clients, handling premium collected, application for claims ,documentation, claims settlement, reporting ,extending assistance to policy holders.
6. NBE Programme at EIFS for micro insurance; Its seven out of 12 programmes are relevant to MI;
7. Programme for Actuarial Development; Actuary science is essentially about calculation of insurance risks and premium application, based on mathematical and economic analysis. The programme will help in decision making in insurance investment, financial planning and management. Other issues include risk management, forecasting theory, expansion of risk tables, computer-assisted research, secondary data analysis, economic risk analysis.
8. Literacy Campaign- bringing Consumer Education through application of innovative tools.

11.1 Focus on Training of Trainers (TOT) in MI:

Efforts should be directed for developing local trainers through TOT, so as to train up more trainees in a cost-effective way. The identified officers from MFIs, FCA/RPCAs, NBE, EIFS , AEMFI and potential Trainers /local service providers from various regions can form the pool of trainers, who can be groomed as specialists on the identified themes . Developing trainers for (i) building actuarial expertise and (ii) putting in place risk management strategies would be given focus. The Process of Risk management strategies is illustrated in the following diagram:

Figure 1. Process of Risk Management Strategies



Source: Micro Insurance Product Development for micro insurance providers – Micro Finance Centre, Micro Insurance Centre, IFAD

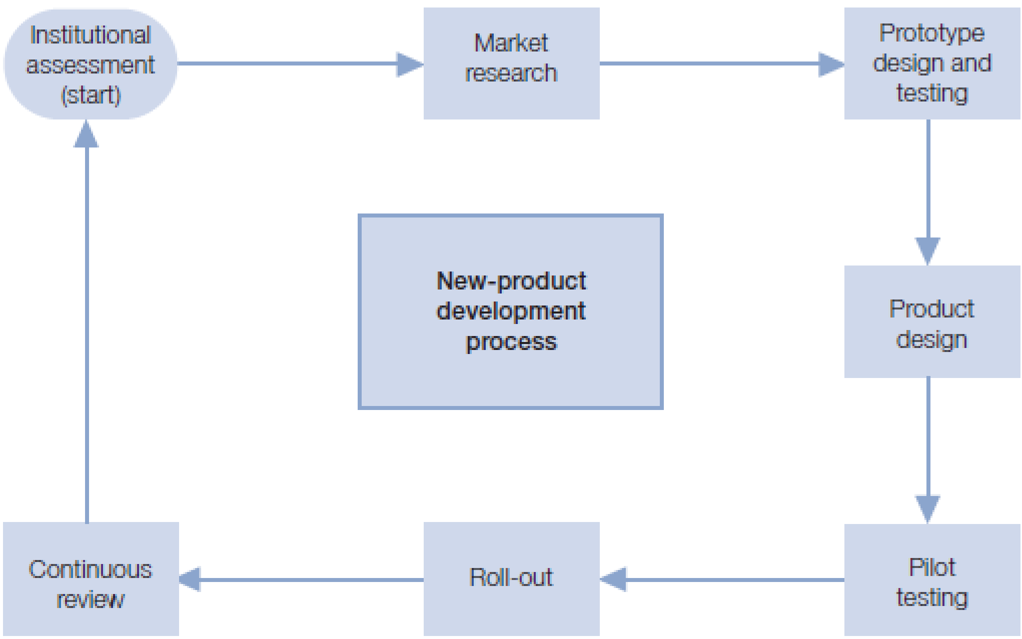
The ratios/concepts like Insurance claims ratio, renewal rate, promptness of claims settlement ratio ,claim rejection ratio, complaints ratio, poverty outreach ratio, rural outreach ration and staff retention ratio, etc should be clarified and internalized, so that these become regular parameter for institutional review.

12 Conduct of Studies – Contents and coverage:

The studies on the identified themes as under should be conducted, primarily through domestic Consultants and wherever necessary, by international consultants /agencies:

a) Product development studies;(e.g. index/weather insurance, agriculture, asset, life and disability, credit). The step by step approach for new product development process is given in a diagram below:

Figure 2: Systematic Product Development Process for Microinsurance



Source: Micro Insurance Product Development for micro insurance providers – Micro Finance Centre, Micro Insurance Centre, IFAD

b) Demand-supply Assessment : This will aid in mapping the landscape of micro insurance to assess market prospects and bringing out details of institutional infrastructure for supply of insurance services and demand projections . The findings will be helpful in development of market infrastructure, exploration of ways and means to meet the demand including building public and private partnerships.

13. Organizing Conferences /Seminars:

TA is envisaged to be provided for organizing Conferences /Seminars on the following themes:

a) Business Planning in micro insurance- Institutional Budget and Work Plan(all MFIs, Insurers);
b) Consumer Protection Tools – Consumer education for raising consumer awareness (all institutions);
c) Financial Inclusion-Insurance Products in undeveloped regions(Pastoral regions);and
d) Natural Disasters_ - Protection Measures including Insurance - Preventive Mechanism.

The Conference s/Seminars on the identified themes should be organized in a structured manner with due planning and preparations. Further, the proceedings of the events should be documented and recommendations emerging out of the deliberations should be followed up with concerned agencies for further action. Presentation of Case studies and study findings should be encouraged. Discussions on client protection policies and procedures, fair and respectful treatment of clients , privacy of client data , complaint resolution mechanism, transparency, responsible pricing ,etc should be discussed.

14. Documentation of Manuals , Guidelines and awareness literature:

TA support would be provided for bringing out the following documents:

a) Manual Development: Prudential regulations;
b) Manual on Supervision techniques and tools;
c) Handbook on Tools relevant to Ethiopian Practitioners .and
d) Literature on MI model Products, Consumer education /protection.

The manual on Micro Insurance Product Development for MF providers was developed under IFAD project facilitating widespread access to MI services managed by Michael J. Mclord, MF Centre and implemented by MI Centre Ltd. A number of Manuals/MI tools, were developed by World Bank/UNDP in general or for other countries . However, the manual and other tools for MI practitioners should be tailored to the needs of Ethiopia's policy environment and institutional and customers' needs. Further, based on the new regulations to be developed and risk-based supervisory approach to be introduced, Manuals on Regulation and Supervision need to be prepared for use by NBE supervising officials . Besides, TA support will be provided for preparation of handbooks on tools for practitioners and pamphlets/awareness literatures on insurance products and insurance concepts for financial/digital literacy campaign .

The programme highlights and core strength of a few overseas institutions in capacity- building in micro insurance are outlined in **the Annexure IV.**

15. Perspectives:

It is hoped that micro insurance sector would grow in an integrated manner, bringing attendant benefits to greater number of clients. (from present level of 34000 people with ETB 313 million) .During the implementation of RUFIP III, Directorate of Insurance Supervision, Directorate of MFI Supervision , Financial Inclusion secretariat of NBE, Insurers and MFIs need to work in a collaborative approach to get the above interventions implemented in timely and effective manners. Considering the involvement of World Bank in the sector and NBE, there would be need for coordination and consultation between IFAD and World Bank in carry forward the suggested activities.

Annexure I

Overview of Joint Programme of ILO &UNCDF in Ethiopia- 2008-13-Highlights

The Facility has engaged in micro insurance development in Ethiopia for more than five years. A Joint Program (JP) between the ILO and UNCDF on promoting access to micro insurance began operating in Ethiopia in 2009. The initial circumstances were complicated: a lack of stakeholder consensus on market development, and a closed and underdeveloped insurance sector with limited interest in micro insurance. The JP has implemented a wide range of activities to address some these challenges, working with various stakeholders on the macro, meso and micro level. Based on the findings of the micro insurance diagnostic study, an action plan was prepared to develop and implement the micro insurance market in Ethiopia. The main focus has been on policy and regulation, market development and partnerships development. So far, we have catalysed the expansion of micro insurance with consumers at the centre of our activities, and advocacy for micro insurance with stakeholders including government, development partners and local institutions.

Component 1: Policy and regulation

A clear legal and regulatory framework is a prerequisite to expand and improve the provision of micro insurance. The efforts and activities in the regulatory area should focus on creating an enabling environment for the development of the micros insurance market. Initially, the main regulatory challenges were defining micro insurance, agreeing to a broad policy framework and coming up with a draft of a micro insurance regulation. In particular, insurers couldn’t compete with MFIs that were allowed to provide insurance to their clients. To address these challenges, the main activities of the Facility regarding policy and regulations have been:

- Define micro insurance in the Ethiopian context.
- Voluntary reporting on micro insurance activities by insurance companies and other micro insurance providers.
- Explore possible incentives to encourage insurers to engage in micro insurance.
- Identifying and promoting technological advancements and their potential benefits for micro insurance.
- Explore the integration of micro insurance in Draft Proclamation for Insurance Supervision.
- Develop directives on market conduct and prudential regulation on micro insurance business.

Component 2: Market development

Given the small size of the micro insurance market and its great potential, it was necessary to implement activities aimed at developing the market in both the supply and demand side. When the Facility became involved in Ethiopia, the insurance sector was scarcely focused on the low income market, especially because the insurance industry did not have experience working with this market. In addition, the main risks identified by the Ethiopian population (illness, death and drought) had no insurance products. Therefore, our endeavours have focused on developing life, health and agricultural insurance products. In order to develop the micro insurance market in Ethiopia, the Facility has worked on these activities:

- Promoting functional micro insurance units within existing insurance companies
- Training Micro insurance underwriters and managers.
- Organize a workshop for insurers about micro insurance product design.
- Provide technical assistance on product design as requested by individual insurers.
- Identifying and promoting technological advancements and their potential benefits for micro insurance.
- Design and launch livestock insurance.
- Support for weather index and multi-risk insurance pilots.
- Programme to bundle micro insurance with savings and credit for rural farming households.
- Financial education and skills activities such as the Micelle Prison Project and Women in Self Employment.

Component 3: Partnerships development

The low development of the insurance market in Ethiopia was largely due to the lack of partnerships among key actors. One of the initial steps to develop the micro insurance market was to find synergies between actors in order to reach a multi-stakeholder approach. Any initiative to extend insurance in the low-income market would have to be done in partnership with the appropriate government agencies. It was also clear that the distribution of insurance would be difficult due to fragmented and widely distributed nature of the population, therefore client networks and aggregators, such as SACCOs and MFIs, played a critical role as distributors of financial services. Because of this, the Facility's activities to develop sustainable partnerships included:

- Twinning SACCOs, Insurers and MFIs.
- Creation of one specialized micro insurance company.
- Organize training on micro insurance for delivery channels and facilitate partnerships between insurers and delivery channels.
- Product registration with regulator and preparation of manuals.

Provide insurance and coop training for members of the Confederation of Ethiopian Trade Unions.

Annexure II

TA- Summary of Interventions for Micro Insurance regulation and development:

2**. NBE - Directorate of Insurance Supervision (DIS) - Development of micro insurance**

Institution	Theme	Intervention	By whom
Directorate of Insurance Supervision, Directorate of MF Supervision, Financial Inclusion Secretariat, NBE, MFIs, Insurance Companies, GOE, FCA, AEMFI,	MI Regulatory Framework	Exposure Visit	Overseas organisations* *Agencies having experience in Ethiopia include WFP,JICA,ILRI and also GOE agency (ATA) and Kefalas Financial Technology& they can be consulted.
Directorate of Insurance Supervision, Directorate of MF Supervision, Financial Inclusion Secretariat, NBE, MFIs, Insurance Companies, GOE, FCA, AEMFI,ATA	MI products and best practices	Exposure Visit	Overseas organisations* *Impact Insurance Academy, Micro Insurance Centre(MIC), Access to Insurance Institutions(A2ii)
Directorate of Insurance Supervision, Directorate of MF Supervision, Financial Inclusion Secretariat, NBE, MFIs, Insurance Companies, GOE, FCA, AEMFI,ATA	Financial literacy strategy	Exposure Visit	*Overseas organisations In Philippines, Peru, India, Kenya are perspective countries.
MFIs, NBE, AEMFI,FCA	Social Performance Management in MI	Training	Suitable consultant or Rating agency
MFIs, Insurance Companies , Directorate of Insurance	Product Development- Familiarization with operational framework	Training	Suitable agency in Ethiopia or Kenya (e.g. Delight

Supervision, BE, FCA and AEMFI			Profession Summit) .Reputed consultants include Micro Insurance Centre, KM Dastur , Risk Shield Consultant, etc
MFIs, Insurance Companies, Directorate of Insurance Supervision, DMFIS,NBE, FCA and AEMFI,CBs	Managing partnership between MFIs, CBs and Insurer	Training	Suitable Development agencies /consultant
MFIs, Insurance Companies, Directorate of Insurance Supervision, DMFIS, NBE, FCA and AEMFI	Supervision -oriented programme	Training	Suitable regulatory Authority (e.g. IRDA in India) and EIFS,NBE
MFIs, Insurance Companies, Directorate of Insurance Supervision, BE, FCA and AEMFI	Process Re-engineering for MI operations and settlements	Training	Suitable training or development institution or Consultant.
MFIs, FCA/ RPCAs, NBE- EIFS and AEMFI	Development of trainers in MI including development of Actuarial expertise	Training of trainers	Consultant /Training institution
MFIs and Insurance Companies	General programmes on MFIs at EIFS	Training	EIFS
Directorate of Insurance Supervision ,NBE	Product Development (including Index /weather insurance, etc)	Studies	Consultant, Insurer, and Agencies cited
Directorate of Insurance Supervision, NBE	Demand Assessment	Studies	Consultant
Directorate of Insurance Supervision, &DMFIS,NBE	Handbook/ Manual for Supervision	Manual preparation	Consultant
Directorate of Insurance Supervision, DMFIS, NBE,	Manual on Prudential Regulations	Manual preparation	Consultant

Directorate of Insurance Supervision, Insurance Companies, MFIs, DMFIS	Handbook/ Manual on tools relevant to Ethiopian MI practitioners	Manual preparation	Consultant
Clients of MFIs, Insurers	Consumer Education	Literacy campaign	Suitable agency *& Insurers
Clients of MFIs, Insurer	Literature on Consumer Protection	Literacy campaign	
Clients of MFIs, Insurer	Literature on how MI models products work	Handbooks and pamphlet preparation	Consultant & Insurer
Directorate of Insurance Supervision, Insurance Companies, MFIs, DMFIS, AEMFI, DBE, DCA	Business Planning in micro insurance- Institutional Budget and Work Plan	Conference/Seminars/Worksho p	Directorate of Insurance Supervision, Insurance Companies,
Directorate of Insurance Supervision, Insurance Companies, MFIs, AEMFI, Insurance Companies, DMFIS, NBE	Consumer Protection tools	Conference/Seminar/workshop	Directorate of Insurance Supervision, Insurance Companies,
Directorate of Insurance Supervision, Insurance Companies, MFIs, AEMFI, Insurance Companies	Financial Inclusion - Insurance Products in pastoral regions	Conference/ Seminar/Workshop	Directorate of Insurance Supervision, Insurance Companies,
Directorate of Insurance Supervision, Insurance Companies, MFIs, AEMFI, Insurance Companies	Natural disasters - Protection Measures	Conferences and Seminars	Directorate of Insurance Supervision, Insurance Companies,

Annexure: III

Regulatory framework in select countries:

1. South African Regulatory Framework:

South African regulatory framework spells out institutional regulation, prudential regulation, micro insurance products , ongoing operational requirements intermediary and market conduct regulation, fit and proper criteria, code of conduct, financial soundness of the intermediaries, commission regime, requirement of simplified disclosure, consumer education and recourse implementation and transitional provisions ,amendments, market impact and way forward.

2.The New features of India Micro Insurance Act :

In March 2015, the IRDA introduced the revised Micro insurance Regulation (2015) which superseded the regulations introduced in 2005. All existing micro insurance products which did not meet the stipulations of the new regulation were withdrawn. The new regulation makes a number of important amendments including the guidance on product development, adjusting the risk coverage levels, permitting more entities to distribute micro insurance products and the training of micro insurance agents and their specified personnel . With respect to **distribution,** the new regulation enlarges the current range of institutional intermediaries to include Reserve Bank of India (RBI) regulated Non-banking Financial Companies, Financial Cooperatives and Business Correspondents which have been appointed in accordance with the RBI Financial Inclusion Guidelines. In connection with the training, the new regulation specifies a mandatory training period of 25-hours for individuals employed as micro insurance agents (”agents and their specified persons”). Individuals selling non-life products to micro and small enterprises now need to undergo an additional 25 hours training. In addition, every micro insurance agent or sales person needs to undergo refresher training for half of the specified mandatory training time at the end of 3 years. In terms of risk coverage levels, the new regulation sees an increase in the maximum limits across previously specified risk coverage levels. This should enable insurers to target consumers across the lower middle income segment, which remains presently largely uninsured on account of the unattractive (low) coverage limits and poor access. The new regulation also sees the introduction of a new product category, Micro Variable Life Insurance Products, a hybrid insurance solution comprising of systematic contributions with term insurance cover. Lastly the new regulation no longer recognises policies sourced as part of social security schemes as micro insurance, and prohibits insurance companies from including the same as part of their reporting on their rural and social sector mandatory targets.

4.Philippines& Peru :Impact Insurance Facility :

Philippines and Peru are the earliest starters in micro insurance regulation and development. The A2ii and ILO through their impact Insurance Facility (IIF) have commissioned the study to assess the impact of micro insurance regulatory framework on developing inclusive insurance markets by way of regulatory Impact assessment (RIA).The RIA in case of Peru and Philippines had aimed at identifying policy intention , policy intervention ,regulatory change due to implementation, assessing outcomes – what objectives achieved and what remain to be done. Assessment was made in Philippines with respect to supervisory tools and techniques used, prudential requirements of MI providers, product-related rules framed ,licensing, training, dispute resolution, intermediaries, and adjustments to supervisory tools and techniques. Similar assessment was undertaken in Peru which revealed that MI had undergone the same product registration process as traditional one, supervision of MI was integrated across overall supervisory system, and insurer had to report on micro insurance separately.

5.Ghana-Micro Insurance Supply and Demand Side report

The National Insurance Commission (NIC) in Ghana is spearheading MI industry development to expand insurance market and facilitate improved access to and the usage of insurance services by MSMEs and low income households. A document[15]brought out by NIC, Grameen, GIZ and MI Centre reflect initiatives and progress in this regard .

6.Tanzania Insurance Regulatory Authority (TIRA):

TIRA was established in 2009 under the related legislation in Tanzania and has been pursuing with, inter alia , micro insurance development. The best practices developed included accreditation of foreign Reinsurance brokers, conducting regional micro insurance conference, annual insurance awards, bacaasurance regulation, development of agri-insurance , collaboration with FSDT, online training , etc. In December 2018 the Bank of Tanzania (BOT) issued a public notice (the Notice) stating that it is preparing regulations for various categories of microfinance service providers (MFIs) identified in the Microfinance Act 2018 (the Act), and for licensing purposes..

[15]Landscape of Micro Insurance in Ghana (2015)

Annexure IV

Select Potential Institutions – Programmes &Experience:

1 .National Insurance Academy (NIA), Pune, India:

It is a premier institute, established by Government of India, devoted to equipping insurance industry with professional management and insurance expertise. The following programmes of the Academy have relevance to micro insurance:

a) Programme in Micro and social sector insurance;
b) Digital Transformation in insurance;
c) Implications of insurance regulations for business;
d) Training in Actuarial Practices;
e) Product Innovations;
f) Auditing and accounting standards in insurance; and
g) Training of trainers' (TOT) programmes

. 2. **Micro Insurance Academy (MIA), Delhi** India:

MIA is a charitable trust dedicated to training, research and advisory services for MI units serving the poor. It is dedicated to catalyzing demand for insurance that responds to prioritized needs of people in the rural and informal sector, through implementation of training programmes, based on novel solutions for social protection and also financial literacy. In collaboration with Infinite Actuary and other international Agencies, the MIA has developed the following training programmes having relevance to MI sector:

a) Capacity Development training-MI tool box –solution and challenges;
b) Online courses in Micro Insurance (MIA in collaboration with the Infinite Actuary is providing online courses in MI studies;)
c) Innovative development in product design, distribution and regulation (MIA 's business model of community –based micro insurance operation in health ,crop and livestock;)
d) Social Performance Indicators in Micro insurance;
e) Local Training providers –enabling quality MI training with local Service Providers; and

f) Performance Indicators (KPI) in micro insurance.

3 Micro Insurance Centers, Milliman:
M Disturb & Company Ltd., (KMD) London is a Registered Lloyd's Broker. KMD as a Group has been one of the leading insurance and reinsurance brokers in the Afro Asian region. In particular to **inclusive insurance**, KMD as a Group has four decades of experience in designing and structuring a range of mass and micro insurance programs which includes life, crop, livestock, and personal accident and health insurance schemes. KMD as a Group has not only worked with governments and donors in designing and implementing mass and universal insurance schemes but has worked on policies objectives such as increased access to credit, improved agriculture productivity, reduced vulnerability and enhanced social protection.

a) Capacity building experience – They are actively working in the Ethiopian market and thus have a considerable familiarity with the context. They have conducted MI trainings in a variety of formats for insurers, regulators, distribution channels, and other stakeholders in several countries globally. Recently MIC has developed a full micro insurance diploma program for industry stakeholders in the Egyptian market. The program consisted of 12 courses on topics ranging from “Understanding Clients” to “Business Case for Micro insurance”. Each course ranged in length from 4 hours to 3 days and utilized interactive adult learning methods. They can easily adapt their experience for the Ethiopian context.

b) Context knowledge – They are also mid-way through a 4-year project with IFAD on developing risk management solutions for the rural poor in Ethiopia (also in Georgia and China), and have spent the last two years building a deep knowledge of the context. In addition, two years ago they had conducted an in-depth research study on the demand for micro insurance in Ethiopia for the World Bank.

4 **Ethiopian Institute of Financial Studies(EIFS),NBE :**

The EIFS ,NBE has been conducting various training programmes on insurance which included programmes on Agricultural Insurance (10 half days),Risk Management & Insurance (10 half days) , Insurance Accounting (8 Half days) and Micro Insurance (6 half days). They have potential to conduct need-based capacity –building programmes on microinsurance .

5 **Delight Professional Summits, Kenya:**

It provides consulting services, organizes knowledge events, undertakes research, designs training suited to specific needs .It has been bringing African MI stake holders, policy makers, and community and business leaders together through conferences and summits. It has been undertaking index design and certification for weather index insurance and actuarial works.

PART III
Component 2.2 Strengthening Capacity and Systems in FCA for Financial Cooperative regulation and Supervision
Component 2.(b) Improving regulation, supervision and institutional Discipline of FCA & financial Cooperatives:

Index

PART III
Component 2.(b) Improving regulation, supervision and institutional Discipline of FCA & financial Cooperatives:

1. Improving regulation, supervision and institutional Discipline of FCA & financial Cooperatives:

With continued expansion, growth and diversification of RUSACCOs and Unions in the country, regulatory and supervisory arrangement for the financial cooperatives assumes greater significance. The continued support from RUFIP I and II, with an exclusive Regulation and supervision component has enabled financial cooperatives in the formative years to function in prudent manner, giving the members necessary confidence and trust in the system. Given the contribution of the component during RUFIP I & RUFIP II phases, there is need for RUFIP III to support to FCA and Financial Cooperatives to have growth momentum and orderly development of the sector /institutions.

1.1 Regulation and Supervision of Financial Cooperatives under RUFIP II-Expected Outcomes:

The expected outcomes included under the corresponding subcomponent in RUFIP II were the following: (i) a functioning separate department for rural financial cooperatives at national, Regional, Zonal and *Wereda* levels; (ii) a separate legal code for rural financial cooperatives; (iii) regulatory and supervisory arrangement for rural financial cooperatives including audit framework operational; (iv) supervision manual for rural cooperatives prepared and implemented; (v) a separate supervisory authority different from cooperative bureaus examined and decided upon; (vi) an updated promotion manual for RuSACCOS in place and implemented; (vii) evaluation report on promotion processes of RuSACCOS and their Unions completed; and (viii) a functioning MIS implemented. Except the manual preparation by ICULF, and MIS implementation and capacity-building of auditors, inspectors, supervisors, Board members, other interventions have not been accomplished.

1.2 Challenges of Regulatory & Supervisory Systems for Financial Cooperatives:

The sector is characterized by the absence of exclusive legislative framework, lack of prudential regulation and supervision, absence of separate and independent agency for regulation and supervision, increasing liquidity constraints, absence of deposit guarantee / insurance system and customer protection system. Other challenges include restricted financial services to meet the needs of members due to lack of integration with national payment system and credit reference bureau. There is general inadequacy/gap of operational efficiency, due to lack of automation. Financial Reporting continues to be inadequate. Inadequacy of training infrastructure makes systematic dissemination, learning, innovation and training difficult. The following interventions are intended to address such challenges.

2. New Cooperative Societies Proclamation -2016:

The new Cooperative Societies Proclamation was enacted in December 2016. It does not, however, cover exclusively to the Financial Cooperatives. Contrary to expectations, necessary focus on financial cooperatives has not been laid, with provisions for their transformation/up- gradation, integration with financial sector, purveying all kinds of financial services with risk management and prudential safeguards and customer service. The Society as per the Proclamation is to provide savings, credit and non-life insurance (to its members to cover loans taken by the deceased member before full repayment of debt).” Thus, it does not refer to other financial services like remittance or pensions.

Provision relating to micro insurance is elaborated as under; "The Cooperative society may give micro insurance service or enter insurance agreement for its members." Micro credit life insurance for members includes‘ loan or savings or future savings, based on contractual agreement for the amount of premium paid may be done by Savings and Credit Cooperative Society." The Article 21 (a) and (b) outline a series of activities to be done by primaries for members which include awareness creation, warehouse service, wholesale inputs, market information/linkage, environment development and protection, pre-and post-harvest training, advisory services, financial and technical assistance. Considering future perspectives of digital financial services, with integration of RUSACCOs and Unions with other financial institutions in the changing banking environment, suitable provisions in the Proclamations should be incorporated. A separate and forward- looking legal code for rural financial cooperatives should be enacted, keeping in view the unique legal and regulatory requirements of the credit cooperatives. *The legal code should facilitate them to cater all kinds of financial services, with related safeguards e.g. deposit insurance, payment and transfer ,risk management &mitigation ,customer protection, etc Apart from policy advocacy for necessary changes in the policy & legislation, support for preparing road map for Integration of FCs with mainstream banking and integrating with payment & credit reference system may be provided under RUFIP III. Feasibility studies for the purpose can be funded under RUFIP III. Until separate law for financial cooperatives is enacted; the feasibility of issuing the comprehensive regulations for the additional functions needs examination.*

3. Audit Framework & Audit Reforms:

The audit framework should ensure independence, professionalism and public accountability of the auditors. The timeliness and quality of audit and compliance to audit are essential for orderly development of cooperatives. RUFIP II, therefore, focused on improved audit system. Without audits, cooperatives have difficulties in obtaining financial support and establishing their accountability to their members. Furthermore, cooperatives can only legally pay dividends to members after a certified auditor has declared that the Society/Union had made a net surplus. In Amarh region, it was reported that 76% of financial cooperatives had been audited. Auditors take 2-3 days' time for audit of RUSACCOs and get audit conducted once in a year, within 6 months from the closure of the accounts. Auditors take up to 7 days' time for audit of the Unions. Except annual statutory audit, no other form of audit is in vogue. In the absence of separate set of auditors for exclusively Financial Cooperatives, the same set of auditors is engaged for RUSACCOS//Unions, as also others. *Out of 85000 primaries in the country, only 12263 are RUSACCOS.* The capacity- building efforts can be focused on those auditors who would be exclusively earmarked for financial cooperatives. They could specialize in audit of financial cooperatives and thereby, work for timely and qualitative audit. The Audit Manual and the reports on Control Committee and Internal Audit prepared by the ILCUF contain concepts like system audit, risk-based audit, audit planning, audit opinion, audit work papers, etc., which should be internalized by the auditors for application. Suitable, periodic and effective training programs for new and existing auditors should be imparted for improving their capacity while raising the general standard and quality of audits conducted. With the increasing size and diversification of the Unions, there is emerging need for increasing frequency of audit as also institutionalization of internal audit. Gradually, with increasing focus on computerization and digital financial services, risk management system, audit system should be reoriented to risk-based approach. Moreover, concept of strict adherence to "Due date" in conduct of audit, issue of audit reports, and submission of the compliance reports should be enforced. Auditors should meet periodically to exchange experience, discuss common findings and decide strategies for audit approach and focus in future. *In short, RUFIP III support would aim at (a) segregation and development of cadre of Financial Cooperative Auditors, (b) introduction of Risk-based audit, (c) Improving audit frequency, quality and effectiveness of audit and compliance system, and (d) introducing system audit in later years with increasing digitization/ technology-based MIS.*

4. Internal audit of Unions and Supervision of SACCCOs:

With the above audit reforms in view, apart from training of auditors and sensitization of auditors at zonal basis, RUFIP III would facilitate recruitment /placement of, at least, one officer with audit and accounting competence in select Unions. The broad functions of such staff are outlined below:

a) To supplement the efforts of the Union and affiliated RUSACCOs to rationalize, reform and strengthen book-keeping, accounting , internal audit and inspection , compliance system and MIS;
b) To assume as a resource person for the Union and affiliated RUSACCOs for training, sensitization, mentoring and guidance in the above matters &any other emerging issues;
c) To periodically visit the RUSACCOS under the jurisdiction of Union and provide on the spot guidance to the staff and give feedback to the Union (on various aspects of its functioning including customers service and protection);
d) To be linkman for RUFIP III , in facilitating the interventions envisaged under the project ,in relation to the Unions and RUSACCOs are implemented scrupulously; and
e) Any other matter as may be entrusted during the implantation of the project.

Suitable Officer (s) would be recruited on contract basis and be continued, based on yearly performance review.

5. Introducing and internalizing IFRS:

Book-keeping and accounting practices in RUSACCOS/Unions need to be upgraded to facilitate MIS development, digitization and risk-based audit and supervision**.** Inadequate book-keeping and financial reporting add additional burden on the audit staff**.** Common accounting system helps in audit, inspection, software use and consolidation of accounts. Manuals on book-keeping and accounting developed by ICULF would be helpful in this direction.
The international Accounting Standards Board (ISAB) seeks to harmonize regulation, accounting standards, accounting procedures relating to preparation and presentation of financial statements. International Financial Reporting Standards (IFRS) have been issued by ISAB. Worldwide trend has been to adopt the accounting practices in harmony with IFRS. In 2011, Ministry of Finance and Economic Development, GOE had issued Proclamation" Financial Reporting Proclamation, requiring reporting entities to follow IFRS. So, Financial Cooperatives should adopt IFRS in a time-bound manner. National Accounting and Audit Board was given mandate in 2014 to regulate the accounting auditing companies and also make efforts to get reconciled the new financial reporting standards with Ethiopia's future accounting standards
FCA should take steps to introduce IFRS, keeping in view the Accounting and Book -keeping Manuals, which have already been developed by ICULF. Auditors and Accountants in the Organization should be sensitized in this regard in the training programmes and seminars with RUFIP III support. The relevant training module for Auditors and Accountants may be suitably changed.

6. **Inspection arrangements**:

The inspectors are also common for all kinds of Societies. Inspections are still inadequate in terms of number, coverage and quality. The inspections are conducted mostly in response to complaints and reported irregularities. The inspection of the Unions is generally conducted for 3 days and RUSACCOs for 2 days, the report is required to be issued within 3 days and compliance within 15 days. The structured framework of issuing appropriate risk-based reports, adhering to pre-determined frequency/ schedule**,** accountability of the supervised ones for giving compliance and financial reporting for offsite oversight is missing. The supervisors /inspecting officers should be endowed with professional autonomy and competence and be placed in adequate number to discharge their functions with respect to exclusively financial Cooperatives. Since no separate law for financial cooperatives could be enacted, comprehensive regulations need to be framed on certain important areas and put in place. . The Manuals for audit and inspection should be user-friendly*, which* would ease them in examining, verifying and probing transactions, reporting, documenting reports and obtaining necessary compliance. In that perspectives, the Manuals already prepared should be thoroughly examined, repackaged and implementation framework accordingly drawn. The auditors, Inspectors and supervisors should be sensitized about the implementable part of the related Manual (Onsite and Offsite Inspection Manual). *The Audit Manual (internal and external) as also Onsite and offsite Supervision/Inspection Manuals should be useful for the guidance of the auditors, supervisors/inspecting officers accordingly. The feedback of the users can be obtained in the proposed sensitization programmes. The audit sensitization programmes should discuss common findings, IFRS, audit- related risks and classification, prudential norms, Audit Compliance system, audit- planning, audit in the computerized environment and digital financial services .*

7. Classification of Unions/RUSACCOs and Transformation Plan:

In the absence of any classification norms, the auditors and inspectors do not classify /rate Credit Unions and RUSACCOs. Notwithstanding the series of studies conducted by ILCUF for RUSACCOs, the data on profitability and recovery performance are not available. Suitable classification norms should be evolved and implemented to signify the health of the institutions. The CAMEL, PEARL and GIRAFFE systems of rating are generally followed by rating agencies. For a systematic developmental action plan, it would be necessary to classify the financial Cooperatives and draw appropriate strategies. The ATA has developed a Diagnostic tool to classify, based on their managerial activities and financial performance. They have developed parameters to classify RUSACCOs in to red, yellow and green. The efficacy of this norm can be examined for deciding about its replication. In Uganda, the Statute provides for clear transformation road map for RUSACCOs and Unions. So, classification norm helps in that process. IFAD's PROFIRA has been supportive of this endeavor. A robust MIS, ensuring classifying all Credit Unions and RUSSACOS, on agreed institutional health/ sustainable viability parameters, should be used to facilitate evolving/carrying forward differential strategies for their sustainability in a pre-determined time- frame. It will help good-performing societies for their graduation/transformation & provide the opportunity to flag under-performing cooperatives for capacity building and corrective measures. *RUFIP III would support FCA in developing required norms and data- base, facilitating continuing classification /transformation of Financial Cooperatives.* The data generated under the MIS project should be available for all Unions enabling implementation of their transformation plan.

8. Adoption of Prudential Norms:

ILCUF has in one of their reports on PEARL and Risk Management has discussed the system for application. In its Regulation Manual ,it has also elaborated PEARL (Protection, Effective Financial Structure ,Rates of Returns and Costs and Liquidity),a system developed by WOCCU. On the other hand, NBE has adopted prudential norms(CAMEL), based on Basle principles of supervision for the banking and MFI sectors. It would be desirable to adopt prudential IRAC norms (income recognitions, asset classification, provisioning) under CAMEL (Capital, Asset Quality, Management, Earning and System) or CAMELSC (with addition of Sustainability and Compliance) in phases for cooperative sector, and switch from the overdue to NPA criteria. *As it is envisioned that Financial Cooperatives would be integrated with the rest of the financial sector for total financial inclusion, it would be better a uniform criterion is adopted. FCA should evolve necessary regulation and guide/train the RUSSACOS and Unions as also Supervisors/Inspectors to adopt/assimilate the NPA norms, to enable the supervised entities to reflect true picture of their financial position.*

9.Improving functional MIS system& Sustainability of RUSACCOS/Unions:

MIS for financial cooperatives was weak and lacked standardization across regions, so, performance measurement and management tools including software and adequate reporting framework through ICT were necessitated. FCA had earlier attempted to classify in to large, medium and small, based on size of business. Later FCA in consultation with ATA was in the process of developing a framework of certification directives and criteria, as well as designing and setting up a structure for certifying bodies at federal and regional levels. After testing the criteria in early 2014 with 26 agricultural and financial primary cooperatives and 20 cooperatives unions in the four main regions, it was planned then to roll out nationally the system in 2015 and expand MIS project to other uncovered Unions in a phased manner. ILCUF was subsequently engaged to study all aspects of the sector under a twinning arrangement, with RUFIP II support. Strengthening data –base, standardization of data, reporting and disclosures at all levels and setting up of Central Data –base were pursued in consultation with ILCUF.

Finally in 2017, FCA had approached PCMU for approval of detailed MIS project implementation plan, involving MIS customized for 40 selected Unions along with technical training for Union operational staff. The project involves procurement of server by the supplier, deployment, customization of software and training of staff. Out of total budget of 20 million Birr, an amount of 39940336.39 Birr is left with for investment before RUFIP II closes by June 2019. *ICULF has studied MIS and has been guiding project implementation through their association with the Sanding Technical Committee, facilitating MIS deployment in Unions. It had facilitated 3 days 'exposure visit to Kenya. Now FCA proposes to implement MIS project in 12-13 Unions before the closure. In RUFIP III, it is proposed to support expansion of the project to other potential 100 Unions, based on certain selection criteria. However, before the expansion in the second phase, the outcome of the first phase should be assessed .A system audit should be undertaken, to know its conformity with technical, systemic and reporting framework.*

With a view to improving data generation, collection, compilation, reporting and MIS and streamlining operations at RUSACCO level, a few pilots can be supported under RUFIP III. Select good-performing RUSACCOS would be supported for acquiring IT equipments (e.g. laptops, printers and software's).

10.Digital Financial Services:

Mcskinsey Global Institute (2016)[16] defined "digital finance the use of mobile phones, computers, or cards used over point-of-sale (POS) devices connecting individuals and businesses to a digitized national payments infrastructure, enabling 'seamless financial transactions.' The following are included in digital financial services:

- All types of financial services, such as payments, savings accounts, credit, insurance, and other financial products.
- All types of users, including individuals at all income levels, businesses of all sizes, and government entities at all levels.
- All types of providers of financial services, including banks, payment providers, other financial institutions, telecoms companies, financial technology (fintech) start-ups, retailers, and other businesses."

[16]2016,Mckinsey Global Institute, Digital Finance For All: Powering Inclusive Growth In Emerging Economies, Page 2; accessed from web page https://www.mckinsey.com/

Integration of financial cooperatives with the working of other financial institutions and technology providers in changing environment of digital financial inclusion is necessary. Computerization and technology adoption in financial cooperatives would enhance their transparency, efficiency, and competitiveness. So far, RUSACCOS/Unions are manual-based/ partially computerized , not connected with other cooperative institutions .Some of the Unions are using accounting software in a limited way**.** Ongoing MIS project in Unions opens up new possibilities **.**National Bank of Ethiopia (NBE) has issued directives on mobile banking, reference bureau, and payment system; however, the framework only allows regulated financial institutions to engage in the delivery of M-banking services, etc. SACCOs can only be involved as another financial institution's agents and or as clients. With a view to enabling the cooperatives integrating with the financial sector in a phased manner and keeping in view the provisions of the CS Act, *FCA should initiate dialogue with NBE and move forward in a coordinated manner. As already stated, the Cooperative Societies' Proclamation can be broad- based with necessary additional provisions. The proposed Cooperative Policy document should spell out the Vision Plan in this regard.*

The brand-building through improved communication, infrastructure, system and service has not been pursued as a matter of policy to enhance their image and brand. Computerization &communication should be, therefore, given added focus. *Taking recourse to ICT, M-banking, micro insurance, agent banking, money transfer, credit reference and brand-building is a challenge and opportunity for financial Cooperatives from regulation and supervision angle.*

11.Establishing Risk management system:

Risk assessment, management and mitigation architecture/system has not been put in place in Financial Cooperatives. As financial institutions, RUSACCOS / Credit Unions should adopt such systems and practices, keeping in view the perspective of application of risk-based supervision and audit for them from the regulator/auditors**.** The staff as also supervisors/auditors should be sensitized about risk assessment, management and mitigation mechanism. *The training programmers envisaged for Union/RUSACCOs, particularly their auditors, inspectors and supervisors should include certain basic inputs on risk management-credit, operational, liquidity and market. Regulation Manual, developed by ILCUF has discussed Hazard risk, Control , reputation and opportunity risks and their measurement and mitigation.*

12. Enhancing Governance:

In the growing trajectory of Unions& RUSACCOS, visionary and transformational leadership is very much essential. During RUFIP II, ILCUF studied the corporate governance aspects and had brought out Governance Manual, which has been translated in Amharic language and circulated. RUFIP II had provided training and exposures for Board/Committee members. No other significant initiative has been taken for strengthening governance of cooperatives**.** The Manual describes role and responsibilities of Board/Committees and focuses on the need for members' participation, controlling decision-making and ensuring conformity with regulations, developing codes of practices and good governance. *It is, therefore, reiterated that RUFIP III would support training and sensitization programmers for the benefit of members of Board & Committees for both Unions and RUSACCOs and provide exposure opportunity to good –working institutions, in recognition of the leadership. It would encourage development of Governance Codes and fair practices, internalization of Governance Manual, recognition of good leadership and promotion of financial literacy of the members including youth and women for grooming leadership in RUSACCOS and Unions. FCA should chalk out a governance enrichment plan for the next 5 years.*

13 Instituting Regulation and Supervisory framework:

ILCUF has brought about Regulation Manual, bringing critical regulatory issues like risk management policy and system in to sharper focus. The report brings out a summary of the overview of regulatory objectives, activities and approaches in the federal Republic of Ethiopia. It is advisable that FCA or the organizational unit for regulation and supervision should put in place specific regulations or directives for adherence by the regulated entities. The Manual only serves as a guide to the implementing official(s), which cannot substitute policy statements, regulatory prescriptions in the form of directives .Based on all study report given/Manuals prepared, FCA/ RCPAs should develop, in consultation with ILCUF, directives to be issued to SACCOS/Unions, for implementation. Penalty clauses should be stipulated for any violation of these directives. The inspectors and auditors should examine compliance or other-wise of these directives during the course of audit or inspection. The introduction of prudential regulation and supervision will need SACCO-specific proclamation in the years to come .***The system and practice of issuing directives on various regulatory themes and ensuring their compliance by the supervised entities should be put in place.*** These regulations might cover prudential norms, savings, loans, micro insurance, corporate governance, fit and proper criteria, capital/CRAR, liquidity, ALM, exposure norms, etc. . These can be developed, based on the studies already conducted. Based on Manuals, simple Inspection and Audit Hand books for day -to -day use by auditors and inspecting officers should also be developed.

14. Instituting Deposit Safety &institutional Protection mechanism:

With a view to ensuring safety of funds and institutional protection, a framework for Deposit Safety and Institutional Protection was suggested in the RUFIP II design report. However, such scheme or deposit insurance mechanism has not been initiated**.** The small depositors' interest should be protected in the financial cooperatives through implementation of suggested mechanism. (Given in annexure) .*In case, deposit insurance system is preferred, necessary legislation should be initiated. RUFIP III will support the study for the purpose. Similar initiative has been planned for MFIs under the aegis of NBE. Even, there could be joint study by one consultant.*

15. Codes of Standards &Fair Practices:

With a view to instituting appropriate, fair, customers- friendly and commonly acceptable/ reasonable standards for financial and non-financial services in Financial Cooperatives sector, issue of regulations on the subject assumes significance. With the support of FCA, ILUCF and RPCAs need to evolve/implement voluntary codes of standards and fair practices through consultation mechanism. *Until Regional and National Federations are set up, these codes might be administered by FC Directorate, FCA.*

16. Customers' Grievance Redressal & Customer Protection:

A policy framework, institutional mechanism and operational system should be put in place to address customers' grievances in the FC sector. Proper analysis, disclosure of customers' complaints and feedback are yet to be strongly put in place. The systems that are generally followed as best practices include maintenance of records, time-frame of addressing complaints/grievances, designating /displaying name of nodal officers, installing toll free number, instituting Internal Machinery to hear grievances, constituting Standing Committee for customer' care and showing sensitiveness, courtesy and care for the customers. *FCA would be supported to initiate steps to create conducive policy environment and Union/RUSACCOs would be facilitated for setting up institutional mechanism in this regard. Whistle blower policy, Vigilance mechanism and fraud prevention, eradication and control mechanism should be put in place in Financial Cooperatives (FCs)*

17. Board of Supervision (BOS):

It was suggested under RUFIP II design/supervision reports for setting up of Board of Supervision by FCA and RPCA. It is reiterated that Board of Supervision should be constituted and the periodic meetings held by Financial Cooperative Directorate, FCA with the following objectives:

- To review the progress of inspection, audit and supervision of Financial Cooperatives;
- To provide policy guidance and direction in the matters of regulation and supervision including introduction of prudential norms and risk management system;
- To review the progress with regard to setting up of separate institutional architecture for supervision ;
- To discuss issues relating to introduction and implementation of regulatory and supervisory interventions and best practices in the Regions;
- To discuss issues of supervisory concerns as emanated from onsite inspection and offsite surveillance; and
- Any other matter related to the above.

Composition:

1) Director General, FCA Chairman;
2) Director, Directorate of Micro Finance Supervision, NBE, Member
3) Director, RPCA (two by rotation);
4) One professional expert (Chartered Accountant);
5) Head of Audit Directorate, FCA
6) Head of Regional Federation (if established)
7) Director, Financial Cooperatives Directorate, FCA (Convener)

The BOS should meet at least, once in a quarter. BOS should frame their own rules of functioning.

FCA should initiate action for constituting and convening meeting of the BOS from the beginning of RUFIP III implementation

18. Institutional Development System:

18.1Establishing Regional Federation of Financial Cooperatives /Cooperative Banks:

It would have been better, had FCA gone for separate organizational units for audit and supervision for "financial cooperatives. In Kenya, separate regulatory authority, entitled SACCOS Regulatory Authority (SASRA),created under the Cooperative Societies Act,2008 and Cooperative Societies Regulations,2010, has been functioning well since 2012.They have implemented Risk-based supervision(RBS) with the World Bank support. As stated in the design report for RUFIP II, "the efficacy of FCA in putting in place desirable regulatory and supervisory arrangement for Regional Cooperatives, Federations, Credit Unions and RUSACCOS needs to be assessed and accordingly, the need and design for separate regulatory and supervisory authority should be studied". Accordingly. ICULF has studied separate regulatory and supervisory aspects and it is working with FCA for setting up of National and Regional Federations. Hopefully, GOE/FCA should take an expeditious decision in this regard. It was stated in the RUFIP II design report and reiterated in the supervision reports , the possibilities of evolving/setting up appropriate support institutions like regional federations/cooperative banks should be studied/explored to ensure an efficient rural financial and developmental cooperative support channel for the growing Credit Unions /RUSACCOS. FCA and ATA had engaged Rabo Bank to study the prospect and possible strategy of setting up cooperative bank for SACCO network. The Rabo bank had recommended setting up of sustainable cooperative bank with rural and financial inclusion focus, with governance- led by bank's grass root client- base (members and shareholders). The cooperative bank, it was viewed, will operate under a single, commercial banking license to enable efficient capitalization, diversification of risk and professionalization of management. The leadership was then favorable for setting up of Cooperative Bank under cooperative laws instead of having a bank under the commercial laws, regulated by NBE. The Irish League in its study subsequently has advocated establishment of regional federations and a national federation. According to them, establishment of a support network for Unions and SACCOs initially will be through Regional Federations, followed by the National Federation. The objectives of the National and Regional federations are to **(***i) provide liquidity / loan portfolio support through a central finance facility; (ii) deliver capacity building for Unions and SACCOs through training and technical support and (iii) undertake much needed representational and advocacy activities*. A wide variety of other services can be delivered for member SACCOs through these apexes. Currently, they intend to work with and support two regional federations which are at different stages of establishment. ICULF proposes to work with FCA for setting up of the National Federation, with the above objectives.

Given the challenges of financial cooperatives, four alternative structural solutions can be explored. Firstly, cooperative banks can be set up in the regions with affiliated SACCOS/Unions on the lines of the Indian model. Secondly, SACCOS –based Apex as a regulatory, supervisory and developmental institution primarily at the national level could be established, for evolving a 3 tier federal system. Thirdly, Apex Development Bank suggested &now being pursued by GOE for MFIs can also meet the liquidity and developmental needs of Financial Cooperatives. Fourthly, the national and regional federations with multifarious objectives as propagated by ICULF can be considered. The pros and cons of each of the models should be studied/weighed and accordingly policy and strategy to promote appropriate institutions should be supported. ***In any case,*** *the proposed institution(s) should have clear sustainability plan, supportive management and professional expertise, to ensure liquidity, earnings and competitive advantage. However, the preparatory process in this direction needs to be expedited. As stated earlier, in the formative years, RUFIP III would support FCA in developing RUSACCO –based apex institution at the national level and one similar region-based institution, dedicated to regulation, supervision and audit to provide independence and exclusiveness for the related interventions . It is already discussed the need for establishing/designating any existing training institution as an institution of excellence at the national level for training and capacity development, with supportive role for developing regional training institutions.*

18.2Linking RUSACCOS with Unions:

For a balanced development of 3 tier system, all potential RUSACCOS should be linked to Unions, so as to ensure smooth flow of funds, technical assistance and business guidance from the Unions .However, only 30% of SACCOS are affiliated to Unions. Number of SACCOs should be proportionate to the size of areas, population and potential. FCA/RCPA needs to have consolidation plan, bringing viable and potentially viable financial cooperatives in to focus. It would be necessary to evolve a policy on merger, demerger, liquidation and rehabilitation and pilot test the same before making the perspective plan of consolidation operational. *In any case, sustainable and potentially viable institutions (Union& RUSACCOs), selected for support under RUFIP III should be allowed to continue to function. RUFIP III would support viability study to enable FCA develop viability parameters and road map for future developmental strategy.*

18.3 Other Specific Interventions:

A. Embarking upon Financial literacy of members:

I. Linking RUSACCOS with Unions:

Financial literacy/education/awareness campaign targeting the members of financial cooperatives would help in increasing demand for financial services, empowerment and informed decision-making**.** Financial Literacy tool kits were developed by FCA and adopted during 2014.Structured interventions for financial literacy through appropriate agencies by targeting members of financial cooperatives would have attendant benefits. Modules on Digital Finance Literacy, Financial literacy on micro insurance and **Innovative means of intensifying financial literacy can be explored. Even ILUCF is planning to conduct studies to evolve suitable tools for financial literacy programmes. Their services can be enlisted.**

II. Mobility of Staff:

RuFIP I &II had supported vehicles (four wheelers & motor bikes) for increasing the mobility of the participating officials of FCA, RPCA, Unions and RUSACCOs for programme implementation. RUFIP II design stated" since each RUSACCO promoter or accountant is expected to provide handholding support to five to six RUSACCOs, she/he will require transportation facilities to effectively discharge her/his duties, implementing, managing and monitoring services. The programme proposes supporting the RUSACCO promoters and accountants with motorcycles in PY1 to enhance their mobility. "Notwithstanding the improvement of connectivity in the rural areas in terms of road &transport, the mobility of the promoters and supervisors at the grass root level (RUSACCO, Wereda and Union) continues to be relevant from monitoring and handholding point of view. In the overall context, the following changes have been suggested for facilitating monitoring and mentoring :

a) *The existing RUSACCOs and Unions have acquired greater strength and resilience for self – supervision ,as compared to that in 2011;*
b) *The internal infrastructure like mobile phones and computers/ internet services have improved communication and connectivity between the customer, RUSACCOs and Union;*
c) *Instead of having staff support at wereda level, it is proposed to provide technically competent staff at the Union level to provide monitoring, mentoring and technical guidance;*

The comparative cost of providing vehicles and providing fuel allowance instead of providing vehicles was assessed. The fuel and maintenance allowance @ 15000 ETB is being provided per vehicle /per month in other projects. It does not appear to be cost-effective. We may therefore provide motorbikes to good-performing Unions and RUSACCOs, to facilitate mobility for monitoring and supervision and technical guidance. With regard to four-wheelers, FCA, RPCAs, proposed National Federation and or Apex training institution can be provided on need-based manner.

III. Internalization of Study Reports of ILCUF & Implementation of Findings:

ILCUF had produced nearly 19 reports/Manuals during the period (2015-19). The list is stated below:

1. Saving &Credit Cooperative Accounting Manual (February 2015)

2. An Introduction to SACCOS for New or Potential Members of Primary SACCO part 1

3. An Introduction to SACCOS for New & Potential Members of Primary SACCO part 2

4. Audit Manual
5. Book-Keeping Manual for RUSACCOS
6. Internal Audit Manual
7. SACCCO Credit Officer Manual
8. Financial Product Development Manual
9. Marketing Manual
10. MIS Manual
11. PEARLS &Risk Management Manual
12. Regulations Manual
13. Road Map for development of SACCCOS movement in Ethiopia
14. SACCOS Governance Manual
16. SACCOS Status Report
17. Training Development Plan
18. Training of Trainers (ToT) Manual
19. Training Need Assessment (TNA) Manual.

Total payment made to ILCUF for these documents stood at 680,186 US $. FCA has translated 4 reports in Amharic and distributed among stake holders in the regions e.g. (1) Introduction to Savings and Credit Cooperatives (two parts),(ii)Book-keeping Manual,(iii) Good Governance Manual,(iv)SACCOS Credit Committee /Officer Manual (v) SACCOS Accounting Manual. ICULF reports are generally rich &pregnant with valuable information. FCA should look in to the implementable aspects of various recommendations and ideas. During visit to Amhara region, it was observed that the Manuals are not yet internalized. *The training institutions /trainers involved in the capacity development efforts should be asked to help in internalization of the learnings.*

Considering the cost and efforts for various studies, it is suggested that an Internal Task Force may be constituted in FCA to review periodically(say once in a quarter) for at least 2 years, the extent of implementation of the acceptable ones and direct efforts for implementation of the same in a time-bound manner. In this context, it is suggested that the services of ILCUF enlisted with for the following activities for the first two years of RUFIP III implementation to take maximum benefits from out of the studies and documents.

a) To prepare comprehensive regulations, directives and circulars on various regulatory themes to be issued by FCA/RPCAs;
b) To take exploratory and reparatory activities for setting up of the National Federation and 1-2 Regional Federations (on Pilot basis);
c) To examine and pursue segregation of audit, inspection and supervision functions from FCA /RPCA and entrust the same to new organizational outfit;
d) To facilitate integration of RUSACCOs and Unions with MFIs, banks and insurance companies under the supervision of NBE for enabling the former to provide all financial services including money transfer and digital financial services;
e) To facilitate drafting of a new comprehensive and forward-looking proclamation for Financial cooperatives;
f) To help FCA&GOE in drafting a comprehensive Cooperative development policy (2000-25) ;
g) To convert all Manuals ,particularly audit, inspection ,accounting and Book-keeping more user-friendly;
h) To provide technical guidance to Unions for expansion of MIS project and piloting MIS project in RUSACCOs;
i) To help in strengthening linking of potential RUSACCOs with potential Unions;

j) To put in place the classification of RUSACCOs and Unions ,based on acceptable criteria and help in designing transformation plan,
k) To facilitate building up training infrastructure in the form of an institution of excellence at the national level and affiliated training outfits at regional level; and
l) Any other issue posed by BOS & TAC from time to time.

. Since ICULF was involved in so many studies and they have delivered qualitative products, and other projects involving Financial Cooperatives, their continued involvement in implementing their recommendations and also capacity development would be the best strategy to go forward. If they are engaged, the budget earmarked for various interventions as above will be directed for payment to ILCUF under a fresh twinning arrangement for first two years of RUFIP III.

IV. RUFIP III and IRFITCO and ILUCF-Possible Coordination and Synergy

IFAD funded "Improving Rural Financial Inclusion through Cooperative Project (IRFITCO"). Covering Ethiopia, Tanzania, and Malawi. The project was designed to be implemented through, Canadian Cooperative Association (CCA) in partnership with ILCUF and African Confederation of Cooperative Savings and Credit Association (ACCOSCA) during the period January 2017 to December 2021.The highlights of IRFITCO &its Components and activities are outlined in the **Annexure I**. There are commonalities in the objectives, activities and stakeholders under ITFITCO and RUFIP III. ILUCF continued to be associated with such activities under aegis of FCA. Thus, Irish Union has been involved in Ethiopian Sacco movement in terms of research studies, technical support, TNA study, strategic advice, training design and delivery. They are working with FCA on tiered regulation and supervision – and are currently looking at the appropriate structure for rolling out of prudential regulation and supervision of SACCOs. They are in the process of deliberating with partners, producing draft directives for tiered regulation and handbooks, and providing advice. Establishing regional federations is another area where they are helping regions in their going through the steps of federation registration. They would fast track their service delivery and buy-in into the concept. Bringing about major structural change and overhauling the system, providing capacity building for all categories of staff and members, professionalization of the movement and R&D investment in IT, etc rest with FCA. IFAD III TA support would still be required for FCA and all the tiers, notwithstanding the multi- state project in the form of IRFITCO and involvement of ILCUF. There will be need for substantial support from RUFIP III and continued involvement of Irish Union to avoid overlapping and to synergize efforts in strategy and roll out. Prioritization of activities, earmarking of funds, sneezing of efforts by stake holders and implementing agencies should be undertaken at IFAD country office in consultation with PCMU and FCA.

V. Training Need Assessment Study (TNA) in 2019 under IRFITCO Project:

IRFI TCO had 3 components -(1) Apex/Federation development,(2)Financial Product development and (3)Support to the development of the regulatory environment and overall knowledge management, Under the component 3 , it was envisaged to conduct a TNA to identify key training needs and Conduct a Training Needs Analysis(TNA) to identify key training needs and develop a Training Curriculum and advise on appropriate delivery channels to strengthen the SACCO movement and evolve a training strategy . ILCUF has in its Report on Training Strategy from Regulator to RUSACCOs – Desk, Survey and Interview, Research Report (March 2019), made following conclusion (paragraph 5.4):

"*The survey employed various data gathering methods to collect relevant and enough information for the training needs assessment. The finding suggests that there are huge skill gaps in the area of bookkeeping and record keeping in the RuSACCOs. Moreover, shortsightedness of the members and unwillingness to pay for accounting services/employ accountants is observed in the cooperatives.*

These issues emanate from not appreciating the cooperatives concept very well and having a clear growth plan/vision for the cooperatives.

At the woreda level, all admit that there is a capacity gap in terms of skill and number of available staff to support the sector. Therefore, training those targets enhancing the auditing and support services to cooperatives (accounting and financial management) and risk management is required.

At regional level, skills such as PEARLS, risk management and new products are cited as important. Training also needs to be offered in accordance with adult learning principles. Hence, it is critical to improve the capacity of trainers in training delivery and designing of contents (to make contents more practical). Training is also said to be provided by various channels- government, training providers/colleges/universities and NGOs. These training routes however, lack coordination. It is recommended that improved coordination will help to avoid duplication of effort and enhance result/efficiency. "

A few relevant quotes from the above report, illustrating magnitude of training needs of the financial cooperatives , in this regard are given ***in Annexure II.***

In the light of the above, under TA budget of RUFIP III, interventions for capacity building on book-keeping ,accounting, , audit, financial management ,risk management ,prudential regulation, governance enrichment ,training of trainers and financial literacy have been incorporated .

19. Summary of Recommendations for support under RUFIP III:

1.Apart from making policy advocacy for separate Proclamation (2016) for financial cooperatives with necessary provisions for Integration of FCs with mainstream banking and integrating with payment and credit reference system , studies for the purpose can be funded under RUFIP III.
2, RUFIP III support would aim at (a) segregation and development of cadre of Financial Cooperative Auditors, (b) introduction of Risk-based audit, (c) Improving audit frequency, quality and effectiveness of audit and compliance system, and (d) introducing system audit in later years with increasing digitization/ technology-based MIS.
3, FCA would be supported to introduce IFRS, keeping in view the Accounting and Book -keeping Manuals, which have already been developed by ICULF. Auditors and Accountants in the Organization should be sensitized in this regard in the training programmes & seminars with RUFIP III support.
4. RUFIP III would support FCA in developing required norms and data- base, facilitating continuing classification for watching health of the institutions from time to time. The plan for transformation of Financial Cooperatives, merger& demerger, consolidation can be formulated accordingly .The data generated under the MIS project should be available for all Unions enabling implementation of their transformation plan.

5,Suitable Officer (s) would be recruited on contract basis and placed in the select Unions for streamlining &strengthening internal audit in the Union and providing monitoring & mentoring service to RUSACCOS. He or she would be continued, based yearly performance review. A second technical person can be supported after 2 years, based on portfolio growth and significant performance of the Union.

6,As it is envisioned that Financial Cooperatives would be integrated with the rest of the financial sector for total financial inclusion, it would be better a uniform criterion of prudential norms based on Basle principles is adopted . FCA should evolve necessary regulation and guide/train the RUSSACOS and Unions as also Supervisors/Inspectors to adopt/assimilate the NPA norms, to enable the supervised entities to reflect true picture of their financial position.

7. In RUFIP III, it is proposed to support expansion of the MIS project to other potential 100 Unions, based on certain selection criteria. However, before the expansion in the second phase, the outcome of the first phase should be assessed .A system audit should be undertaken, to know its conformity with technical, systemic and reporting framework.

8.,With a view to improving data generation, collection, compilation, reporting and MIS and streamlining operations at RUSACCO level, a few pilots can be supported under RUFIP III. Select good-performing RUSACCOS would be supported for acquiring laptops, printers and software's.

9. The Cooperative Policy document should spell out the Vision Plan. The training programmes envisaged for Union/RUSACCOs, particularly their auditors, inspectors and supervisors should include certain basic inputs on risk management-credit, operational, liquidity and market.

10. RUFIP III would support training and sensitization programmes for the benefit of members of Board & Committees for both Unions and RUSACCOs and provide exposure opportunity to good – working institutions, in recognition of the leadership.

11. **The system and practice of issuing directives on various regulatory themes and ensuring their compliance by the supervised entities should be put in place.** These regulations might cover prudential norms, savings, loans, micro insurance, corporate governance, fit and proper criteria, capital/CRAR, liquidity, ALM, exposure norms, etc. Based on Manuals, simple Inspection and Audit Hand books for day -to -day use by auditors and inspecting officers should also be developed.

12. FCA should initiate action for constituting and convening meeting of the Board of Supervision (BOS) from the beginning of RUFIP III implementation.

13. According to ILUCF, establishment of a support network for Unions and SACCOs initially will be through Regional Federations, followed by **the National Federation**. The objectives of the National and Regional federations are to **(***i) provide liquidity / loan portfolio support through a central finance facility; (ii) deliver capacity building for Unions and SACCOs through training and technical support and (iii) undertake much needed representational and advocacy activities*. SACCOS –based Apex which is independent & professionally competent & sustainable and provides regulatory and supervisory including audit service can be supported.

14. Sustainable and potentially viable institutions (Union& RUSACCOs), selected for support under RUFIP III should be allowed to continue to function. RUFIP III would support viability study to enable FCA develop viability parameters & road map for future developmental strategy

15. Instead of having staff support ay wereda level, it is proposed to provide technically competent staff at the Union level to provide monitoring, mentoring and technical guidance;

16. Considering the cost and efforts for various studies by ILUCF under the twinning arrangements, it is suggested that an Internal Task Force may be constituted in FCA to review periodically (say once in a quarter) for at least 2 years, the extent of implementation of the acceptable ones and direct efforts for implementation of the same in a time- bound manner. In this context, it is suggested that the services of ILCUF enlisted with for the identified activities for the first two years of RUFIP III implementation to take maximum benefits from out of the studies and documents.

17. To improve mobility of supervisors and accountants at Union and RUSACCO levels, motor bike would be provided to best performing Unions and RUSACCOs.

A Summary of TA Support envisaged for FCA and Financial Cooperatives, under the Strengthening Regulation and Supervision and Institutional Discipline subcomponent is given in tabular Form in **Annexure III .**

Annexure I

IRFITCO: (Improving Rural Finance Inclusion through Cooperatives) – Features*

Components:

1) Improved capacity of cooperative finance network organizations to support rural SACCOS including through development and improvement of innovative and replicable financial products and services for small holder farms;
2) Improved policy framework and implementation capacity of supervisory and regulatory agencies to protect assets of SACCO members; and
3) Improved knowledge –base and tools for SACCO networks, SACCOS, policy –makers, IFAD and other development actors to improve rural financial inclusion through cooperatives throughout Africa.

Scope of the Components:

1. Building the technical capacity of Financial Cooperatives and financial education of their members
    a) Assess the capacity gaps and training needs of relevant rural financial cooperatives and develop and deliver dedicated training modules;
    b) Develop human resources best practices for continuity of expertise;
    c) Assess client education needs and development, design and deliver client education, materials and financial literacy modules, particularly on savings.

2 Introducing Innovation to financial Cooperatives:

The type of innovation will depend on the identification of specific countries and priorities for the cooperative sector. Where possible, use of new technologies is particularly encouraged. Types of innovation envisaged are products, e.g. . . . . Digital financial services, linkages with MFIs and remittance providers, operative models, e.g. linkages with /creation of second tier organization. The key activities would be the following:

a) Assess the market and demand;
b) Identify innovative product or approach and key partners (e.g. .mobile network operator ,apex institutions);
c) Develop operational plan for implementation of new product or approach;
d) Provide technical support to design and delivery of new products or approaches ; and
e) Follow up assessment and recommendations for improvement and scaling up.

3. Knowledge Management & Policy Dialogue:

a) Develop best practice guidance for policy makers and regulators;
b) Draw lessons from the experience and translate in to new operational guidance for IFAD, donors, investors and governments on how to support financial cooperatives;
c) Publish training modules developed in component 1 and conduct TOT for roll out in other regions;

d) Implement exchange visits and workshops between countries and at different levels ,cooperatives ,second tier institutions ,regulator and supervisors;
e) Disseminate lessons learnt globally to contribute to international commitment on financial cooperatives.

Implementers:

a) The Canadian Cooperative Association(CCA);
b) African Confederation of Cooperative Savings and Credit Association (ACCOSCA) and
c) Irish League of Credit Union Federation (ILCUF).

Duration: 4 years (January 2017-December 2020)

Coverage: Ethiopia, Tanzania, Malawi

Outlay: USA $ 2660,000 IFAD grant & Co finance: 500,000

*Project Document of IRFITCO

Annexure II
ILCUFS's Document on Training Strategy for Regulator to RUSCACCOS –A few Quotes relating to Training Needs of Financial Cooperatives :

High Risk of non-compliance with Legislation ,regulation and directives :

Section a "If only four out of ten of the people involved in the running of the SACCOs and Unions know the legal basis *under* which they operate and only three out of ten know the parameters *within* which they operate then there is a high risk of non-compliance with legislation, regulation and directives."

These results highlight the importance of immediately addressing the shortfall in skills in this area.

Recording, Monitoring and governing Financial Aspects:

Section B-"While many of the respondents have responsibility for completing and reviewing key financial areas (over 60% in all the eight key areas) the competencies required to adequately govern and manage those areas is low. Given that SACCOs and Unions are *financial* co-operatives it is of vital importance that the financial aspects of operations be adequately recorded, monitored and governed."

Sale of additional Products and Services- Credit Life and Micro Insurance:

"Finally, to ensure long term sustainability and relevance to the members the SACCO/Union needs to know how to sell additional products/services – credit life and micro insurance. With approx. six out of 10 responding 'Yes' that they carry out these tasks it is worrying to note that only one in 10 feels competent to do so."

Inadequacies in Competence of Accountants employed performing Full accounting cycle activities &Ratios:

"The accountants recruited at the primary levels are expected to perform the full financial cycle and, in some instances, calculate ratios. Yet, the experts at the woreda and regional level for example in Tigray, confirmed that, though such level of proficiency is what is expected from the RuSACCO staff, they are aware that the accountants cannot deliver it given their academic background and exposure level. Most of the accountants are high school dropouts and they have not attended any bookkeeping course in their classes. Therefore, with such backgrounds it is not practical to expect them to perform the full accounting cycle activities and ratios.

The positive thing is that with good training support from the woreda and region level, for example, in Kuhiaworeda, the accountants are able now to produce trial balance."

Book- Keeping and Maintaining Good records

" On the other hand, the cooperative sector has severe financial management related issues - bookkeeping and maintaining of good record/documentation is a serious challenge. This has created a burden in the woreda cooperative staff. It was shown from the response papers of the woreda staff that they do not get enough training to develop their skill. "

Annexure III

TA Interventions for FCA for Regulation& Supervision of Financial cooperatives under RUFIP III

Institution	Theme	Intervention	By whom
FCA, Regional/Zonal/Wereda levels Officials	Capacity Building of Supervising Officers in FCA/ Regional/Zonal /Wereda levels	Training	Internal experts from FCA/RPCA or Outside Trainers identified
FCA, Regional/Zonal/Wereda levels-Auditors	Training of Auditors	Training	Internal Trainer or suitable nodal agency engaged
FCA, Regional/Zonal/Wereda levels -Auditors	Refresher training of auditors	Training	Internal Trainers or suitable agency identified
FCA, Regional/Zonal/Wereda levels-Supervising officers	Training of Inspecting Officers	Training	Internal Auditor /specialist from FCA/RPCA, or Suitable agency
FCA, Regional/Zonal/Wereda levels- Identified Officers based on demand	Refresher programme for Inspecting Officers	Training	Internal Trainers from FCA/RPCA and suitable training agency identified
Unions- Audit and Accountant Specially engaged internal audit – a few others from Union and RUSACCOS	Training of Internal Auditors	Training	Internal Trainers Who have undergone TOT and Suitable consultant/Training agency identified by FCA
Unions/select RUSACCOs	Refresher Programme for Internal Auditors	Training	Subject matter Specialists
RUSACCO, Union-Board & Committee members	Sensitization of Board/ Committee members on Governance	Sensitization Programmes &exposures	Internal Trainer /suitable training agency
RUSACCO, Union	MIS Development of Unions and SACCOs	IT/ MIS Development In additional Unions and select RUSACCOS	Service Providers/ Consultants specializing IT
Union(100) identified	Appointment (Recruitment) of Persons with experience in accounting ,audit and supervision	Contractual engagement	FCA/RPCA to formulate recruitment norms for one each for

			100 Unions transparently
FCA	Engaging consultant for drafting regulations on Financial Cooperatives and enabling adoption	Contractual** engagement	FCA to engage suitable agency
FCA	Conducting studies on prudential norms, deposit safety and customer protection	Study	Consultant**
FCA	Development of Codes of Conduct	Study	Consultant**
FCA	Development of Legal Framework	Study	Consultant**
FCA, Unions	Strengthening Off site Surveillance	Study	Consultant**

** Since Irish Credit Union has conducted a number of studies under twinning arrangements with FCA, with support from RUFIPII, and they are still engaged under IRFITCO with IFAD support, it would be advisable to engage them for at least 2 more years under RUFIP III to carry forward all the interventions commenced, but not completed operationalization under RUFIP II. The setting up of National/Regional SACCO-based apex body would take over training functions from internal staff of FCA and RPCA.