Investing in rural people in Ethiopia

Over the past decade, Ethiopia has achieved double-digit economic growth, making it one of the best-performing economies in sub-Saharan Africa. The country has pursued a “developmental state” model, with high levels of public investment. Some 85 per cent of its 109 million inhabitants live in rural areas, and inclusive agricultural growth is a major driver of poverty reduction. But agricultural productivity is low due to land degradation, poor water management, low technology usage and an underdeveloped marketing system, among other factors.

Ethiopia has a highly diverse agroecological environment, spanning tropical highlands and hot, arid lowlands, matched by an equally diverse sociocultural setting. It is environmentally fragile. Population pressure has led to natural resource degradation, which is exacerbated by climate change and increasingly frequent extreme weather events, including drought, floods and heatwaves. Smallholder farmers produce 90-95 per cent of the country’s agricultural output. About one third of rural households farm less than 0.5 hectares, are weakly integrated into markets, and have limited access to finance and modern agricultural technology.
They are also vulnerable to drought, environmental degradation and other hazards. The main livelihood systems in the lowlands include pastoralism and agropastoralism, while many former pastoralists now survive on non-livestock-based activities.

Women play a major role in agriculture, particularly in pastoral areas. Households headed by women – 25 per cent of all households – are often among the poorest. They have few assets, little or no land, limited access to credit, low levels of literacy and weak decision-making power.

Ethiopia is a "young" country, with 70 per cent of the population under 30. In both rural and urban areas, the number of young people, particularly young women, who are unemployed or working in the informal sector is higher than the national average. Most young people live in rural areas, where livelihood opportunities are increasingly scarce.

**Eradicating rural poverty in Ethiopia**

Two of Ethiopia’s main development goals are poverty reduction and eliminating dependence on food aid. The Growth and Transformation Plan II (GTP II) for 2015/2016 – 2019/2020 targets annual economic growth of 11 per cent. Three of its pillars have direct relevance for the Ethiopia-IFAD partnership:

- Sustaining rapid, broad-based and equitable economic growth and development;
- Increasing productive capacity and efficiency through improving quality, productivity and competitiveness of agriculture and manufacturing industries; and
- Promoting women and youth empowerment.

Smallholders produce **90-95 per cent** of Ethiopia’s agricultural output.
Ethiopia intends to transform agriculture into a high-growth sector to ensure food security, curb inflation and broaden its export base. The establishment of integrated agro-industrial parks, for example, is expected to provide growing markets for the country’s producers. Under GTP II, the agricultural strategy focuses on several key areas:

- Enhancing productivity and crop quality;
- Enhancing the use of water resources through irrigation development and expanding watershed management with water and moisture-retaining works;
- Support for smallholder farmers; and
- Facilitating participation of young people and private investors in the sector.

**IFAD’s strategy in Ethiopia**

Since 1980, IFAD has invested US$751.6 million in 20 programmes and projects in Ethiopia, with an overall cost of US$2,157.6 million and benefiting more than 11 million households. IFAD has also provided US$28 million in debt relief under the Heavily Indebted Poor Countries Debt Initiative.

In line with GTP II, IFAD’s strategy focuses on providing smallholder farmers, pastoralists and agropastoralists with the critical assets they need to enhance productivity and resilience. These include natural resources, technology, finance, institutional capacity and access to markets. Farmers’, agropastoralists’ and pastoralists’ institutions serve as key entry points in strengthening the ability of their members to engage profitably in commercially viable value chain relationships, including with aggregators (traders, agroprocessors).
service providers, input suppliers and rural financial institutions. The strategy helps rural households raise their incomes and improve food security, as well as increases their contribution to the country’s economic development. Two strategic objectives contribute to this goal:

- Enhanced resilience and productivity of ecosystems and livelihoods through improved management of natural resources, particularly water; and
- Enhanced linkages to the private sector to ensure increased and sustained access to markets, finance and agricultural technology.

The strategy focuses on small-scale irrigation development, sustainable resource management, rural financial inclusion, and pastoral and agropastoral community and livelihoods development.

Lessons learned are incorporated through some innovative features. This is exemplified in the design of the Participatory Small-scale Irrigation Development Programme – Phase II (PASIDP II), which became operational in February 2017. Innovative features include: developing agribusiness linkages and market access to mitigate marketing risks, particularly for perishable, high-value crops; integrating climate-change adaptation strategies such as adjacent watershed improvement and management; and promoting improved crop husbandry and access to both inputs and financial services.

IFAD is also building on its experience and results from joint World Bank and IFAD-supported investments in institutional development and public service delivery in the lowlands, delivered through three successful phases of the Pastoral Community Development Project. The Lowlands Livelihood Resilience Programme, a joint investment with the World Bank, which was approved by IFAD in September 2019, will embrace a more integrated and holistic livelihoods development approach that will continue supporting the Government of Ethiopia in scaling up the community-driven development approach.

With the third phase of the Rural Financial Intermediation Programme, IFAD’s portfolio in Ethiopia continues to be complemented with investment in the capacity and liquidity in the rural financial sector to strengthen its ability to respond to the financing needs for the rural economy.
Participatory Small-scale Irrigation Development Programme – Phase II (PASIDP II)

A total of 108,750 poor rural households in four regions of Ethiopia are expected to benefit from the second phase of a programme designed to reduce the impact of climate change, enhance economic growth and reduce rural poverty.

PASIDP II envisages the development of about 18,400 hectares of small-scale irrigation schemes in four regions: Amhara, Oromia, Tigray, and the Southern Nations, Nationalities and Peoples Region. Particular attention will be given to women, young people and vulnerable groups. In addition to increasing agricultural productivity, incomes and resilience of ecosystems and the rural population, the programme is expected to create 15,000 new jobs.

PASIDP II will improve the access of farmers to a secure irrigation production system and enhance water efficiency through climate-smart agriculture in the adjacent watersheds. In addition, the programme will support linkages to markets and services so that smallholder farmers can increase their productivity, competitiveness and incomes. It will also enhance their resilience against external shocks and those induced by adverse weather and climate conditions, such as drought. The programme aims to improve farmers’ prosperity, food security and nutrition.

In addition, PASIDP II will also train participants to take charge of the development process and encourage women to join the decision-making bodies of water users associations.

The total cost of the project is US$145.3 million, financed by an IFAD loan of US$102.0 million and a grant of US$12.5 million, including a US$11.0 million IFAD ASAP grant.
Rural Financial Intermediation Programme – Phase III (RUFIP III)

The objective of the programme is to improve livelihoods and to reduce vulnerability and poverty through increased incomes and better risk management supported by both financial and non-financial measures. This will be achieved through a nationwide network of more than 11,000 rural savings and credit cooperatives, their secondary structures (the unions) and 38 microfinance institutions.

Building on the cumulative outreach of Phases I and II, RUFIP III aims to increase the number of rural poor with access to financial services from 7 million in 2019 to 13.5 million in 2025, with a commitment to target 50 per cent women and 10 per cent young people. The programme has a nationwide geographical coverage, with increased focus on less-developed areas (drought-prone areas, pastoral areas and areas with low penetration of financial services).

The total cost of the project is US$305.8 million, with IFAD providing US$39.9 million. It will be cofinanced in partnership with the European Investment Bank, the European Union and the Alliance for a Green Revolution in Africa. The Government of Ethiopia will contribute US$51.9 million, and domestic financing institutions will contribute US$60 million.
Lowlands Livelihood Resilience Programme (LLRP)

The programme aims to improve the livelihoods resilience of pastoral and agropastoral communities, combining complementary layers of investment, focusing on: integrated rangeland development and management; livelihoods improvement and diversification; and access to basic public services.

The programme targets about 2.5 million people from pastoral and agropastoral areas in six regions: Afar, Somali, Oromia, Southern Nations, Nationalities and Peoples Region, Gambela and Benishangul-Gumuz.

The entry point for strategic resilience-building and production-systems-level investments will be an inclusive and participatory rangeland planning and development approach. The LLRP will mainstream the community-driven development approach to enable structural and transformative investments in land use, rangeland and market development.

The LLRP is focused on private-sector engagement for providing more sustainable and longer-term solutions for the delivery of goods and services. The value chain approach will leverage private investment, productivity gains and commercial linkages along the value chains that will enable the target groups to sustain and continue scaling up results after completion.

The total cost of the programme is US$451 million, financed by an IFAD loan of US$90 million, and cofinanced by the International Development Association of the World Bank (US$350 million). Programme clients will contribute US$11 million.
IFAD invests in rural people, empowering them to reduce poverty, increase food security, improve nutrition and strengthen resilience. Since 1978, we have provided US$22.4 billion in grants and low-interest loans to projects that have reached an estimated 512 million people. IFAD is an international financial institution and a United Nations specialized agency based in Rome – the United Nations food and agriculture hub.

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