



Enabling poor rural people  
to overcome poverty

## COUNTRY PROGRAMME EVALUATION



**Federal Democratic Republic of Ethiopia**

**May 2009**





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**Federal Democratic Republic of Ethiopia**

**Country Programme Evaluation**

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IFAD projects in Ethiopia  
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# Federal Democratic Republic of Ethiopia

## Country Programme Evaluation

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\* Upon request, annexes are available from IFAD's Office of Evaluation ([evaluation@ifad.org](mailto:evaluation@ifad.org))

**Exchange Rate Development 1998-2007**  
Ethiopian Birr per US Dollar (31December)

1998	7.41
1999	8.00
2000	8.22
2001	8.84
2002	8.67
2003	8.82
2004	8.85
2005	8.77
2006	9.13
31 Oct 2007	9.24

Financial year	8 <sup>th</sup> July to 7 <sup>th</sup> July (Gregorian calendar)
Ethiopian new year	11 <sup>th</sup> September (Gregorian calendar)

**Abbreviations and Acronyms**

ACSI	Amhara Credit and Saving Institution
ADLI	Agricultural Development Led Industrialisation
AEMFI	Association of Ethiopian Microfinance Institutions
AfDB	African Development Bank
AFRAKA	African Rural and Agricultural Credit Association
AMIP	Agricultural Marketing Improvement Programme
AMIS	Agricultural Marketing Information System
ARD	Agriculture and Rural Development
ARC	Agricultural Research Centre
ARF	Agricultural Research Fund
ARRI	Annual Report on Results and Impact of IFAD Operations
ARTP	Agricultural Research and Training Project
BDS	Business Development Services
BSF	Belgian Survival Fund
CAE	Country Assistance Evaluation
CBE	Commercial Bank of Ethiopia
CDC	Community Development Committee
CDD	Community Driven Development
CGIAR	Consultative Group of International Agricultural Research
CI	cooperating institution
CIDA	Canadian International Development Agency
CIF	Community Investment Fund
CIP	International Potato Research Centre
COSOP	country strategic opportunities paper/programme
CPE	country programme evaluation
CPEM	country programme evaluation mission
CPM	Country Programme Manager
CSO	civil society organisation
CYMMIT	International Centre for Wheat and Maize Research
DA	development agent (extension worker)
DBE	Development Bank of Ethiopia
DBS	Direct Budget Support
DFID	Department for International Development, UK
EFFORT	Endowment Fund for the Rehabilitation of Tigray
EGTE	Ethiopian Grain Trading Enterprise
EIAR	Ethiopian Institute of Agricultural Research
EPADGONE	Ethiopian Pastorals and Agro-pastorals Development and Governance Network
EPRDF	Ethiopian People's Revolutionary Democratic Front

ETB	Ethiopian Birr
FCA	Federal Cooperative Agency
FPO	Field Presence Officer
FPPP	Field Presence Pilot Programme
FREAC	Federal Research Extension Advisory Council
FREG	Farmer Research Extension Groups
FRG	Farmer Research Group
FTC	Farmer Training Centre
GDP	Gross Domestic Product
GoE	Government of Ethiopia
HH	household
HIV	Human Immuno-Deficiency Virus
IDA	International Development Association (World Bank)
IE	interim evaluation (of SCP II)
IEG	Independent Evaluation Group
IFAD	International Fund for Agricultural Development
IFIs	international financial institutions
IFPRI	International Food Policy Research Institute
ILRI	International Livestock Research Institute
IMF	International Monetary Fund
JICA	Japan International Cooperation Association
KM	knowledge management
MDG	Millennium Development Goals
M&E	monitoring and evaluation
MFI	micro finance institution
MIS	management information system
MIX	micro-finance information exchange
MoARD	Ministry of Agriculture and Rural Development
MoFED	Ministry of Finance and Economic Development
MOT	Mobile Outreach Team
MTEF	medium-term expenditure framework
MTR	mid-term review
NARS	national agricultural research system
NBE	National Bank of Ethiopia
NEPAD	New Partnership for Africa's Development
NGO	non-governmental organisation
ODA	Official Development Assistance
OE	Office of Evaluation
OSC	Operational Strategy and Policy Guidance Committee
PAC	Policy Advisory Committee
PADETES	participatory demonstration and training extension system
PAR	portfolio at risk
PASDEP	Plan for Accelerated and Sustained Development to End Poverty
PASIDP	Participatory Small-scale Irrigation Development Programme
PBAS	performance-based allocation system
PCDP	Pastoral Community Development Project
PCE	project completion evaluation
PCMU	Programme Coordination and Management Unit
PCR	project completion report
PF	Eastern and Southern Africa Division
PRA	Participatory Rural Appraisal
PRSP	poverty reduction strategy paper
PSN	Productive Safety Net
PT	IFAD's Technical Advisory Division
PY	Project Year
RAB	Regional Agricultural Bureau
RCBP	Rural Capacity Building Project

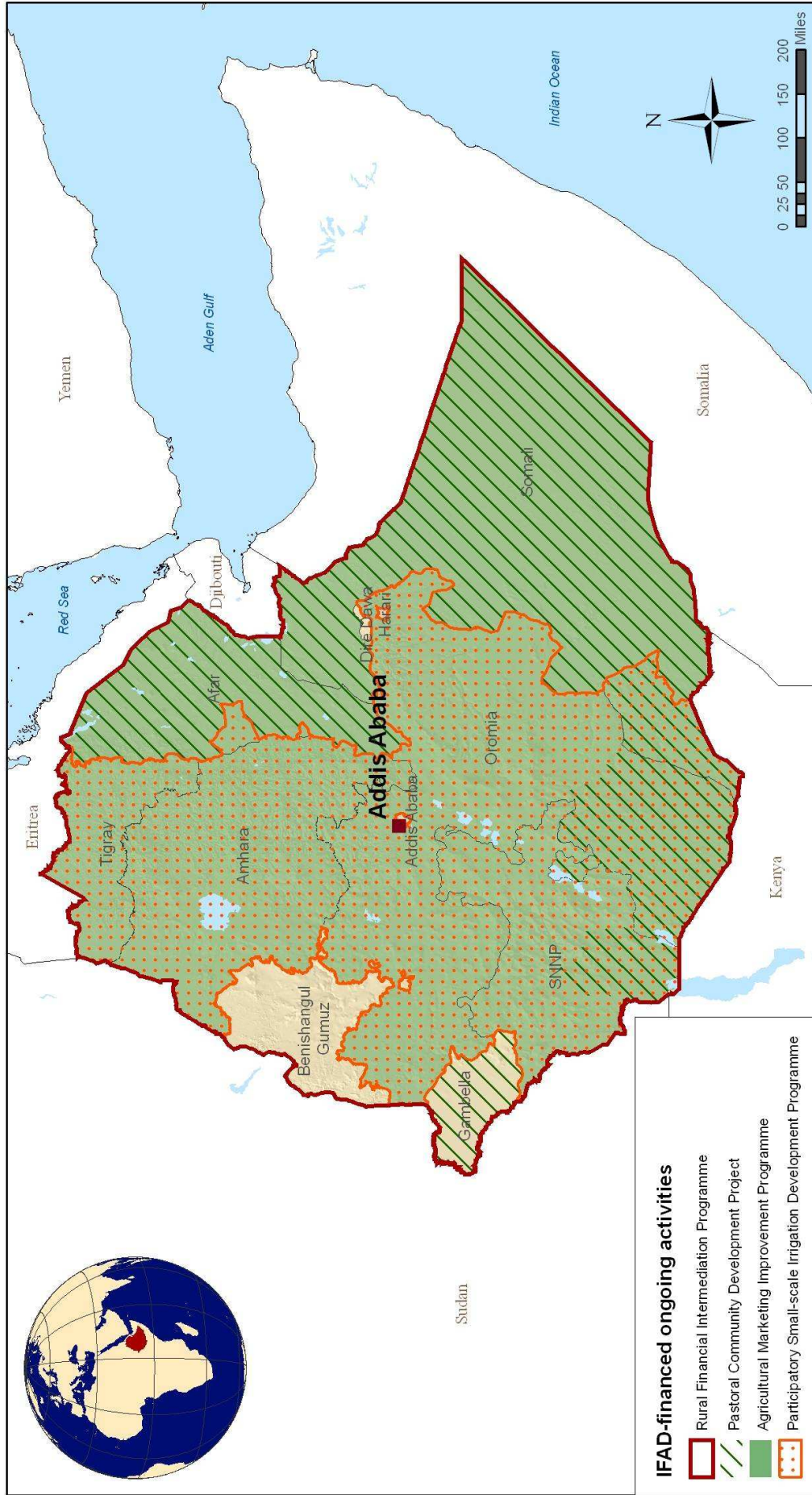


RCPB	Regional Cooperative Promotion Bureaux
REAC	Research Extension Advisory Council
RED	Research-Extension Department
REFLD	Research-Extension-Farmer Linkage Department
RPCU	Regional Project Coordination Units
RUFIP	Rural Financial Intermediation Programme
RUSACCO	rural savings and credit cooperative
SC	service cooperative
SCP	special country programme
SDPRP	Sustainable Development and Poverty reduction Programme
SEPSS	Socio-Economic and Production Systems Studies
SNNPR	Southern Nations, Nationalities and Peoples' Region
SOCODEP	Southern Region Cooperatives Development and Credit Project
SOE	state-owned enterprise
SRAB	Southern Region Agricultural Bureau
SWAp	sector wide approach to planning
TAG	Technical Assistance Grant
TRC	Technical Review Committee
TWP	technical working paper
UN	United Nations
UNDP	United Nations Development Programme
UNOPS	United Nations Office for Project Services
WDC	Woreda Development Committee
WHO	World Health Organisation
WUA	Water User Association



# Federal Democratic Republic of Ethiopia

## Country Programme Evaluation



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

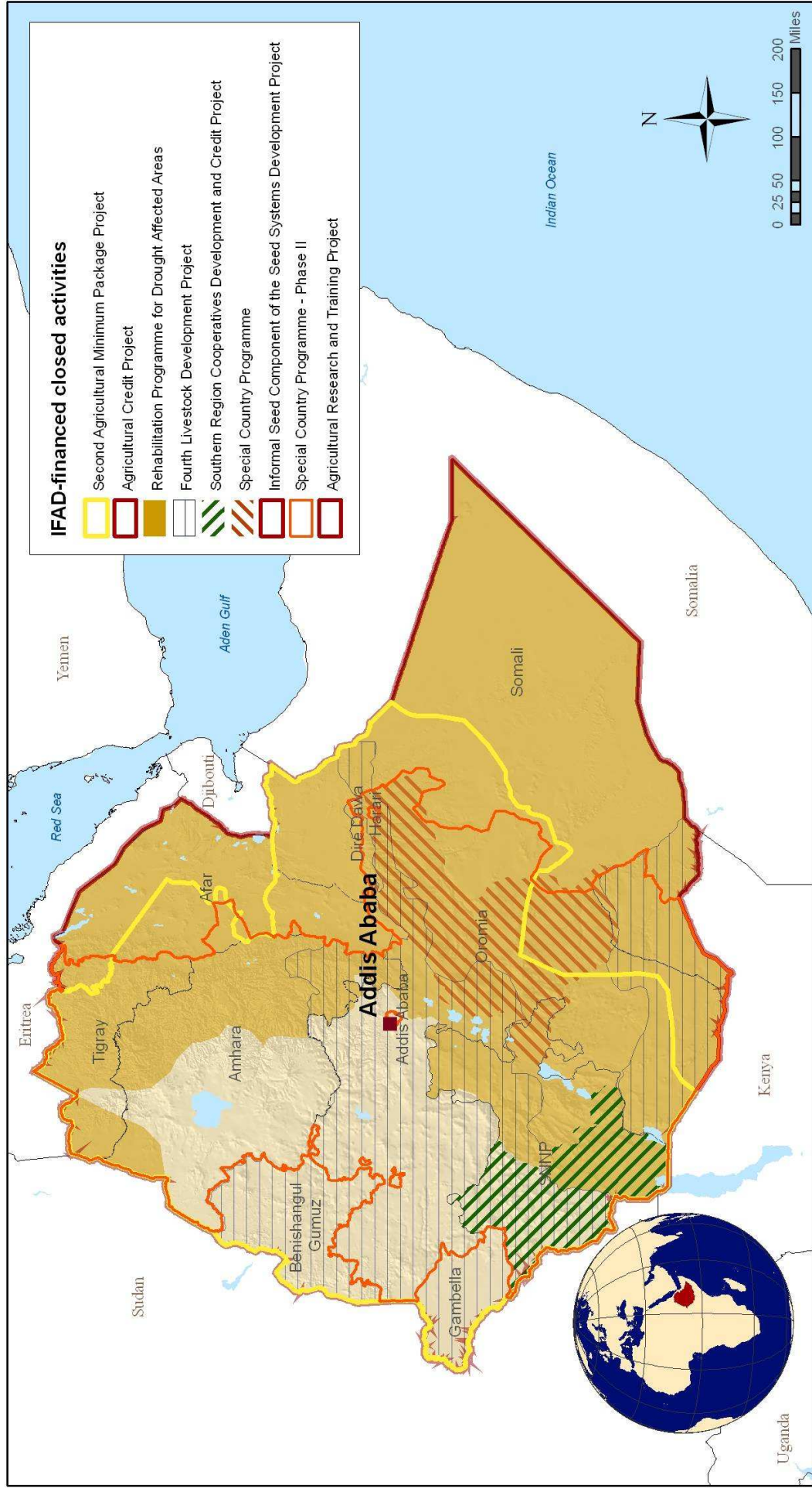
Map compiled by IFAD





# Federal Democratic Republic of Ethiopia

## Country Programme Evaluation



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## **FOREWORD**

*At the time of undertaking the Country Programme Evaluation (CPE), IFAD had financed 13 projects in Ethiopia for a total loan amount of US\$206 million; the co-financing of IFAD investments in the country by other organisations, such as the African Development Bank, the Belgian Survival Fund and the World Bank has brought total project costs up to US\$588 million. In addition to loans, Ethiopia has benefited from a number of Technical Assistance Grants, most with regional coverage, for an estimated overall amount of US\$4.0 million. The United Nations Office for Project Services (UNOPS) and the World Bank were IFAD's cooperating institutions in the past, responsible for project supervision and loan administration.*

*The Country Strategic Opportunities Paper (COSOP) for Ethiopia of 1999 established: (i) sub-sectoral priorities for portfolio development, including rural finance, small scale irrigation, agricultural diversification and marketing;; (ii) portfolio management directions, such as sector development programmes, beneficiary participation in design, baseline and socio-economic surveys and integration of project management units in decentralised government structures; and (iii) policy dialogue directions. With regard to the latter, areas of intervention included reducing the role of Government in economic activities that are better undertaken by the private sector, and promoting the reform of land tenure systems. The policy dialogue directions have been assessed as relevant by the CPE. On the other hand, while the project portfolio was made of individual operations - each addressing a separate sub-sector, the COSOP did not clarify how to ensure synergy among the programmes (for example, how to provide rural credit to households served by an irrigation scheme).*

*Overall, the projects funded by IFAD have been performing in a satisfactory manner in small-scale irrigation, rural finance and pastoral community development. There is evidence of significant household income and food security increases that can be attributed to IFAD-funded projects. Pastoral community interventions have focused on very poor communities and women. IFAD's support for agricultural research (ARTP) within a larger World Bank-funded project contributed to strengthening Ethiopia's Agricultural Research System. In the area of cooperative development, no economically viable model for agricultural input and credit delivery was introduced, but positive contributions were made to establishing basic health and sanitation services, also thanks to a grant provided by the Belgian Survival Fund.*

*Several innovations have been introduced through the country programme, most notably in pastoral community development (e.g. in terms of partnerships between local governments, communities and the private sector), and in rural finance by promoting linkages between micro-finance institutions and banks. The Government of Ethiopia and other donors, such as the World Bank and the Japan International Cooperation Agency are already starting to extend financial support to some of these innovations. However, IFAD may have not yet harnessed all the available resources for promoting innovations due to limited synergies between its loan and grant-funded activities.*

*Until recently, IFAD delegated supervision to the cooperating institutions (as per its previous operating model) and has been seen by the Government as a flexible but somehow distant partner. With the establishment of a country presence office in 2005, and approval of the Direct Supervision Policy in December 2006, the situation is changing and IFAD's Field Support Manager is now participating regularly in direct supervision and implementation support missions.*

*This evaluation report includes an Agreement at Completion Point which summarises the main findings of the evaluation and sets out the recommendations that were discussed and agreed upon by the Government of Ethiopia and IFAD together with proposals as to how and by whom the recommendations should be implemented.*



**Luciano Lavizzari**  
**Director, Office of Evaluation**





# Federal Democratic Republic of Ethiopia

## Country Programme Evaluation

### Executive Summary

#### I. INTRODUCTION

1. **IFAD assistance to Ethiopia.** IFAD has provided loans totalling US\$206 million to finance 13 projects in Ethiopia since 1980. A further US\$288 million in cofinancing for these projects has been secured from the African Development Bank (AfDB), the Belgian Survival Fund (BSF), the Government of Ireland and the World Bank. Counterpart funding from the Government of Ethiopia amounted to US\$98 million, for a total project portfolio equivalent to US\$592 million. IFAD's assistance to the country has also included the provision of a few small country grants, as well as some larger regional grants in which Ethiopia's estimated share is about US\$4 million. Appendix 1 provides some basic data about the projects funded by IFAD in the country.

2. **Evaluation objectives, methodology and processes.** The main objectives of the country programme evaluation (CPE) have been to: (i) assess the performance and impact of IFAD-funded operations in Ethiopia; and (ii) develop a series of findings and recommendations that can serve as building blocks for the preparation of the new country strategic opportunities programme (COSOP) for Ethiopia by IFAD and the Government of Ethiopia. The new COSOP will be submitted to the IFAD Executive Board for consideration during its ninety-fifth session in December 2008.

3. In line with the usual procedure for CPEs, this evaluation covers IFAD assistance to Ethiopia over a 10-year period (from 1997 to 2007). More specifically, it includes an assessment of 7 of the 13 loan-funded projects approved since 1980, a review of non-lending initiatives (policy dialogue, partnership-building and knowledge management) and an analysis of grant-financed activities.

4. The findings of the CPE are based on: (i) a comprehensive desk review of existing evaluative evidence and other documentation; (ii) self-assessments by the Eastern and Southern Africa Division (PF) and the authorities of three IFAD-assisted projects, namely the Agricultural Research and Training Project (ARTP), the Pastoral Community Development Project (PCDP) and the Rural Financial Intermediation Programme (RUFIP); (iii) surveys conducted by microfinance institutions participating in RUFIP on the results of the rural financial services that have been provided; (iv) five weeks of field work in Ethiopia by an Office of Evaluation (OE) multi-disciplinary evaluation team; (v) key informant and focus group discussions conducted during the evaluation mission; and (vi) information provided by project partners, including PF, the Government, donor organizations and others.

5. A preparatory mission for the CPE was conducted in May 2007, and the main evaluation mission took place in September-October 2007. Comments from the Government and PF concerning the CPE mission's aide-memoire were duly considered in preparing the CPE report, which has been enriched by a comprehensive internal OE peer review, as well as the written comments received from PF and the Government. The report has also been shared with the main cofinanciers for their comments. In addition, a senior independent adviser<sup>1</sup> was hired by OE to review the draft final report.

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<sup>1</sup> Mr Seydou Traoré, former Minister of Agriculture of the Republic of Mali.

The main issues<sup>2</sup> emerging from the CPE were discussed at the CPE national roundtable workshop held in Addis Ababa on 26-27 June 2008.

6. **Economy and poverty.** Despite recent impressive economic growth, Ethiopia remains among the poorest countries in the world. The population, numbering close to 80 million, have a per capita income of about US\$200 (the same level reached in 1973 before the economic decline that occurred during the Derg regime of 1974-1991). Since 1992, Ethiopia has undergone a process of decentralization and market liberalization, but many economic activities continue to be managed by the State and by political parties. Moreover, the country has to deal with a number of significant macroeconomic imbalances. These disequilibria are largely attributable to low savings rates, which constrain efforts to develop Ethiopia's modest capital and technology base. About 80 per cent of the country's households obtain their livelihood from traditional low-productivity agricultural activities, which are subject to recurrent droughts. Some 39 per cent of all households are below the national poverty line (down from 46 per cent in 1996).<sup>3</sup>

7. **Poverty reduction strategies.** In 2002, the Government introduced its first poverty reduction strategy paper (PRSP). This was followed by a second-generation PRSP in 2005, entitled "Plan for Accelerated and Sustained Development to End Poverty (PASDEP), 2005/2006 – 2009/2010". The PRSPs reflect the agricultural development-led industrialization policy which was introduced in the 1990s to give high priority to agricultural and rural development. The share of the total government budget allocated for agriculture and food security is unusually high in Ethiopia (over 10 per cent) compared to other African countries (where it is generally less than 5 per cent), and this provides a conducive environment for implementing and sustaining agriculture-related development projects.

## II. THE QUALITY OF THE COUNTRY STRATEGIC OPPORTUNITIES PROGRAMME (COSOP)

8. The strategic directions for IFAD's cooperation with Ethiopia in the 1990s were set forth in the IFAD special programming mission document of 1989, which focused on promoting smallholders' incomes and farm production in low-income and food-deficit regions.

9. Together with the Government, IFAD formulated its first COSOP for Ethiopia in 1999. This paper outlined, among other issues, the main objectives for the country programme. There were few resources available for the preparation of the 1999 COSOP, yet its formulation was nonetheless carried out, broadly speaking, on the basis of a participatory process and in accordance with the guidelines of the time. As such, it did not include measurable objectives or indicators. Nor did it set out a detailed targeting strategy. Instead, it concentrated on: (i) a set of subsector priorities for project portfolio development (including rural finance, small-scale irrigation, agricultural diversification and marketing); (ii) portfolio management (sector development programmes, beneficiary participation, baseline and socio-economic surveys and integration of project management units in government structures); and (iii) policy dialogue directions (reorienting the role of regional agricultural bureaux, reducing the role of government in economic activities that can be performed more successfully by the private sector, and promoting the reform of land tenure systems).

10. The CPE has determined that the subsector priorities of the COSOP are relevant, although more analysis of the constraints on private-sector development would have been desirable, especially before a decision was made to embark on investment in agricultural marketing. Because so few resources were allocated for the preparation of the COSOP, very little analytical work was conducted as a basis

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<sup>2</sup> The three main themes discussed at the workshop were as follows: (i) Improving the IFAD Country Programme Approach; (ii) The development of a results-based management framework; and (iii) Towards better implementation capacity.

<sup>3</sup> Figures derived from the following sources: World Bank, World Development Indicators 2006; UNDP, Human Development Report 2005; Economist Intelligence Unit, Ethiopia Country Profile, 2006.

for setting priorities (e.g. in terms of geographic focus, subsector engagement and so on). On the positive side, it should be noted that all subsector priorities for portfolio development have been adhered to. In addition, IFAD has financed a pastoral community development project as part of the United Nations response to the crisis situation caused by the drought in Ethiopia.

11. The portfolio management directions of the COSOP have generally been complied with, although limited progress has been made in conducting baseline surveys and strengthening project-level monitoring and evaluation (M&E) systems. The policy dialogue objectives outlined in the COSOP were rather ambitious, especially in light of the limited human and financial resources available for pursuing these objectives. The COSOP did not present a comprehensive targeting strategy for rural poverty reduction, leaving targeting priorities and modalities to be defined within the context of individual projects and programmes. Moreover, the COSOP did not provide a great deal of guidance on how to ensure linkages and synergies among the various projects and programmes funded by IFAD in the country.

#### Assessment of the 1999 Ethiopia COSOP

Quality aspect of strategy	Rating	CPE assessment
Assessment of the main issues and obstacles for reduction of rural poverty	4	The COSOP briefly lists some of the main factors influencing poverty. However, a more critical assessment of the systems for research, outreach and input supply would have been pertinent in evaluating the obstacles to poverty reduction.
Relevance and clarity of general objectives and specific goals	4	The objectives of the strategy are not presented in terms of expected development results but rather in terms of directions and priorities for portfolio development, management, policy dialogue and knowledge management. It is a process rather than a results-oriented strategy. Nonetheless, portfolio development goals are clearly defined and relevant.
Analysis of IFAD's target group and its needs	3	There is insufficient analysis and consideration of spatial diversity and differences in poverty and poverty-reduction challenges.
Operationalization of the strategy	4	The directions for portfolio development and management are generally based on the contextual analysis and strategy, but linkages to agricultural marketing are weak, and the strategy for future support in this area is not fully developed.
Identification of partners and reinforcement of existing partnerships	4	Traditional partners (the World Bank and the Belgian Survival Fund (BSF)) are listed, but opportunities for developing partnerships with new cofinanciers, non-governmental organizations (NGOs), Ethiopian think-tanks and international research institutions (e.g. the International Food Policy Research Institute (IFPRI)) were not explored.
Knowledge management	5	The COSOP identifies lessons from past cooperation activities and places a very high priority on improving M&E systems and undertaking baseline surveys. However, specific resources for these activities are not identified in the COSOP.
Innovation, replication and scaling up	3	The COSOP does not specify any successful innovations for scaling up such activities.
Policy dialogue	5	The areas singled out for policy dialogue are relevant, although some objectives (e.g. land tenure reform) seem to be overly ambitious in view of the role and capacity of IFAD.
<b>Overall score</b>	<b>4</b>	

6=highly satisfactory; 5=satisfactory; 4=moderately satisfactory; 3=moderately unsatisfactory; 2=unsatisfactory; 1=highly unsatisfactory.

### III. IFAD-FUNDED PROJECTS IN ETHIOPIA

12. As mentioned above, the CPE covered 7 out of 13 loan projects which have accounted for 73 per cent of all IFAD lending to Ethiopia since 1980. The first three projects included in the CPE were designed before the 1999 COSOP and correspond to the pre-COSOP period. These projects are the Southern Region Cooperatives Development and Credit Project (SOCODEP), Phase II of the Special Country Programme and the Agricultural Research and Training Project (ARTP). The other four projects, which correspond to the post-COSOP period, are the Pastoral Community Development Project (PCDP), the Rural Financial Intermediation Programme (RUFIP), the Agricultural Marketing Improvement Programme (AMIP) and the Participatory Small-scale Irrigation Development Programme (PASIDP).

13. In addition to these loan-supported projects, the CPE assesses two small country grants and five larger grants. The latter were regional and interregional grants for Ethiopia together with other countries in the PF region. These grants have primarily financed activities of international research institutions belonging to the Consultative Group of International Agricultural Research (CGIAR), but in a few cases they have also supported activities of NGOs. Support has been furnished for a wide range of activities, from the testing of stress-tolerant cereal varieties to livestock pest control and rural finance. It is estimated that, since 1993, Ethiopia has taken part in 15 large and small regional grants having a total value of US\$12 million, of which Ethiopia's "share" is estimated at US\$4 million.

**Overview of the Loan-funded Operations Assessed by the CPE**

	<i>Appr.</i>	<i>Eff.</i>	<i>Clos.</i>	<i>Total cost</i>	<i>IFAD loan</i>	<i>Cofinanciers</i>	<i>Cl.</i>	<i>Criteria evaluated</i>	<i>Eval. sources</i>
				US\$ million					
Southern Region Cooperatives Development and Credit Project (SOCODEP)	1993	1994	2005	21.9	17.45	BSF	UNOPS	All	Compl. eval., PCR
Phase II, Special Country Programme II: (Small-scale irrigation)	1996	1999	2007	31.9	22.6	Government of Ireland	UNOPS	All	Interim evaluation, PCR, field visit
Agricultural Research and Training Project (ARTP)	1998	1999	2007	90.6	18.2	World Bank	World Bank	All	Field visit, project information
Pastoral Community Development Project (PCDP)	2001	2004	2009	59.9	20	World Bank	World Bank	All	Field visit, project information
Rural Financial Intermediation Programme (RUFIP)	2001	2003	2010	88.7	25.7	African Dev. Bank	World Bank	All	Field visit, project information
Agricultural Marketing Improvement Programme (AMIP)	2004	2006	2013	35.1	27.2	None	UNOPS	Relevance	Project information
Participatory Small-scale Irrigation Development Programme (PASIDP)	2007	2008	2015	57.7	20 loan, 20 grant	None	Direct by IFAD	Relevance	Project information

#### IV. PERFORMANCE AND IMPACT

14. **The overall performance of the project portfolio.** The portfolio's performance (measured in terms of relevance, effectiveness and efficiency<sup>4</sup>) is assessed as being satisfactory<sup>5</sup> for the post-COSOP portfolio (rural finance and pastoral community development) and moderately satisfactory for the pre-COSOP portfolio, with the exception of small-scale irrigation, which has been supported since the 1990s through three different operations.

15. **Relevance.** The objectives of the loan-supported projects have been found to be highly relevant in the case of rural finance, pastoral community development and small-scale irrigation. These projects responded to the needs of the rural poor and were aligned with the main Government and IFAD policies and strategies related to rural poverty reduction. Moreover, the lessons from the OE interim evaluation of the second phase of the Special Country Programme were duly incorporated into the recently launched Participatory Small-scale Irrigation Development Programme (PASIDP).

16. On a related issue, the CPE recognizes the importance for the Government of investing in the development of the National Agricultural Research System, which is seen as a key feature in promoting food security in the country. However, it also calls attention to the type of contribution IFAD can make to the process, especially in view of the fact that research results have often not become available until long after a project's completion. This has limited the opportunities for transferring new technologies to the rural poor and for promoting their adoption. Furthermore, while the CPE supports the introduction of research into drought-prone under-served areas, some uncertainty remains about the selected approach, which would focus on the construction of large research centres with costly infrastructure based on the assumption that highly qualified researchers could be convinced to come to remote and marginal areas and to live and work there on a permanent basis. Similar comments were made during the internal formulation process in 1998 by IFAD's Technical Advisory Division. In fact, according to the CPE, IFAD's experience with the implementation of ARTP indicates that these comments are pertinent even today.

17. The design of the recent agricultural marketing project is broadly consistent with IFAD's Private-Sector Development and Partnership Strategy. However, while recognizing that the marketing project has been in place for just over two years, the CPE notes that the project needs to explore opportunities for greater public-private partnerships.

18. **Effectiveness.** The effectiveness of the interventions undertaken in the areas of rural finance, pastoral community development and irrigation is assessed as satisfactory. Coverage of beneficiaries or intervention areas has been expanded beyond the levels initially planned, and the overall quality of services has matched the needs of the beneficiaries. Effectiveness has been appraised as being moderately satisfactory in the case of agricultural research (benefits to the broader research system in Ethiopia, while still limited, are potentially transferable to extension efforts and to farmers) and as moderately unsatisfactory in the case of cooperative development (there has been only limited progress in terms of the quality of services, and problems of insolvency have arisen).

19. In the area of pastoral community development, effective and innovative models of local governance have been introduced for planning and implementing investments in community infrastructure, as well as in income-generating activities for the poorest, and this has provided

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<sup>4</sup> **"Relevance"** is defined as the extent to which the objectives of a development intervention are consistent with beneficiaries' requirements, country needs, institutional priorities and partners' and donors policies. An assessment of a project's coherence in achieving its objectives is also entailed. **"Effectiveness"** refers to the extent to which the development intervention's objectives were achieved, or are expected to be achieved, taking into account their relative importance. **"Efficiency"** is a measurement of how economically resources/inputs (funds, expertise, time and so on) are converted into results.

<sup>5</sup> IFAD uses a six-point rating scale in which 1 represents the lowest score and 6 the highest. A 5-point rating is considered to be satisfactory.

stakeholders and beneficiaries with a sense of ownership. Communities are actively engaged in the planning and implementation of microprojects to which they contribute in kind or with cash. Substantial improvements in living standards are noted.

20. In the sphere of rural finance, outreach efforts have achieved impressive results through the development of microfinance institutions (MFIs), which in Ethiopia can be regarded as small banks, as most of them are allowed to mobilize savings. The scope of outreach activities has expanded at an average annual rate of 34 per cent, with a total of 1.72 million clients by the end of June 2007, which corresponds to about 20% of all rural households. The average annual growth rate for outstanding loans has been 105 per cent, and the rate of expansion for net savings has been 50 per cent. Most of RUFIP's end-of-programme targets (i.e. project year 7) had already been surpassed in its fourth year. Discussions with various stakeholders in the sector indicate that RUFIP has been the major catalyst for this growth, thanks, in particular, to its facilitation of linkages between MFIs and the banking industry. RUFIP has also created a new type of microfinance institution in Ethiopia from scratch, namely rural savings and credit cooperatives (RUSACCOs). While many RUSACCOs have been created, their membership is still limited. In addition, members have received insufficient training, mainly because of delays in the AfDB-funded component, and this raises concerns about the sustainability of these cooperatives.

21. Small-scale irrigation projects have placed priority on districts that are classified as highly or very highly vulnerable. About 70 per cent of the schemes included in Phase II of the Special Country Programme have been in such areas. Significant progress has been made in these areas towards the main objective of increasing yields and cropping rates by expanding irrigated agriculture, and the targets for beneficiaries and for the land area to be brought under irrigation have been surpassed. However, advances have been relatively modest in the case of objectives relating to water management and the settlement of water-rights issues, user organizations, soil conservation, crop husbandry and vegetable seed production, and the development of economic activities for women.

22. The support provided to cooperatives (through SOCODEP) did not achieve this activity's key objective of establishing a model for cooperative development in Ethiopia. Although quantitative targets for re-registering and restructuring cooperatives were surpassed, by the end of the SOCODEP intervention these cooperatives were weak, and some were on the verge of bankruptcy. The contribution made to the development of the cooperatives' commercial activities (e.g. flour mills and retail shops) was modest. Owing to a lack of business management skills, the activities concerned were performed poorly. Today, many of these ventures have closed their doors due to competition from the private sector. In most of the credit components, loan disbursement and loan recovery were unsatisfactory.

23. The CPE concludes that the combined support of the World Bank and IFAD in ARTP made a significant contribution to the strengthening of the National Agricultural Research System (NARS) of Ethiopia, in particular the large human resource development components funded by the World Bank. However, the effectiveness of IFAD's contribution to the transfer of technology from research institutions to farmers is assessed as moderately satisfactory. While the overall research system is generating an increasing number of agricultural technologies, the adoption of these technologies by the majority of farmers, which is expected to result in major improvements in national yields, will take many years. The reasons for this situation may be found both in the research system and in the constraints to which input supply and extension systems are subject.

24. **Efficiency** is assessed as satisfactory for rural finance, due to the favourable operating cost ratios when compared to regional standards in the industry. Efficiency is assessed as moderately satisfactory for pastoral development and small scale irrigation. While unit costs for construction are within the parameters of comparable interventions, because of the incomplete status of much of the infrastructure (pastoral development) and delays in implementation (irrigation), the benefits will accrue to the project much later than expected. Efficiency is assessed as being moderately unsatisfactory in the cases of both cooperative development and agricultural research. This is due to

the fact that the level of project outputs is significantly lower than expected and to delays and high unit costs in construction and delivery. This situation is, however, attributable to many factors that are beyond the control of the project management teams, such as the focus on quantitative targets and the wide geographic coverage of activities which is called for in the project design.

#### A. Rural Poverty Impact

25. The CPE assesses the overall impact on rural poverty as being satisfactory, with the exception of the early support for cooperatives provided through SOCODEP, for which the impact is assessed as moderately unsatisfactory. Given the nature of the project, in which emphasis is placed on the construction of large research centres, the impact of the support provided for agricultural research is not rated because it could not be gauged at the time of evaluation. Because implementation of AMIP and PASIDP has begun so recently, the CPE did not assess or rate the impact of these two new projects. The CPE ratings for impact and other evaluation criteria are shown for each project or programme in Appendix 2.

26. **Impact on household income and assets.** In terms of the number of households in which income levels and asset ownership have improved, the most significant contribution has been made by the support provided for rural finance, followed by the support furnished for pastoral communities and irrigation. Rural financial services and the MFI industry are making a significant contribution to poverty reduction in Ethiopia by reaching the poor, although they do not always reach the poorest. Impact studies consistently identify widespread and significant improvements in household income, consumption and asset-building among the vast majority of MFI clients, who are mainly the “economically active poor”. As is common in microfinance, the available information suggests that although some changes begin to occur when the very first loan is disbursed, it is not until after the fifth loan (usually by the fifth year) that significant improvements in income and living standards can be seen.

27. There is evidence that pastoral community activities are having a broader impact in terms of poverty reduction. Through an income-generating scheme, interventions have directly contributed to improving the income levels and asset accumulation of some 10,000 of the poorest community members, of whom 78 per cent are women (including female heads of household). According to the evidence gathered through focus group discussions, it appears that activities are simple and affordable for very poor households (e.g. petty trading, breeding of poultry, fattening of goats and sometimes oxen). These results can also be attributed to the effective and participatory rural appraisal which was conducted when intervention plans were being prepared. In addition, many more households may have obtained indirect income benefits from the community microprojects, in particular the water supply schemes.

28. Some 31,000 households in densely populated drought-prone areas have been reached through the support provided for small-scale irrigation projects, and many of these households are gradually seeing an improvement in their incomes. Findings suggest that increases in crop yields over the traditional yields are in the range of from 25 to 40 per cent, and in cases where irrigation facilities have been built around springs, the increases have been between 75 and 100 per cent. Thanks to these irrigation projects, the targeted irrigation farmers’ physical and financial assets have started to increase, although experience suggests that it may take six or more years for irrigation farmers to experience the full benefits.

29. **Food security.** The most direct and significant contribution to an improvement in food security for rural households has been made by the support furnished for small-scale irrigation projects. Information collected by the OE interim evaluation team on Phase II of the Special Country Programme shows that some farmers were experiencing a reduction in the number of “hungry months” from about six to two (July and August) thanks to larger and more reliable yields and higher income. It has also been reported that the range of dietary intake is widening due to crop diversification.

30. The support provided for rural finance and pastoral community development has also made important direct and indirect contributions. In the case of rural finance, the various impact studies show that the first impact for new clients is consumption smoothening, as these interventions enable households to meet their food requirements throughout the year. Generally speaking, for most rural clients, the first few loans are used to purchase oxen (usually for use in ploughing, but also for sale after the oxen are fattened). Multi-access loans have permitted the diversification of the income base, and this, combined with growing savings deposits, has improved clients' capacity for coping with drought and other external shocks. In pastoral communities, many microprojects have been undertaken to improve the water supply, which enables these communities to deal more successfully with recurrent droughts. The support furnished for cooperative development made much less of a contribution than expected to an improvement in food security.

31. Unfortunately, no baseline surveys have been conducted on the nutritional status of children, which is often considered to be one of the most reliable indicators of overall food security. Baseline studies, although recommended in the COSOP, have generally not been conducted in IFAD-supported projects and programmes. Data on food security and child malnutrition are particularly important because Ethiopia still suffers from high levels of child malnutrition (51 per cent according to the World Health Organization (WHO) and 48 per cent according to PASDEP) even though these levels did decline somewhat in the period 1995-2005.

32. **Market access.** Providing greater access to markets has not been among the key objectives of these interventions, with the notable exceptions of AMIP and SOCODEP. Therefore, not surprisingly, the programme's contribution in this sphere has been modest when compared to the contributions made in other areas. For example, some rural finance clients who have bought oxen or other transport animals have improved their access to markets. Similar effects may be seen for some beneficiaries of the income-generating scheme supported in pastoral communities. The support for cooperative development included the construction and rehabilitation of roads, which did improve market access for some households, though fewer than targeted. Limited achievements were made in promoting viable service cooperatives that provide efficient access for their members to markets and services.

33. **Human capital.** The main contributions to development have come from the support provided to pastoral communities and the BSF-financed water supply, health and basic sanitation component of SOCODEP, while the support furnished for rural finance has made more indirect contributions. More than 10,000 staff and community members in pastoral areas have been trained, and households are starting to benefit from the services provided by health posts and new schools (although no data are available on the quality of the teaching or of the learning process). The results of the BSF health component were - according to a BSF-financed impact study and the OE project completion evaluation of SOCODEP - positive and substantial. In rural finance, the impact has been more indirect. Some impact studies have reported that some clients have improved their income levels and are therefore in a position to send their children to school. However, progress in supporting skills development by MFI staff and RUSACCO members has been modest due to the lengthy procurement procedures employed by the cofinancing partner (AfDB).

34. The impact of irrigation interventions on human assets, in the form of the development of skills and knowledge, has been limited by the generally poor quality of extension work, an unimaginative use of trials and demonstrations, and the limited institutional support that has been provided. While a large training programme was made available in order to provide support for cooperatives, any lasting impact on the institutions involved was undermined by frequent government restructuring and re-deployment of personnel. Furthermore, capacity-building efforts largely ignored the importance of changing people's attitudes towards the cooperative model.

35. **Social capital.** The most significant contribution made in this domain has come from the support furnished for pastoral community development. Communities have been empowered through the effective use of participatory methods and the formation of the woreda (district) development committees and community development committees, which include members from government, the



private sector and civil society. These committees may serve as a model for woreda and community planning throughout the country. Significant impacts have also been observed in the area of rural finance, where credit groups, local networks and RUSACCOs are helping to develop social capital at the grassroots level. While the support for cooperatives was expected to make a major contribution to social capital development, at the project completion point most of the cooperatives were still weak, both financially and with respect to management capacity and business skills.

36. In the sphere of irrigation, the impact on social capital, through the establishment and strengthening of local organizations for water management, has been more limited. The situation has been complicated by the presence of three different organizations within the same scheme: the traditional water user group, the “modern” water user association (WUA) and an irrigation cooperative. Traditional water-user groups have not been utilized effectively in the move to “modern” organizational forms (WUAs and cooperatives). The cooperative promotion departments, which are mandated to strengthen WUAs, have focused on the promotion of irrigation cooperatives, even though the cooperative concept is unattractive to some (perhaps many) farmers because of the coercive application of cooperative schemes during the Derg administration. This has been taken into consideration in the design of the latest small-scale irrigation intervention (PASIDP).

37. **Institutional impact.** The support provided for pastoral areas has effectively contributed to new approaches and systems for planning and implementing public investments at the community level. The woreda development committees and community development committees are in operation and are contributing to a sense of local ownership. The support for rural finance has made a significant contribution towards building an inclusive financial system that can sustainably address the financial needs of the poor. Mechanisms for linking the MFI sector and the banking industry have been introduced, and a diversification process has been initiated in terms of the products offered and the range of institutions servicing the poor, including RUSACCOs. Finally, the capacity of the regulatory framework in respect of both MFIs and RUSACCOS has been strengthened, in particular by helping the National Bank of Ethiopia to upgrade its Microfinance Supervision Division and give it the status of a full department. Also, some steps have been taken to reinforce self-regulatory mechanisms in the microfinance industry by supporting the Association of Ethiopian Microfinance Institutions (AEMFI).

38. The overall National Agricultural Research System (NARS) of Ethiopia has been significantly strengthened through ARTP for human resource development and facilities. Through its involvement in this support effort, IFAD has helped to introduce competitive research grants and to establish the basis for improving linkages with the extension system. The chances that IFAD’s support for six agricultural research centres in remote drought-prone areas will have a positive institutional impact will depend on how the current problems of these centres are solved. These problems include a failure to complete construction work, a lack of potable water, inadequate accommodation facilities, and difficulties in attracting and retaining high-quality staff. At the project’s close, major efforts were reportedly being made to solve the water-supply problem.

39. **Sustainability.** It is likely that most of the benefits promoted through IFAD-supported activities will be sustained after the relevant projects come to an end. In fact, in Ethiopia, sustainability prospects are significantly better than they are, on average, for IFAD-funded projects across all regions (see table 3). In recent years, more than 10 per cent of the Ethiopian Government’s budget has been allocated for agriculture and food security. Therefore, within the public domain, budgetary resources are usually available to support the continuation of activities in this field. Another positive element is that project management units are well embedded within the decentralized government structure (Phase II of the Special Country Programme, PCDP) or in permanent national organizations (RUFIP, ARTP).

40. High staff turnover and a thinly spread agricultural budget may, however, have a negative impact on operations. Outside the public domain, there are “sustainability threats” for some activities. The water user associations do not generate sufficient income to rehabilitate and maintain the main

civil engineering structures involved in the small-scale irrigation schemes. Within the realm of rural finance, MFIs in Ethiopia have excellent portfolio quality and good operational efficiency. In spite of this, the return on assets and on equity are both negative owing to a combination of low interest rates (approximately 12-20 per cent, despite the fact that no official cap exists) and high inflation (estimated at around 40 per cent as of mid-2008), which results in negative real rates of interest. If inflation remains high, negative real lending rates may reduce people's motivation to save and may encourage borrowing for economic activities that may not be profitable in real terms. Finally, the significant shortage of inexpensive capital relative to demand may, as has been seen in other countries, result in the administrative and rent-seeking allocation of the limited supply of inexpensive capital that does exist.

41. **Innovation, replication and scaling up.** The IFAD portfolio has contributed to the introduction of a number of systems and approaches that are innovative in the Ethiopian context. For example, in agricultural research, innovations have included: (i) a system of competitive research grants; (ii) Farmer Research Groups, through which farmers are involved in research activities on an ongoing basis (this approach will be continued and scaled up with the help of funding from the Japan International Cooperation Agency (JICA)); and (iii) a system of research extension advisory councils which is supported by public policy and the government budget. In the area of pastoral community development, a community-driven development approach has been introduced, and the planning and management of community investments are now being conducted by the woreda (district) development committees and the community development committees. The potential exists for scaling up this approach and system, not only in pastoral areas (further funding will soon be coming from the World Bank), but nationally as well. In the sphere of rural finance, RUFIP has helped to link MFIs with the banking industry, and large MFIs are now accessing funds from commercial banks.

42. The regional and interregional technical assistance grants provided to Ethiopia and other countries have mostly been used to fund agricultural research on the part of international research institutions. While useful research results have been produced in areas that are relevant to Ethiopia, there have been limited linkages with the loan portfolio, and the mechanisms for replicating and scaling up these interventions have been weak. This has raised questions as to the rationale for IFAD to provide this type of support. By contrast, two small country grants for RUFIP have been used to fund preparatory studies which have proved useful for project design purposes, thus providing an example of grant use which is directly connected to the lending programme.

43. In general, while the Ethiopia CPE notes that projects and programmes have introduced innovations in technology or in social areas, the replication and scaling up of tried and proven innovations have not been systematic. Although recently greater efforts are being deployed in this area, in the past insufficient attention and resources have been devoted to policy dialogue, knowledge management and partnership-building, all of which are essential ingredients for replication and scaling up (see the following section). Direct supervision and the provision of implementation support, together with the maintenance of an IFAD country presence in Ethiopia since 2005, are steps in the right direction which can contribute to more effective innovation scouting and promotion.

## **B. Non-project Activities**

44. The implementation of non-lending activities (knowledge management, policy dialogue and partnership-building) has been limited, mainly because of a lack of resources and the fact that in the past a high priority has not been placed on such activities. The situation in this respect is improving, however. First, the country programme manager now has more resources available than s/he did a decade ago, which allows the manager to engage more effectively in non-lending activities. Second, the CPE found that the country presence has contributed to improvements in donor coordination, an exchange of experiences and policy dialogue.

45. **Policy dialogue.** IFAD's main contribution to policy dialogue has been made during the project design phase. Furthermore, in some cases, a policy dialogue component has been included in the

project design (e.g. in the pastoral community development and rural finance projects). However, supervision reports note that policy dialogue components are lagging behind “operational” components and that engagement by government agencies has not always been as expected. The current CPE concurs with that judgement. Moreover, IFAD’s contribution and capability to engage in policy dialogue at the national level has been challenged by various factors, including the limited resources available for conducting analytic work, the lack of a country presence until 2005, and the definition of an ambitious policy dialogue agenda. Finally, the Government and development partners have established a high-level forum and a technical working group on agriculture. IFAD takes an active part in these groups, which have, among other issues, discussed important policy matters relating to the sector.

46. **Knowledge management.** This area of activity was identified as a high priority in the COSOP, but limited progress has been made in this respect. As mentioned earlier, project-level M&E systems, which are at the foundation of a vibrant knowledge management system, have generally performed unsatisfactorily. Under the civil service reform programme, public institutions are improving their management information systems and are conducting planning, budgeting and reporting functions based on output targets and deliverables. However, relatively little attention continues to be paid to impact issues, and baseline and repeat surveys focusing on changes in household livelihoods are therefore generally not done. As a means of stimulating knowledge management, in 2007 IFAD launched the Country Programme Forum to facilitate contacts and meetings among IFAD project stakeholders (the Government, IFAD, other donors) with a view to exploring synergies between projects and different actors and exchanging experiences and lessons.

47. **Partnerships.** At the federal level, there is a solid partnership with the Government, especially the Ministry of Finance and Economic Development, Ministry of Agriculture and Rural Development, Ethiopian Institute of Agricultural Research and others. These agencies regard IFAD as a flexible and valuable organization that is working to reduce rural poverty by promoting innovations in remote areas, and they realize that this area of endeavour is not usually considered to be a priority by other development organizations.

48. In recent years, cofinancing partnerships have declined in importance as several major development partners adopted the budget-support modality. Furthermore, some of IFAD’s traditional partners, such as AfDB and the World Bank, did not place priority on small grassroots-type agricultural and rural development interventions in Ethiopia in the period assessed by the CPE.

49. Non-governmental and civil society organizations (NGOs and CSOs) have traditionally played a less important role in development cooperation in Ethiopia than in some other African countries and have therefore not been as widely involved in IFAD-supported projects and programmes in the past. However, the capacity of NGOs and CSOs is improving and, as suggested by the experience gained in support activities for pastoral communities, NGOs and CSOs can play an important role in supporting communities and grassroots organizations. The capacity of private-sector service providers is also expanding, albeit from a low base level, and this remains an area in which further inroads can be promoted within the context of IFAD operations.

## V. THE PERFORMANCE OF IFAD AND ITS PARTNERS

50. **The performance of IFAD.** In the majority of cases, IFAD has contributed to good project design. This is especially the case in IFAD-initiated projects and programmes in such areas as rural finance and small-scale irrigation. As a consequence of the operating model used in the past, under which supervision was delegated to cooperating institutions, IFAD was perceived as a flexible but distant partner in project execution. With the adoption of the direct supervision and implementation support policy and the establishment of a country presence in Ethiopia, this perception is rapidly changing. The CPE found that IFAD’s country presence is an importance feature of the operating model which can help to further strengthen its development effectiveness, even though the present

country presence arrangements (e.g. limited resources and delegation of authority) may act as a constraint on its opportunities in the future.

51. **Cooperating institutions and cofinanciers.** The World Bank has served as the cooperating institution (CI) in three of the projects reviewed in the CPE. The best performance has been observed in PCDP, where the Bank’s Ethiopia country office is in charge of the provision of support and where all items have truly been cofinanced by IFAD (40 per cent) and the World Bank (60 per cent). The least satisfactory performance was seen in ARTP, where support was provided through brief missions from Washington and where IFAD was fully financing three separate components of the project. The United Nations Office for Project Services (UNOPS) served as CI on two of the reviewed projects and provided a moderately satisfactory level of service, but did not focus enough on correcting problems faced by these projects.

52. The CI and cofinancing partnerships with the World Bank and AfDB have been hampered by the cumbersome procurement procedures and regulations of these organizations. This has resulted in delays in implementation, particularly in the case of research (ARTP, World Bank) but also in the area of rural finance (RUFIP), where AfDB regulations have hindered progress on the capacity-building components; this, in turn, has had a negative impact on the IFAD-financed credit component.

53. **The performance of the Government and its agencies.** The Government’s overall performance is assessed as satisfactory. IFAD has been engaging in an increasingly constructive and useful dialogue with key government ministries and agencies. A useful dialogue has been maintained with the Development Bank of Ethiopia in connection with the credit component for which it is fully responsible. In the instances in which performance has not been fully satisfactory, the major problem has been a lack of clarity regarding the assignment of responsibilities. For example, in the support for cooperatives provided under the SOCODEP project, too many agencies were involved and major institutional changes took place which hurt performance.

#### Overall Rating

<i>Evaluation criteria</i>	<i>Projects rated 4, 5, or 6*</i>	
	<i>Present CPE**</i>	<i>ARRI 2007***</i>
<b>I. Portfolio performance</b>	<b>80%</b>	<b>80%</b>
– Relevance	100%	93%
– Effectiveness	80%	67%
– Efficiency	60%	73%
<b>II. Impact</b>	<b>75%</b>	<b>80%</b>
<b>III. Sustainability</b>	<b>80%</b>	<b>53%</b>
<b>IV. Innovation, replication and scaling up</b>	<b>80%</b>	<b>67%</b>
<b>VI. Performance of partners</b>		
– IFAD	60%	60%
– Cooperating institution	80%	67%
– Government	60%	67%

\* The rating scale adopted by the Office of Evaluation is as follows: 6 = highly satisfactory; 5 = satisfactory; 4 = moderately satisfactory; 3 = moderately unsatisfactory; 2 = unsatisfactory; 1 = highly Unsatisfactory.

\*\* Ratings considered here are those of SOCODEP, SCP II, ARTP, RUFIP, PCDP.

\*\*\* The ratings shown in the 2007 edition of the Annual Report on Results and Impact of IFAD Operations (ARRI) refer to the evaluations conducted by the Office of Evaluation in 2006.

## VI. CONCLUSIONS AND RECOMMENDATIONS

### A. Conclusions

54. **Clear portfolio development directions, but limited analysis of resource needs.** The 1999 COSOP was prepared at very little cost but provided concise and clear directions for portfolio development and non-lending activities. Given the limited resources available for its preparation, the COSOP's analytical underpinnings were, understandably, inadequate. Among other shortcomings in this regard, different typologies of rural poverty in the country were not well captured. The COSOP also implicitly assumed that policy dialogue and knowledge management would be taken care of through IFAD-financed projects, without any accompanying activity or a specific budget allocation. Finally, the COSOP did not clarify how the different subsector programmes would reinforce each other (for example, how to provide financial services, irrigation and marketing services to the same clients and communities).

55. **Satisfactory portfolio performance.** In terms of many of the key evaluation criteria used by the Office of Evaluation, the performance of IFAD-supported projects in Ethiopia has been better than the average for IFAD operations globally (see table 3). This is an achievement that warrants acknowledgement. In particular, performance has been good in areas such as small-scale irrigation, rural finance and pastoral community development, where IFAD operations have had an impact in terms of reducing rural poverty. Progress has also been made in the critical area of local governance. Performance and results have so far been more limited in the area of cooperative development and in the sphere of agricultural research, where any large-scale impact on farmers' livelihoods may not become apparent until after the relevant interventions have come to an end. This has also been true with regard to the engagement of the private sector. Overall, sustainability prospects are good, partly thanks to the fact that the Government has allocated a sizeable share of its budget to agriculture and rural development.

56. **Valuable innovations.** Innovations have been introduced in a number of IFAD operations. Community-driven approaches have fostered local partnerships among the public sector, private enterprises and civil society. In the area of agricultural research, ARTP introduced competitive funding facilities which can also be accessed by private entities and non-governmental organizations. Participatory research activities with farmers and a system for linking up research, extension and farmers have been established. The Government of Ethiopia and some donors (the World Bank, the Japanese International Cooperation Agency) are extending further financial support for these innovations. In the area of rural finance, linkages between MFIs and banks have been facilitated, and rural savings and credit cooperatives (RUSACCOs) have been introduced. The replication and scaling up of tried and proven innovations have not received systematic or sufficient attention, however.

57. **Opportunities for further improvements.** Opportunities exist, for example, for bringing in computerized management information systems for use by MFIs and for introducing business development services for rural finance clients. In addition, IFAD has not taken full advantage of its grant programme in Ethiopia. The majority of the grant funds have gone to research projects that are not closely enough linked to the lending portfolio, while small grants that are tied into a given project have proved their validity for generating useful knowledge and piloting innovations.

58. **Project design.** Project design has generally been of good quality. However, in the case of agricultural research (ARTP), concerns expressed by the Technical Advisory Division about the project design were not fully responded to. The CPE finds that these concerns are still pertinent.

59. **Supervision and implementation support.** Under IFAD's traditional operating model, these functions have generally been outsourced to cooperating institutions. This is now changing, however, with the implementation of IFAD's new supervision policy. The evaluation considers this to be a good policy that is likely to enhance IFAD's development effectiveness in the country. Cases of

complex and “heavily procedural” approaches to procurement have been observed in the context of ARTP and RUFIP which have caused delays and hurt performance.

60. Since its establishment of a country presence, IFAD has been becoming a more active partner. IFAD’s field support officer is now participating regularly in supervision and implementation support missions, which contributes to better communication and knowledge management. IFAD’s country presence is still limited, however, especially in terms of delegation of authority and the resources available.

## **B. Recommendations**

61. **Target food-deficit areas.** Poverty rates are higher and development challenges are more significant in Ethiopia’s drought-prone food-deficit areas. For IFAD, this constitutes a rationale for focusing on food-deficit districts and for supporting dynamic economic changes in the rural economy through trickle-down effects (e.g. through microfinance and support for the development of small businesses and microenterprises in rural areas), as well as for supporting the development of agriculture (irrigation) and livestock assets with the view to improving food security. In planning and implementing such support, attention should be devoted to identifying measures that will promote linkages between different subsector-specific programmes (for example, linkages between rural finance, on the one hand, and small-scale irrigation and agricultural marketing, on the other).

62. **Build on successes.** For the coming 10 years, priority should be given to areas in which IFAD has developed a lead position, such as **small-scale irrigation and rural finance**. However, in the case of rural finance, a second phase will depend on the findings of the interim evaluation to be conducted in 2009 and, in particular, on progress in addressing the current problem of negative interest rates. As the inflation rate is heavily influenced by macroeconomic aggregates which are beyond IFAD’s control, IFAD needs to raise the issue. It is also important to discuss the realignment of the interest rates charged by MFIs in order to address the problem posed by negative returns on assets and equity. Support for **pastoral community development, which was initiated by the World Bank**, has been a success for which continued IFAD involvement seems justified subject to a continued commitment on the part of the Government of Ethiopia to the involvement of NGOs, communities and CSOs in local development planning. Currently, IFAD is participating in the formulation of an operation to support sustainable land-use management around Lake Tana, which, if approved, will open up a new strategic focus area for IFAD. Natural resource degradation is an issue that clearly warrants attention, but the strategy for dealing with this problem needs to be carefully worked out.

63. **Use grants as a “smart” tool for knowledge management and the promotion of innovations.** IFAD should increase the use of grants for preparatory studies, baseline surveys and impact studies, which could be outsourced to independent third parties (agencies other than the implementing institutions). This would be a more effective use of grant resources than free-standing research programmes that do not have direct linkages to the loan portfolio and lack mechanisms for dissemination to rural households. Grants should also be used for scouting, testing and promoting successful innovations.

64. **Anchor the policy dialogue in IFAD operations.** While project design and implementation offer opportunities for policy dialogue, supplementary activities (e.g. analytical work, workshops, attending donors’ groups) at the national level may also be needed, and grant resources should be allocated for this purpose. In addition, well-targeted study tours for government officials should be considered an effective policy dialogue tool.

65. **Continue current partnerships and intensify efforts to partner with NGOs, the private sector and bilateral donors.** Opportunities exist for building partnerships among the public sector, civil society and the private sector at the regional and subregional level (as tested in pastoral community development operations). Such partnerships are particularly helpful in supporting water

user associations in irrigation projects. Based on an early review of AMIP, the CPE recommends that ways and means be found to strengthen public-private partnerships. IFAD should also more actively explore partnership opportunities with some bilateral donors that are working in the areas of agriculture and rural development. Finally, lessons learned from experiences in rural finance indicate that efforts should be made to avoid complex cofinancing arrangements under which each organization applies its own specific regulations, especially in the area of procurement.

66. **Strengthen the IFAD country office.** Given the scale of IFAD operations in the country, the CPE recommends that the current country presence arrangements be strengthened. In this connection, consideration could be given to outposting the country programme manager.





# **Federal Democratic Republic of Ethiopia**

## **Country Programme Evaluation**

### **Agreement at Completion Point**

#### **A. Background**

1. In 2007/2008, IFAD's Office of Evaluation (OE) conducted a Country Programme Evaluation (CPE) in Ethiopia. The main objectives of the CPE were to: (i) assess the performance and impact of IFAD's strategy and operations in Ethiopia; and (ii) develop a series of findings and recommendations that would serve as building blocks for the preparation of the new IFAD results-based country strategy and opportunities programme (COSOP) for Ethiopia. The COSOP would be formulated by the Eastern and Southern Africa Division (PF) of IFAD in close collaboration with the Government of Ethiopia.
2. This ACP includes the key findings and recommendations contained in the CPE. It also benefits from the main discussion points that emerged at the CPE national roundtable workshop, organised in Addis Ababa on 26-27 June 2008. This ACP captures the understanding between the IFAD and the Government of Ethiopia on the core CPE findings, and their commitment to adopt and implement the evaluation recommendations contained in this document within specified timeframes.

#### **B. The Main CPE Findings**

3. First of all, it is important to recognise that this section contains only the salient findings from the CPE. For a more exhaustive overview of the findings, readers are encouraged to refer to the evaluation report.
4. The CPE noted that the 1999 Ethiopia COSOP had clear objectives in terms of portfolio development, especially with regard to the priority areas for sub-sector investments. However, in accordance with the COSOP design format at the time, it did not have clearly measurable objectives that would have facilitated an assessment of the contribution made by IFAD operations to the country's broader rural poverty reduction efforts. Nonetheless, the objectives of individual projects and programmes were well defined, albeit with weak monitoring and evaluation systems.
5. Overall, the CPE found that post-COSOP operations funded by IFAD in the areas of rural finance, pastoral community development and small-scale irrigation were highly relevant. The results of most of the projects financed by IFAD in Ethiopia are generally satisfactory. In fact, the performance of the project portfolio is better than IFAD global averages - as reported in the 2007 Annual Report on the Results and Impact of IFAD Operations - especially in the areas of relevance, effectiveness, sustainability, innovations promotion, and overall project achievement.
6. While the CPE agrees with the need to support the development of a national agricultural research system (NARS), it is important to strengthen linkages between the NARS, extension services and farmers as end users. Likewise, the design of the recent agricultural marketing project is broadly consistent with IFAD's private sector and partnership development strategy. However, while recognising that the marketing project has only been effective for just over two years, the CPE noted that the project needs to explore opportunities for greater public-private sector partnerships.
7. The CPE also found that IFAD-assisted activities have been designed and implemented with limited linkages among each other. Linkages with regional grant-funded initiatives have also been limited, even though this is likely to change given the recent evolution in IFAD's grant policy and priorities. The CPE recognises that in 2007, IFAD established the Country Programme Forum in Ethiopia, which will serve as a framework for exchanging information and cross-fertilise experiences

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

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

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

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

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

## C. Recommendations

### Recommendation 1: Where to Focus

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

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

- Within small-scale irrigation it is a matter of scaling-up, refining and consolidating participatory approaches to improve sustainability, and effectively addressing water use management, and soil and watershed conservation.

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

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

### **Recommendation 2: Tools to Promote Innovations**

15. **Using grants in a smart way for knowledge management and pilot testing.** IFAD could innovatively use supplementary grant funds for preparatory studies, baseline surveys and impact studies, which could be contracted to independent third parties.

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

### **Recommendation 3: Working with Whom?**

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

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

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

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

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

#### **Recommendation 4: Programme and Project Cycle Management**

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

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

#### ***Proposed timeframe to implement the recommendations***

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

#### ***Key partners to be involved***

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


Signed by:

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

 Date 20-10-08

Mekonnen Manyazewal  
State Minister

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

 Date 26-9-08

# Federal Democratic Republic of Ethiopia

## Country Programme Evaluation

### Main Report

#### I. INTRODUCTION

##### A. Overview of IFAD's Partnership with Ethiopia

1. Since 1980, the International Fund for Agricultural Development (IFAD) has approved 13 loans with a total amount of US\$206 million and a total cost of US\$588 million, i.e. IFAD financed 35% of total project costs (Appendix 1). There has been an important co-financing contribution by the World Bank (33% of portfolio cost), and counterpart co-funding by the Government of Ethiopia (GoE) (16% of portfolio cost). The rest comes from seven other donors (multilateral and bilateral), including the African Development Bank (AfDB) [(7% of portfolio cost, concentrated on the Rural Financial Intermediation Programme (RUFIP)] as well as from the final project users. Two Cooperating Institutions (CIs) have supervised the projects: the World Bank (eight projects) and the United Nations Office for Project Services (UNOPS) (four projects). The Participatory Small-scale Irrigation Development Programme (PASIDP), approved in 2007, will be directly supervised by IFAD, facilitated by IFAD's field presence office established in 2005.

2. During 1980-2007, IFAD's average annual commitment has been US\$7.6 million while average annual disbursements have been somewhat less. However, under the Performance Based Allocation System (PBAS) IFAD has recently significantly increased the commitment/allocation frame to about US\$25 million per year<sup>1</sup> due to Ethiopia's low Gross National Income (GNI) per capita (US\$180), large population (about 80 million) and better than average portfolio performance. Ethiopia also benefits from IFAD debt relief of US\$28.5 million under the initiative for Highly Indebted Poor Countries. In addition, the cooperation has been supported by a number of minor country and some larger regional technical assistance grants, for an estimated amount of US\$4 million dedicated to Ethiopia. However, in financial terms, IFAD remains a relatively small donor with annual disbursements accounting for about 0.5% of total Official Development Assistance (ODA) for Ethiopia which reached US\$1,937 million in 2005 [(~17% of Gross Domestic Product (GDP)].

3. The partnership has taken place in a difficult context of: (i) major disruptions to peace and stability; (ii) significant changes in the policy and institutional framework which since the Federal Constitution in 1994 has involved market liberalisation and decentralisation; and (iii) declining agricultural GDP per capita. IFAD's first five loans were approved during the military communist Derg regime, 1974-1991, which dismantled the feudal structures of past centuries and nationalised land and most other assets, resulting in an exodus of capital and skilled and educated human resources. Thus, when the Ethiopian People's Revolutionary Democratic Front (EPRDF) formed the government in 1991 after the ousting of the Derg, the capital and human resource base was negligible and the new government took over a poorly managed state-owned economy.

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<sup>1</sup> Ethiopia is allocated US\$74.25 million for 2007-2009 under IFAD's Performance Based Allocation System: Within this frame, Ethiopia is benefiting from IFAD debt relief (grant) under the HIPC (Heavily Indebted Poor Countries) initiative of US\$28.5 million of which US\$20 million was allocated in 2007 for the Participatory Small-scale Irrigation Development Programme (PASIDP).

## B. Objectives and Methodology of the Evaluation

### Objectives

4. The main objectives of the Country Programme Evaluation (CPE) are to: (i) assess the performance and impact of IFAD's overall country programme in Ethiopia; and (ii) develop a series of findings and recommendations that will serve as building blocks for the preparation of the new IFAD Country Strategic Opportunities Paper (COSOP) for Ethiopia that the Eastern and Southern Africa Division (PF) of IFAD and the GoE will prepare following the conclusion of the evaluation.

### Methodology

5. The CPE applies the Office of Evaluation's (OEs) evaluation methodology and addresses three overarching questions: (i) Did IFAD pursue the right country strategy, that is, was it designed to ensure highest possible rural poverty reduction impacts? (ii) To what extent was the country strategy effectively implemented through projects and non-project activities (such as policy dialogue, partnerships, and knowledge sharing) and how did they perform? and (iii) What was the impact of IFAD's country strategy and operations? In answering these questions, IFAD's current standards and policies will be considered, as per standard practice in the evaluation of international development programmes. However, the following caveats will be kept in mind: (i) knowledge available at the time of design is more limited than at the time of evaluation and this needs to be recognised; (ii) during project/programme implementation adjustments to projects as a result of the introduction of a new policy, strategy or process normally would require the agreement of both IFAD and the concerned government, especially if there is an implication for the loan agreement and can not be made unilaterally; (iii) there is limited value in adjusting projects and programmes with a short remaining implementation period at the time when a particular new policy, strategy or process is introduced.

6. In dealing with the three key questions, the CPE attempts to address the issue of attribution / contribution.<sup>2</sup> In particular, counterfactual evidence has been gathered in three ways: (i) data and information on households and communities "without the project" available through surveys conducted in the context of the IFAD projects; (ii) using national data as reference points; (iii) data collected through focus group discussions undertaken in the field and interactions with key informants.

7. The portfolio performance was assessed against internationally recognized evaluation criteria (relevance, efficiency, effectiveness, rural poverty impact)<sup>3</sup>. Two overarching factors were analysed, namely sustainability and innovations, replication and upscaling. Moreover, the performance of key partners (IFAD, GoE and CI) was also evaluated. Ratings were used to assess the results against each of the aforementioned evaluation criteria. In this regard, a six point scale was used for assigning ratings, where 6 was the highest and 1 the lowest score.

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<sup>2</sup> In line with international practices [e.g. World Bank-Independent Evaluation Group (IEG) Country Assistance Evaluation (CAE) Methodology], this evaluation, assumes that development impact can not be always attributed specifically to the discrete interventions of an individual organisation, however, a plausible association can be established between the common work of several developing partners and the observed development results.

<sup>3</sup> Relevance: the extent to which programme objectives are consistent with the needs of the rural poor; IFAD's strategic framework and policies; and the country's current policies and strategies for poverty reduction. Effectiveness: the extent to which programme objectives were achieved. Efficiency: how economically inputs (funds, expertise, time, etc) are converted into outputs. This can be either based on economic and financial analysis, or on unit costs compared to alternative options and good practices. Rural poverty impact assesses the changes that have occurred as the result of the programme. IFAD defines rural poverty impact as the changes in the lives of the poor intended or unintended- as they and their partners perceive them at the time of the evaluation- to which IFAD has contributed. In particular, the following impact domains have been considered in the present report after a scoping analysis, a desk review and a preparatory mission: (i) household impact and assets, (ii) food security, (iii) human capital, (iv) social capital, (v) access to markets, (vi) institutional impact. Agricultural productivity is considered as an area of effectiveness rather than impact and no assessment can be made of environmental impact at the programme level due to the absence of dedicated studies.



**Farmers winnowing teff in Alamata in the Wollo region.**  
*IFAD photo by Franco Mattioli*

8. In conformity with OE's methodology, the CPE assesses 10 years of cooperation, 1997 – 2007. The focus is on the strategy and operations since 1999 (approval of the latest COSOP), but attention is also paid to selected pre-COSOP operations, so as to better identify changes in the IFAD strategy (see Chart 1, Appendix 1). The CPE analyses seven of the 13 loan projects, i.e. all loans approved since the Derg period except for a minor seed project. In total, these seven loans account for US\$151.2 million or 73% of all IFAD lending to Ethiopia. For the closed projects, the CPE makes use of project completion reports as well as an OE Interim Evaluation of Special Country Programme (SCP) II and an OE Completion Evaluation of the Southern Region Cooperatives Development and Credit Project (SOCODEP).

9. The evaluation findings are based on the following sources: (i) a desk review of existing documentation (including documents from IFAD, co-financiers and cooperating institutions, Government reports, project management reports, studies and databases prepared by international organisations), (ii) a self-assessment by the Country Programme Manager (CPM) and project teams of three projects [(Agricultural Research and Training Project (ARTP), RUFIP and Pastoral Community and Development Project (PCDP)] obtained through specific structured questionnaires, (iii) surveys conducted in the project areas by executing agencies and microfinance institutions, (iv) a 5-week country mission (23<sup>rd</sup> September – 26<sup>th</sup> October 2007, of which three weeks in the field) which worked with beneficiaries, agencies of the Government of Ethiopia (GoE), civil society and development partners in Addis Ababa and visited four projects (SCP II, ARTP<sup>4</sup>, RUFIP, PCDP) in seven regions (Tigray, Amhara, Oromiya, Somali, the Southern Nations, Nationalities and People's Region (SNNPR), Harar and Dire Dawa), and (v) key informant and focus group discussions conducted during the main mission. For the recently closed projects and for the ongoing projects, which have progressed far in the implementation (PCDP, RUFIP), the CPE attempts to evaluate performance and impact, based on field visits, focus group discussions and secondary information. The ongoing Agricultural Marketing Improvement Programme (AMIP) is in an early phase of implementation: for this reason, the main focus of the evaluation is on the project's design and start-up issues. Finally, the CPE makes a brief assessment of the design of PASIDP which is about to become effective.

10. **The process.** According to the customary evaluation practices at IFAD, a core learning partnership was formed comprising: the Ministry of Finance and Economic Development (MoFED), the Ministry of Agriculture and Rural Development (MoARD), the Ministry of Federal Affairs, the IFAD project coordinators, the IFAD regional division for PF (including the field manager) and OE of

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<sup>4</sup> OE evaluated the ARTP against the provisions contained in the President's Report approved by the IFAD Executive Board, and therefore not the entire project was evaluated. This is in fact consistent with the Evaluation Policy, which requires OE to contribute towards strengthening the accountability of resources invested by IFAD.

IFAD.<sup>5</sup> Members of the core learning partnership that are external to OE have commented on the draft approach paper and on the draft evaluation report. They will also prepare the agreement at completion point, with the Office of Evaluation of IFAD playing a facilitation role. A preparatory mission was conducted in May 2007 and the main mission in September-October 2007.<sup>6</sup> Comments from the Government of Ethiopia and from IFAD CPM and Field Manager on the Aide Memoire presented at the end of the mission were considered in preparing this main report. The report benefited from an internal review within OE<sup>7</sup> and from input by an external reviewer.<sup>8</sup>

## II. COUNTRY CONTEXT

### A. The Economy

11. **Country comparisons.** In spite of recent rapid growth and development, Ethiopia remains among the poorest countries in the world, measured by several economic and social indicators. Ethiopia is seven from the bottom on the global Human Development Index, and its GNI per capita (US\$180)<sup>9</sup> and literacy rate are only about half of the levels found in the East African Community and Mozambique (Table 1, Appendix 9). Though Ethiopia has higher cereal production per capita than the below comparator countries, Ethiopia is more dependent on food aid and 38% of children (<5 years of age) are reported to be malnourished. Ethiopia is also far below African averages for indicators on economic infrastructure services, such as roads, electricity and telecommunication, which are provided by the state. However, major investments are being made in expanding the rural coverage of these services, in particular in telecommunications. Human Immuno-Deficiency Virus (HIV) prevalence among adults is in Ethiopia estimated at 4.4% (12.6% in urban areas and only 2.6% in rural areas), which is significantly lower than East Africa (> 6%) and Southern Africa (> 20%).

12. **Economic structure.** Agriculture still accounts for 47% of GDP (down from 75% in 1961) while manufacturing only contributes 5% as does the construction sector. Services account for about 40%. In addition, agriculture accounts for 90% of exports and 85% of employment while 90% of the poor depend on agriculture. Semi-subsistence, largely rain-fed, agriculture is the primary source of income for 87% of the rural households.

13. Ethiopia faces a number of very significant macro-economic imbalances, largely due to extremely low savings (Table 2, Appendix 9), which constrain efforts to develop the very low capital and technology base. The period since the drought in 2002/03 has been characterised by high GDP growth (9-11% p.a.), rising inflation (15-20% p.a.), and widening macroeconomic imbalances. At the

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<sup>5</sup> Including, (i) H.E. Makonnen Manyazewa, State Minister, Ministry of Finance and Economic Development (MoFED); (ii) H.E. Maeregu Haile Mariam, State Minister, Ministry of Federal Affairs; (iii) H.E. Yaekob Yalla, State Minister, Ministry of Agriculture and Rural Development; (iv) Mr Fisseha Abera, Head, and Mr Degene Demissie, Team Leader, Multilateral Cooperation Department, MoFED; (v) Mr Sitotaw Birhanu, Coordinator, AMIP; (vi) Mr Tibeitu Kifel, Acting Coordinator, PCDP; (vii) Mr Bahiru Haile, Coordinator, (RUFIP); (viii) Dr. Asfaw Zeleke, Coordinator, ARTIP; (ix) Mr Ayalew Abate, former coordinator, SCP II; (x) Mr Ides de Willebois, Director, Mr John Gicharu, Country Programme Manager and Mr Abebe Zerihun, Field Support Manager, IFAD Regional Division for Eastern and Southern Africa (PF); (xi) Mr Luciano Lavizzari, Director (OE); and Mr Fabrizio Felloni, Evaluation Officer, IFAD Office of Evaluation.

<sup>6</sup> Mr Fabrizio Felloni, Evaluation Officer, OE, who was responsible for the organisation and implementation of the CPE, conducted a preparatory mission in April-May 2007 and participated in the first and last week of the CPE Mission.

<sup>7</sup> The review panel included Mr Luciano Lavizzari, Director OE, Mr Ashwani Muthoo, Mr Abdelmajid Benabdellah, Mr Paul-André Rochon, Senior Evaluation Officers and Mr Miguel Torralba, Evaluation Officer.

<sup>8</sup> Mr Seydou Traoré, former Minister of Agriculture of the Republic of Mali.

<sup>9</sup> The World Economic Memorandum (2007) notes: "In 2005, the GoE revised its national accounts data to reflect improved information, including from recent household and enterprise surveys, and changed the base year from 1980/81 to 1999/00. A comparison reveals that nominal GDP in the new base year is 22 percent higher than in the previous series, while GDP growth rates at factor cost are approximately the same, albeit with some exceptions. Atlas GNI per capita changed significantly, and is now estimated at US\$150 in 2004/05, compared to the previous estimate of US\$100-110."



Article IV consultations in 2007, the International Monetary Fund (IMF) Executive Directors called for a tightening of monetary policy to reduce inflation and advised that “A gradual move to positive real interest rates would also help to contain inflationary pressures”. Though there is no official cap on interest rates, real deposit and lending rates on most products are currently negative.

14. **Recent economic trends.** Per capita GDP is today about US\$180 which in real terms corresponds to the level that was achieved some 35 years ago<sup>10</sup>. There was a declining trend during the Derg regime, 1974 - 1991, as well as in the years just after but since 1994/95 there has been a positive upwards trend. Yet, it is only thanks to the very high annual growth rates since the drought in 2002/03 (Chart 2, Appendix 9) that per capita GDP has recovered to the level it had around 1973. In Ethiopia, the GDP development of a few years should be interpreted with caution because agriculture has a heavy weight in GDP and is subject to recurrent droughts.

15. **Exports.** Exports of goods and services only account for about 15% of GDP. In 2005/06, Ethiopia’s total exports of goods amounted to about US\$1 billion, primarily comprised of agricultural commodities. Coffee is the major export item accounting for 35-40%, followed by oilseeds (about 20%) and chat (9-12%). The value of oilseed exports has increased from US\$33 million in 2001/02 to US\$211 million in 2005/06. Also flower exports are increasing rapidly; from a negligible base of less than US\$1 million in 2001 to US\$23 million in 2005/06<sup>11</sup>. Finally, beans represent another recent export success where the Ethiopian Institute of Agricultural Research (EIAR) has played a facilitating and instrumental role.

**Table 1. Trends in Key Economic Indicators – Annual Percentage Change**

	2001/2	2002/3	2003/4	2004/5
GDP	1.0	-3.3	11.9	10.6
Agriculture	-2.1	-11.4	17.3	13.4
Industry	8.3	3.0	10.0	8.1
Distributive Services	3.3	2.9	8.2	7.6
Other Services	0.3	6.1	6.4	9.1
Inflation	-8.5	15.1	8.6	6.8
Gross Domestic Investment	10.9	4.5	17.3	15.5
Total Government Expenditure	-1.4	24.1	0.0	20.9
Pro-poor sectors expenditure	37.1	13.8	18.4	37.6

Source: PASDEP, 2006

16. **Privatisation and state owned enterprises.** Since 1992, market liberalisation and major privatisations have been undertaken to make the economy private-sector-led. As a consequence of privatisation as well as private sector growth, the share of State Owned Enterprises (SOEs) in industrial output declined from 86% in 1996 to 51% in 2005. According to the World Bank<sup>12</sup>, while pursuing privatisation, authorities continue to establish and develop new enterprises, and as a consequence the (net) number of medium and large industrial SOEs has increased since 2002. Foundations linked to political parties own enterprises (i.e. endowment companies), which often engage in areas that according to the World Bank judgment are not adequately covered by the private sector, e.g. agricultural inputs, storage and processing, and transport, banking and rural microfinance. The largest endowment companies are region-based and focus on rehabilitation and development of one particular region, e.g. Endowment Fund for the Rehabilitation of Tigray (EFFORT) in Tigray, Endeavor/ENWEK in Amhara, Dinsho in Orimiya and Wondo Trading in SNNPR.

<sup>10</sup> Estimates of GDP per capita are connected with some uncertainty. First, because a large part of GDP is non-monetary and estimated. Secondly, because there are different estimates of the size and growth rate of the population. The IMF estimated the population at 77.4 million by mid 2005 where the official estimate was 74.1 million.

<sup>11</sup> IMF, July 2007: Statistical Appendix to Country Report (Table 22).

<sup>12</sup> The World Bank, June 2007: Country Economic Memorandum, Volume II, page 78.

17. **The financial sector.** GoE has allowed private local ownership of banks, and private banks now hold 24% of total commercial bank assets, a share that is rapidly increasing. However, the financial sector is still dominated by large public financial institutions such as the Commercial Bank of Ethiopia (CBE) and the Development Bank of Ethiopia (DBE). Also within the microfinance sector, the major Microfinance Institutions (MFIs) are owned by regional governments/endowment companies. The public financial sector (excluding MFIs) has problems of excess reserves and a relatively large share of non-performing loans (20%). In recent years, the state and regional governments have made a major push to increase financial services for agriculture, micro and small enterprises and low-income households.

18. **Rapid human resource development.** When the EPRDF formed the transitional government in 1991, the human resource base was negligible. Since then, massive investments have been made in education at all levels. The primary school gross enrolment rate has increased from 20% in 1993 to 79% in 2004 and universities are being established in all regions, with the enrolment capacity of universities increasing from a few thousand in the early 1990s to about 50,000 today. Similarly, there have been rapid improvements in health sector services and water supply.

## B. Agriculture and Rural Development

19. **Diverse agro-ecology and production systems.** Due to significant variations in altitude, rainfall, climate, cultures, population density, and infrastructure/market access, there are multitude of different agricultural production systems, each having its own challenges and opportunities. The World Bank has attempted to present an overview of this diversity. About one third of the rural households lives in drought prone or pastoral areas and is subject to particular weather risks (Table 2). Some five to seven million Ethiopians are chronically food insecure and require support each year. Annual food aid deliveries have averaged 700,000 tons during the last 10 years. However, Ethiopia does have considerable potential for expanding the area under irrigation. Currently, only 1.4% of the cultivated area is irrigated while the potential is estimated at 20-30%.

**Table 2. Agro-climatic Potential and Market Access**

Agro-climatic Potential	High Market Access	Low Market Access	All
	Percent of Rural Households		
Moisture reliable highlands	28.8	33.3	62.1
Moisture reliable lowlands	0.5	5.2	5.7
Drought prone highlands	5.8	12.7	18.5
Drought prone lowlands	0.7	5.4	6.1
Pastoral Areas	1.8	5.8	7.7
All	37.6	62.4	100.0

Source: World Bank Country Economic Memorandum, Volume II, page 45 – based on the International Food Policy Research Institute (IFPRI) (2006)

20. **Livestock.** One distinguishing feature of Ethiopia's agriculture is the high number of livestock, - the highest number per capita in Africa (comprising an estimated 29 million cattle, 24 million sheep, 18 million goats, 1 million camels, 7 million equines, 53 million poultry). However, the productivity of the livestock population is generally low and the export value of live animals and livestock products (meat and leather) is modest (US\$121 million in 2005/06). Manure plays an important role in the crop systems as the primary source of maintaining soil fertility. Unfortunately, animal dung is increasingly being used as a source of energy for cooking, with negative consequences for soil fertility. On the negative side, uncontrolled grazing of livestock in watersheds leads to natural resource degradation and erosion.

21. **Land and soil degradation.** While the cultivated area per capita declined, the total cultivated area expanded which explains the positive growth in total cereal production during the last 10 years. Over the past decades, both agricultural land and labour productivity has showed a declining/stagnant trend. A superficial explanation would be that the research and extension system and the crop intensification programmes have failed. However, while there is room for improvement in these

systems and programmes, the underlying forces are population growth which has driven cultivated area expansion into fragile and marginal lands resulting in soil loss, mining of soil nutrients, and deforestation. Average estimates of productivity loss due to soil degradation are on the order of 2-3 percent annually.<sup>13</sup>

22. **Agricultural sector performance.** Past trends in agriculture may partly explain Ethiopia's present disadvantaged position. Based on data from MoFED, IFPRI<sup>14</sup> has estimated the long term (1962 – 2005) development in real agricultural GDP per capita (Chart 2, Appendix 9) which shows a declining trend, in particular during the Derg regime. The period 1992-2004 shows stagnation/ slight decline while a slightly positive trend may be established if the recent high growth years, 2004-2006, are included.

23. **Inadequate support systems.** In accordance with its Agricultural Development Led Industrialisation (ADLI) strategy, formulated in 1991, GoE has invested heavily in agricultural research, extension and input supply systems, however without achieving the expected benefits. In order to raise cereal yields, the Participatory Demonstration and Training Extension System (PADETES) was introduced in 1994/95 to pilot dissemination of technological packages that combined credit, fertilizers, improved seeds and better crop husbandry. While on-farm trials with the improved packages showed significantly higher yields than what is obtained in the traditional systems and though many farmers were reached through PADETES and the supporting Sasakawa Global 2000 programme, yield trends for the period 1995 – 2004 are only clearly positive for wheat and marginally positive for barley. According to IFPRI this paradox may be explained by low technical efficiency due to: (i) application of standard packages to very diverse and risky environments; and (ii) the state-dominated input supply and credit systems which negatively impacted on the timeliness and quality of input supply (seed and fertilizers).

24. **Diversification and commercialisation.** Another option for raising agricultural GDP and income per capita is to promote a diversification out of low-value cereals, mainly for the households' own consumption, and into higher value crops such as horticultural crops, oilseeds and various cash crops, - for the market, primarily the export market since the domestic market is relatively limited. This option has received priority in recent GoE policy which emphasises commercialisation of smallholder agriculture and improvements of agricultural marketing systems. The recent impressive increase in agricultural exports may be an indication that this is a viable strategy. Commercialisation of smallholder agriculture would also generate more cash in the rural economy and thereby create the basis for development of local non-farm rural enterprises and income. In Ethiopia, the share of rural non-farm income in total rural income is only 24% (1999) – according to the World Bank this is the lowest of any country for which data are available.

25. **Decentralisation and rural development.** Since the 1990s, GoE has implemented a major decentralisation programme. Implementation of rural grassroots activities that IFAD typically would support is today the responsibility of the woreda (district) offices, backstopped and monitored by the regional bureaus. In some cases, village and community level investments are planned and implemented at the level of the kebele (below the woreda level), implying many small contracts. However, as an International Financial Institution, IFAD also has to work through the Ministry of Finance and Economic Development (MoFED), and partner with a federal line ministry for designing the project and for the overall coordination and monitoring of the implementation. As highlighted by a Thematic Evaluation in decentralization conducted by OE in 2005, while the commitment of the Federal Government to decentralisation is clear and while the processes have been set up, the major limitation stem from limited capacity of local government bodies in terms of budget and human resources (staffing level and seniority).<sup>15</sup>

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<sup>13</sup> World Bank, June 2007: Ethiopia Country Economic Memorandum, Volume II page 29.

<sup>14</sup> IFPRI Discussion Paper, June 2007: Policies to Promote Cereal Intensification in Ethiopia: A Review of Evidence and Experience.

<sup>15</sup> Thematic Evaluation, IFAD's Performance and Impact in Decentralizing Environments. Experiences from Ethiopia, Tanzania and Uganda (2005).

26. Although the decentralisation does have the advantage of bringing the responsibility for service delivery closer to the beneficiaries, this multi-layer structure raises special challenges to the international development partners, inter alia related to procurement and contracting, and to the highly varying capacity of the lower levels in the structure which are receiving increasing budgets and discretionary powers. This is in particular a challenge for IFAD as IFAD exclusively focuses on rural grassroots interventions that benefit the rural poor. Therefore, IFAD has to search for design and implementation processes that fit the new structure.

### C. Demography and Poverty

27. **Demography.** During the 1970s and 1980s, population growth accelerated to an annual rate of 3%. In the 1990s, the annual rate of growth started to decline, but there are different assessments about the current level of growth and thus the total population, which will be clarified when the results of the population census of 2007 are known (the previous census was in 1994). The World Development Report of 2008 gives a total population for 2006 of 73 million and an annual average rate of growth of 2% for 2000-2006. PASDEP uses 75.1 million but for 2005/06 and gives an annual growth of 2.73% implying that the population passes 79 million in 2007/08. About 84% of the population lives in rural areas, with the urban population largely in Addis Ababa (3 million), the only town with more than one million people. There is migration to urban areas; urban population is growing by an estimated annual 4% while the rural population is growing by 2.3%. The fertility rate is 5.4 nationally but only around 2 in Addis Ababa.

28. **Geographical focus of IFAD's support.** Ethiopia is divided into nine ethnically based regions and two chartered cities (Addis Ababa and Dire Dawa). IFAD's assistance has been concentrated on four regions where 86% of the population lives, viz. Oromiya, by far the largest region, Amhara, SNNPR and Tigray. These four regions are dominating the national economic development and account for the major part of the fertile crop areas in the highlands. The main pastoral regions, Somali and Afar, have low population density but a natural resource base characterised by low rainfall and productivity. These regions have benefited from some of IFAD's support for the research system but the major IFAD support for these two regions is provided through PCDP. Afar and Somali regions are suffering from problems of security and do not have the level of public and private services that are available in the four "main regions", including rural financial services.

**Table 3. Regions Supported by IFAD**

<b>Region</b>	<b>Population million</b>	<b>% rural</b>	<b>Density pers/m2</b>	<b>Stunting % Below Median</b>
1. Oromiya	26.5	87	75	44
2. Amhara	19.1	89	120	63
3. SNNPR	14.9	91	133	55
4. Tigray	4.3	81	87	47
5. Somali	4.3	83	16	50
6. Afar	1.4	91	14	43
<b>7. Sub-total</b>	<b>70.5</b>			
<b>Total Ethiopia</b>	<b>75.1</b>	<b>84</b>	<b>70</b>	<b>51</b>

29. **Poverty.** Based on three household income, consumption and expenditure surveys, it appears that national poverty prevalence declined during 1999/2000 – 2004/05. The reduction has been significant in rural areas, probably thanks to the very high rates of agricultural growth during 2003/04 and 2004/05, but also thanks to the National Food Security Programme, referred to as the Productive Safety Net (PSN) programme, which was introduced to attain food security for eight million chronically food insecure people and assist another 10 million who are badly affected in drought years. However, in urban areas there is an increase in poverty, partly due to rising urban inequality. Data also show that the poverty gap (distance up to the poverty line) has declined. However, due to population growth the absolute number of poor people has only declined by 2% or half a million, from 28 million in 1999/00 to 27.5 million, in 2004/05. And about 60 million people live below two dollars per day.

**Table 4. Poverty Incidence and Inequality**

	1995/95	1999/00	2004/05
<b>Poverty</b>	Household income, consumption and expenditures survey headcount index		
Rural	0.48	0.45	0.39
Urban	0.33	0.37	0.35
National	0.46	0.44	0.39
<b>Inequality</b>	Gini coefficient		
Rural	0.27	0.26	0.26
Urban	0.34	0.38	0.44
National	0.29	0.28	0.30

Source: PASDEP (2005)

30. Poverty prevalence varies significantly between areas with food deficit (< 80% national average food availability per household), food balance (80-120% of average) and food surplus (>120%). Some 26 million Ethiopians live in food deficit areas where annual food availability averages only about 530 kg/household, about half the national average, and here poverty prevalence reaches 60%<sup>16</sup>. Many of the food deficit woredas are drought prone and/or densely populated, e.g. some of the southern areas (please see map in Appendix 3).



**Women on their way to a water spring near Fedis, about 20 km from Harrar.**

*IFAD photo by Franco Mattioli*

31. There have also been positive changes in non-income dimensions of poverty between 1995/96 and 2004/05. According to PASDEP, rural literacy increased from 18% to 31%; chronic child malnutrition, measured by height-for-age (stunting) among 3-59 months old, fell from 58% to 30% in urban areas and from 67% to 48% in rural areas<sup>17</sup>; the proportion of population with access to safe drinking water doubled to 36%. Under-five mortality decreased from 166 to 123 (per 1,000 live births) between 2000 and 2005. However, in spite positive trends, some observers doubt that Ethiopia will achieve the Millennium Development Goals (MDGs) by 2015, unless international assistance is significantly scaled up.

32. On gender equality, PASDEP<sup>18</sup> notes some improvements in equal access to land in connection with death and divorce (rural highlands) but also states: “a deep conservatism pervades gender roles, severely prescribing what women can and cannot do, especially in rural areas. The proportion of female-headed households is rising, and in rural areas their position is made more vulnerable by social conventions (ban on ploughing etc.) that cause them to have to sharecrop their land out to others”.

<sup>16</sup> Xinshen Diao and Alejandro Nin Pratt, IFPRI, 2006: Growth Options and Poverty Reduction in Ethiopia – An economy-wide model analysis.

<sup>17</sup> There is a slight discrepancy with WHO figures which show 51% stunting in rural areas at the country level in 2005.

<sup>18</sup> Page 34 in “A Plan for Accelerated and Sustained Development to End Poverty, 2005/06 – 2009/10 (PASDEP)”. This is Ethiopia’s Second Poverty Reduction Strategy Paper.

## D. Government's Poverty Reduction Strategies

33. In 2002, GoE introduced its first Poverty Reduction Strategy Paper (PRSP), the Sustainable Development and Poverty Reduction Programme (SDPRP), covering three years, 2002/03 – 2004/05. In 2005, this was followed by a second generation PRSP, the Plan for Accelerated and Sustained Development to End Poverty (PASDEP) covering the 5-year period 2005/06 – 2009/10. Both papers prioritise agriculture as the vehicle of growth in line with the ADLI policy. SDPRP had eight broad thrusts of which four were directly related to agriculture: (i) agriculture as the primary source of welfare and generator of surplus for development of other sectors, i.e. the ADLI philosophy; (ii) rapid export growth through production of high value agricultural products; (iii) agricultural research, water harvesting and small scale irrigation; and (iv) improved water resource utilisation to ensure food security.<sup>19</sup>

34. The areas that IFAD has supported during the last 10 years were assigned high priority in the SDPRP, and generally the IFAD support is designed according to the strategic directions outlined in the SDPRP:

- Agricultural research, - introducing different packages adapted to the specific agro-ecological conditions (instead of one standard package);
- expansion of small-scale irrigation, with implementation responsibility being moved down to woredas;
- rural financial services, where the SDPRP called for “creation of strong commercial rather than politically administered linkages between banks and cooperatives” and “support to micro-finance institutions”; and
- agricultural marketing where the strategy was to introduce a warehouse receipt scheme and a commodity exchange (when found feasible), introduce crop quality standards, improve market information, and strengthen private sector participation in agricultural marketing, inter alia through the commodity exchange.

35. In the areas of input supply, rural financial services and agricultural marketing, the SDPRP gave high priority to the role of cooperatives and emphasised the importance of strengthening them.

36. PASDEP follows in the steps of SDPRP but emphasises the acceleration of growth, and market-oriented agricultural development, based on diversification and commercialisation and enhanced private sector participation. PASDEP builds on eight pillars where some represent a “new” emphasis, e.g. “unleashing the potential of Ethiopian women”, “strengthening the infrastructure backbone”, “creating employment opportunities” and “managing risk and volatility”. For the agricultural sector, PASDEP builds on a number of commodity-based master plans and thematic strategies, amongst others an agricultural marketing strategy developed by MoARD. While PASDEP generally emphasises market- and private-sector-led development, it defines detailed targets for production, acreage and exports of crops and commodities and refers to 23 existing commodity-based Master Plan documents and eight new ones to be prepared. The focus on targets is somehow inconsistent with accepting market-based development as markets largely are unpredictable. It would seem that a market- and private-sector-based policy should place emphasis on getting the incentives right rather than focusing on physical targets.

37. PASDEP also gives priority to the areas supported by IFAD. The importance of MFIs and rural finance is recognised but it is stated “that in some cases credit is not a binding constraint, and that the problem may be on the capacity to utilize funds on the demand side” (page 60). PASDEP outlines a detailed agricultural research programme and confirms the nation-wide establishment of research-extension-farmers linkages which were promoted under ARTP supported by IFAD and the World Bank.

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<sup>19</sup> The other thrusts were the promotion of private sector growth, major investments in education, deepening of the decentralisation (introducing block grants to districts), and governance and capacity building.



38. Indeed, under SDPRP and PASDEP some of the most notable achievements include an impressive expansion of the agricultural research, training and extension system where GoE already has advanced far in achieving its quantitative goals for 2010: (i) training and employment of 55,000 Development Agents (DAs), three in each *kebele*; (ii) establishment of 18,000 Farmer Training Centres (FTCs) to provide farmer training in agricultural extension packages and modular training for 18,000 farmers' associations; (iii) establishment of research centres to cover all agro-ecological zones and establishment of Research-Extension-Farmer Linkage Councils to improve technology generation, transfer, utilisation and feedback.

39. A synthesis of opportunities and obstacles to rural poverty reduction that are relevant to IFAD's operations is presented in Box 1.

**Box 1. Key Opportunities and Obstacles to Rural Poverty Reduction  
(relevant to IFAD's programme)**

Opportunities	Obstacles
Pronounced GDP growth	Inflation and negative real interest rates (erode loan capital and discourage savings)
Growing human capital (rapid increase in primary, secondary and tertiary education access)	Extension quality still weak
Expansion of research and extension systems	
Privatisation process	Large presence of public sector continues in agricultural inputs, processing, transport, rural finance
Decentralisation	Limited diversification of rural income in non-farm sources
	Degradation of natural resources

#### E. Government Budget and International Assistance

40. **Government budget.** Under SDPRP and PASDEP, the share of the five pro-poor sectors (education, health, agriculture & food security, roads, water & sanitation) in the total budget has been raised significantly, from around 40% to 60%. The share allocated for agriculture & food security is, compared to other African countries (3-5%), unusually high in Ethiopia. It increased from 9% in 2001/02 to 16% in 2004/05, well above the New Partnership for Africa's Development (NEPAD) target of 10%. However, in spite of the substantial allocations for agriculture, resources are spread thinly due to the very rapid and significant expansion of the public agricultural service system, and therefore, research centres, FTCs and DAs do sometimes not have the facilities, human resource capacity and operational budget that are required to provide effective services of satisfactory quality. Quality improvements are needed to obtain adequate returns on the significant investments in the rapid quantitative expansion.

41. **Development assistance.** In 2005, total ODA for Ethiopia reached some US\$1.9 billion, i.e. 17% of GDP and equivalent to US\$27 per capita. While ODA constitutes a substantial share of GDP, ODA per capita is far below the average of US\$43 for Sub-Saharan Africa<sup>20</sup>. In 2005, US\$625 million was provided by the United States, US\$247 million by the World Bank/International Development Association (IDA), US\$163 million by the European Commission, and US\$118 million by the African Development Fund. Unlike some other partners, Department for International Development (DFID) has recently significantly increased its programme from £60 million in 2004/05 to £130 million (~US\$270 million) in 2007/08 and is planning further increases in the next years. Thus, DFID, alongside United States and the World Bank, is emerging as Ethiopia's main development partner. IFAD has been a small partner in financial and relative terms with annual disbursements accounting for about 0.5% of total ODA and in the range of 2.5 to 3% of Government budget for agriculture.

<sup>20</sup> World Bank, World Development Report 2008, Table 5, statistical appendix.

However, the substantial increase in IFAD's PBAS commitment frame for Ethiopia may in the future double annual disbursements.

42. In the years up to the elections in 2005, several development partners changed the modality for a large part of their aid from project aid to Direct Budget Support (DBS), which limited IFAD's opportunities for developing co-financing partnerships within project-type investments. As IFAD's mandate is limited to supporting agriculture and food security, (general) DBS is not a modality that is available to IFAD.<sup>21</sup> Following the political developments in the aftermath of the 2005 elections, development partners abruptly suspended their DBS, which created significant problems for GoE in terms of continuing core services that had become dependent on DBS.

43. The World Bank-IDA has an active portfolio in Ethiopia of 23 projects and US\$1,800 million (all sectors included). Support for agriculture has concentrated on the input side, seed and fertilizer, and on agricultural research and extension. Currently, the Bank is preparing to re-enter the irrigation sector, inter alia with support for a large scheme in the Lake Tana area where IFAD is considering a sustainable land use management intervention. A recent project performance assessment<sup>22</sup> of the support for seed and fertilizer supply provided some important lessons including: (i) "reliance on the public sector for input supply may create not only market inefficiencies but also shortage of inputs .....The absence of a substantial private seed sector, and the resultant "seed gap", is likely to have had a significant negative influence on farm productivity"; (ii) "Institutional structures and processes can restrict private sector participation. The new agricultural extension program, providing a package of seed, fertilizer, and credit exclusively through government's extension agents, limited the participation of private wholesalers and retailers in the fertilizer and seed markets"; and (iii) "A one-sized-fits-all agricultural extension system has limited impact".

44. The World Bank Interim Country Strategy 2006-08 focuses on governance and growth. To achieve this objective, the Bank will strengthen good governance and growth in the following areas: (i) "core" governance—public administration, decentralisation, and public financial management; (ii) the provision of basic services in a fair and accountable way; (iii) the promotion of free enterprise; (iv) improved agricultural productivity; and (v) the development of infrastructure to nurture the growth of small towns and growth corridors. Key studies and reports that will be undertaken during the strategy period include the institutional and governance review, the joint budget and aid reviews, an investment climate assessment survey update, civil society dialogue, a study on decentralised service delivery, a rural public expenditure review, and a new country economic memorandum on governance and growth.

45. The AfDB during the period 1993-2004, the AfDB committed, in loans and grants, a total of 188.36 UA million (about US\$264 million) to the Agriculture and Rural Development (ARD) sector in Ethiopia. The thrust has been on smallholder agriculture, both the pastoral and settled agricultural populations. The emphasis has been particularly on food production dimensions with projects related to development and management of water resources (irrigation and water harvesting, watershed management, and river basin studies) and agricultural projects targeted to chronic food-deficit regions with high vulnerability (e.g., pastoral area development and the agriculture support project). Project lending is by far the major instrument for delivering the Bank's assistance to the sector. Often, project lending is coupled with grant resources to support studies for project preparation, skill development in project formulation and management, and building rural institutions. Grant resources are also extended to the PRSP process and related activities such as participatory poverty monitoring system. The Bank Group also enters into co-financing arrangements to leverage resources for project financing. The AfDB Country Strategy 2006-09 aims to promote growth, emphasizing support for three PASDEP pillars: (i) infrastructure development, with priority given to power, water and sanitation, and roads; (ii) agricultural transformation; and (iii) governance.

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<sup>21</sup> As per IFAD's policy on Sector-wide Approaches for Agriculture and Rural Development.

<sup>22</sup> The World Bank, June 21, 2007: Project Performance Assessment Report on Ethiopia Seed Systems Development Project and National Fertilizer Sector Project.



46. DFID Over the last five years, DFID has emerged as one of Ethiopia's main development partners<sup>23</sup>. DFID has established a country office and doubled its grant assistance from £44 million in 2003-04 to £80 million in 2006-07. A further doubling is being considered. While the main focus areas have been education and health, DFID plans to support the growth dimensions of PASDEP "working with multilaterals such as the World Bank, AFDB and the European communities around the areas of road access, productive investment in the water sector (irrigation, storage and, potentially, hydro-power), rural electrification and decentralised energy services"<sup>24</sup>.

47. SIDA (as Italy) has been one of Ethiopia's traditional and major development partners. In 2005 SIDA's assistance to Ethiopia reached US\$68 million (Italy: US\$87 million) which was allocated for budget support, health, education, and governance but also for natural resources and the environment which in fact received close to 30% of the total allocation.

48. While IFAD is prohibited from providing general DBS, IFAD may participate in joint financing programmes, e.g. basket funds, which are created to support an agricultural sub-sector or a Sector Wide Approach to planning (SWAp) within agriculture. Unlike the health and education sectors, there are in agriculture still no SWAp's or basket funded sub-sector programmes. However, in the area of food security, the PSN programme does represent such a joint financing arrangement. Initial discussions on joint programmes (for example for the semi-commercial smallholder sector, commercial agriculture (horticulture), and sustainable land use management) are taking place within the joint GoE-development partner framework comprising the High Level Forum and the Technical Working Group on Agriculture. In the High Level Forum, the GoE and the development partners meet at the level minister/mission head to discuss the development issues and the cooperation. The Technical Working Group on Agriculture provides a forum for agricultural sector specialists to discuss the cooperation within the agricultural sector.

### **In Synthesis**

49. Ethiopia is a low income country, among the poorest in the world and 7<sup>th</sup> from the bottom of the Human Development Index. Per capita GDP of US\$180 corresponds in real terms to the level achieved 35 years ago.

50. Ethiopia has experienced an average 5% GDP growth in the past 10 years, higher than population growth.

51. Rural population represents 84% of the total and agriculture accounts for 47% of the GDP. Real GDP per capita has followed a declining trend in the past 40 years apart from a recent upturn.

52. Between 1999 and 2005, rural poverty prevalence declined from 48% to 39% while child malnutrition (stunting) in rural areas declined from 67% to 48% (in the past 10 years).

53. GoE introduced its first PRSP in 2002 and a second-generation one (PASDEP) was approved in 2005. Agriculture is prioritised as a vehicle of growth. Over 10% of GoE budget is spent on agriculture.

54. IFAD's annual disbursements represent 0.5% of total ODA to Ethiopia but this may double with the current PBAS.

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<sup>23</sup> The US, however, remains as the most important bilateral partner, by far, with annual assistance above US\$600 million.

<sup>24</sup> DFID Ethiopia Country Assistance Plan 2006 – 10, - consultation draft.

### III. QUALITY OF THE IFAD STRATEGY

#### A. Context and Design of the IFAD Strategy

55. IFAD's cooperation with its partners has generally always been guided by strategic considerations, but it was only in the 1990s that IFAD introduced country strategies which were issued in the form of COSOPs. While the first (and still only) COSOP for Ethiopia was prepared in 1999, IFAD's cooperation with Ethiopia was, also before 1999, guided by strategic considerations, e.g. those developed by the Special Programming Mission in 1989 and reflected in the Report and Recommendation of the President to the Executive Board regarding the proposed loan for SOCODEP, December 1993 (para. 16): "The main thrust of IFAD's objective is to increase smallholders' income and farm production in low-income and food-deficit regions. Elements of IFAD's strategy to achieve this central objective include: (i) for densely populated, deforested and degraded areas subject to uncertain rainfall, emphasis is to be given to on-farm soil and water conservation complemented by short-gestation, income-generating activities to improve food security and family cash income; (ii) in relatively neglected areas of medium agricultural potential – identified as the key area for IFAD's involvement – interventions would aim to increase the medium-term capacity of these areas to absorb the natural outflow of population from the overcrowded areas [service cooperatives, credit and technical support services were mentioned as the means]; (iii) ... improving the economic status of women; and (iv) ...improvement of rural roads [for remote areas with difficult access]"

56. The Ethiopia COSOP was elaborated along the "old" 1997 guidelines for COSOPs. At that time, the COSOP was mainly considered as an internal IFAD planning document, with limited budget for its preparation and time for its discussion with the main partners.<sup>25</sup> The Ethiopia COSOP was prepared by the CPM which gave him an opportunity to better understand the country context. However, the draft COSOP was discussed with government representatives and development partners. According to the self-assessment questionnaire compiled by the CPM, consultation meetings were held with Non-Governmental Organisation's (NGOs) and International Financial Institutions (IFIs) active in Ethiopia. The draft COSOP was then discussed with the Minister of Economic Development and Cooperation. As noted during the CPE mission, today, partners in central planning units generally appear to be well aware of the COSOP and its general directions.

57. The COSOP was process-oriented. It did not present objectives in terms of expected development results but rather defined the directions and priorities for: (i) portfolio development; (ii) portfolio management; and (iii) policy dialogue (please see below). Generally, these directions are consistent with the contextual analysis but the different areas and directions are not connected to make it a coherent and integrated programme (Table 5). Though the areas defined for policy dialogue are important, it may be questioned if IFAD had and has the capacity and weight to proactively enter into dialogue on sensitive macro-level policies related to the respective roles and shares of the public and private sector, and reforms of the land tenure systems. As argued in Section IV.F, IFAD has primarily influenced systems and policies through the design and implementation of projects and sub-sector programmes, i.e. by introducing systems and models that work.

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<sup>25</sup> At that time, COSOPs were not discussed with the Executive Board of IFAD. According to the response to the CPM self-evaluation questionnaire, at that time, no quality assurance instruments such as Technical Review Committee (TRC) or Operational and Strategic Review Committee (OSC) now mandatory for loans, grants and COSOPs, were required for COSOPs.

**Table 5. COSOP Directions and Priorities**

<b>Portfolio Development Priorities</b>	<b>Portfolio Management</b>	<b>Policy Dialogue Objectives</b>
1. Rural Financial Services	1. Pro-active IFAD role in the design and implementation of sector development programmes	1. Re-orient the role of the Regional Agricultural Bureaux (RAB), withdrawing RAB's engagement in management of input and credit distribution, while concentrating on advice and promotion
2. Small-scale Irrigation	2. Beneficiary participation in design, planning and implementation	2. Reduce the role of GoE in economic production activities that are better done by the private sector
3. Agricultural Diversification and Marketing (including post-harvest handling)	3. Baseline surveys and Socio-Economic and Production Systems Studies (SEPSS)	3. Promote reforms of land tenure systems and management of riparian rights, using the support for small-scale irrigation as the platform
4. Pursue co-financing and partnerships with multi- and bilateral agencies, particularly within above portfolio areas, and for rural water supply and health services	4. Integrate project coordination & management into the decentralised federal and regional framework; invest in developing capacity at regional, woreda and lower levels	

### **B. Analysis of the Strategy**

58. **A shift in the intervention paradigm.** An important historical evolution of IFAD portfolio composition was introduced in the 1999 COSOP. Whereas, initial projects were characterised by a heavy concentration on “classical” agricultural development projects (in several instances with subsidisation of seeds and fertilisers and improved livestock breeds), more recent projects display a much lower weight of the agricultural input components and have gradually moved away from the financing of rural transportation infrastructure (roads). Moreover, as emphasised by the COSOP, projects have moved away from the model of the multi-component integrated interventions towards a more specific sub-sectoral focus (one programme for rural finance, one for small scale irrigation...). The issue of ensuring cooperation and synergy between the programmes (e.g. how to provide rural credit to households served by an irrigation scheme) was not developed by the COSOP.

59. Unlike country strategies of other development agencies, but similar to many other COSOPs of that time, the Ethiopia COSOP does not have a clearly-defined time frame and it is now more than eight years since the COSOP was conceived. Within this long period, the GoE-IFAD partnership has taken strategic decisions which were not reflected explicitly in the COSOP. Thus, aside from a written strategy (the COSOP) there has been *de facto* “the country strategy” which has followed the evolution of the country strategies, economic performance as well as the orientations of other donors. Looking eight years back, the 1999 COSOP was relevant to the emerging policy and institutional context of that time. When considering the present situation, in spite of a number of changes that have taken place, it can be noted that the COSOP is still quite relevant. In the specific case of Ethiopia, this is thanks to the continuation of the main building blocks of GoE policy (notably ADLI and decentralisation) which were incorporated in the subsequent GoE strategies such as the SDPRP and the PASDEP. This is, however, a special situation which can not be generalised to all countries. The insight here is that, in general, it makes sense to revise and update COSOPs periodically, as it is now foreseen by IFAD's revised framework (2006) for Results-based COSOPs<sup>26</sup>.

60. **Relevant but short context analysis.** The contextual analysis of the COSOP seems relevant, albeit a bit short (probably due to the COSOP format requirement). With the benefit of hindsight, however, one may argue that a more critical analysis of the outreach and impact of the agricultural research and extension system, as well as of the state-dominated seed and fertilizer supply systems

<sup>26</sup> IFAD Executive Board 2006/88/R.4 – Proposal for a Revised Framework for Results-based Strategic Opportunities Programmes.

would have been useful. Furthermore, it would today seem appropriate to expand the contextual analysis of issues related to: (a) natural resource degradation and the highly different natural resource challenges facing rural communities; (b) the significant differences in poverty and development opportunities among rural areas and districts; and (c) non-farm rural income generation mainly related to agricultural growth and commercialisation.

61. The background analysis that is supposed to provide the rationale for supporting agricultural marketing is very limited, making only brief references to inadequate rural road networks, limited post-harvest facilities and poor quality produce. No information is provided on issues and special features of Ethiopia's agricultural markets and there is no indication of how the partnership would achieve the ambitious objectives (para 55): "IFAD would support the development of labour-intensive, small-scale processing and manufacturing enterprises with a view to create new markets, increase agricultural value added, and generate employment and income opportunities for rural households". It is implied that these enterprises are private enterprises but there is no clear account of the constraints and challenges to private sector development in Ethiopia. Thus, the presented background and rationale for selecting agricultural marketing for IFAD portfolio development is weak or unclear at least. While CPMs at IFAD would normally argue that this is to be done at the project design phase rather than at the time of the strategy preparation, the view of this evaluation is that, since IFAD's resources for preparing the COSOP are increasing, it makes sense nowadays to conduct such analysis at the strategy phase since opportunities and constraints ideally need to be known before selecting a given area for portfolio development. Once the area is selected, it may be difficult to withdraw the "commitment".

62. **A targeting strategy?** The poverty analysis of the 1999 COSOP was constrained by lack of detailed information and therefore it tended to underplay the diversity and differences among rural households. The COSOP adequately mentioned the factors behind rural poverty, including access to markets (roads), landholding size, animal draught power, rainfall, and literacy. However, it worked on the premise that the majority of rural households were poor which, though correct, neglects the fact that there are considerable differences among the poor and, in turn, that different intervention modalities are called for. The COSOP categorised natural resource endowments, and related rural poverty incidence and food security status, into areas with and without *enset*<sup>27</sup>, but refrained from articulating a targeting strategy. No analysis was provided of the highly diverse poverty situation and the different issues of the various agro-ecological zones, e.g. the pastoral areas, which would require differentiated interventions. The COSOP did not elaborate on gender issues. It noted that 20% of rural households are female headed but that "there is no clear correlation between poverty and female headed households".

63. Data, including a recent IFPRI Study<sup>28</sup>, are now available suggesting a more differentiated picture. Although inequality at national level is relatively modest, there are significant poverty differences and different poverty reduction challenges between rural areas and districts and within communities which provide a rationale for considering a targeting strategy that gives higher although not exclusive priority to food deficit areas and woredas. Within all regions there are *woredas* with food deficit, and this is not only determined by *enset* (please see map in Appendix 3).

64. It should be highlighted that IFAD's corporate policies, at the time the COSOP was prepared, did not call for refined targeting strategies. In 2002 the Regional Strategy for East and Southern Africa proposed that IFAD should ensure that its support uses careful targeting, but otherwise its guidance was quite non-specific. IFAD's latest corporate Strategic Framework Document for 2007-2010 encourages more precise targeting and provides various targeting approaches to ensure that the rural poor benefit fully from IFAD-assisted activities. And in 2006, IFAD issued a corporate policy on

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<sup>27</sup> Enset (*E. ventricosum*) is commonly known as "false banana" for its close resemblance to the domesticated banana plant. It is Ethiopia's most important root crop, a traditional staple crop in the densely populated south and Southwestern parts of Ethiopia.

<sup>28</sup> Xinshen Diao and Alejandro Nin Pratt, IFPRI, 2006: Growth Options and Poverty Reduction in Ethiopia – An economy-wide model analysis.

targeting and a new framework for result-based COSOPs, which made it mandatory to include a targeting strategy in the COSOPs.

65. **Varying targeting approaches.** The targeting strategies in the projects prepared following the COSOP vary significantly. The targeting adopted in RUFIP (appraised in 2001) was very open, pointing to the high incidence and even distribution of poverty throughout rural Ethiopia. It targeted, in principle, all areas of the country, and rural households living below the poverty line. The PCDP (appraised in 2003), was more tightly targeted. It aimed at previously underserved regions, characterized by low rainfall and pastoralist livelihood systems. The AMIP (appraised in 2004), reverted to a more generalized approach which brought all parts and population groups into the ambit of the programme. The most recently approved IFAD project (2007), the PASIDP, speaks explicitly of conforming to IFAD's Targeting Policy, whereby the programme targets food deficit districts<sup>29</sup>. While interventions in different sub-sectors may require some nuances in the targeting approaches, the varying targeting strategies are also due to the low integration between the projects and the limited guidance provided by the COSOP.

66. **Attention to knowledge management.** The COSOP devotes significant attention to knowledge management. It summarises the lessons learned from past cooperation, stemming both from independent evaluation and IFAD management's self assessment. It also stresses the importance of strengthening monitoring and evaluation systems at the project level and of conducting impact assessment exercises with baseline surveys to be systematically conducted for all projects. However, the specific resources for knowledge management (financial, staff) are not fully addressed by the COSOP.

### C. Resources and Capacity for Strategy Development and Implementation

67. **Human resources.** As has been the case for IFAD globally, limited human resources have been allocated for strategy development and implementation in Ethiopia. Till 2005, the cooperation was managed from Rome by a CPM and a Programme Assistant who in addition to Ethiopia had other duties and responsibilities.

68. As part of its Field Presence Pilot Programme (FPPP), IFAD posted in April 2005 a high-level national expert as Field Support Manager, hosted and administered by UNDP. Provision is also made for a position of an administrative assistant which for part of the time has been filled but was vacant at the time of the CPE mission. The OE Evaluation of FPPP found that the field presence experiment was beneficial to project implementation support and partnership development although short on resources.<sup>30</sup>

69. **Operational budget.** In addition to limited human resources, IFAD's management of strategy development and implementation has been constrained by a negligible operational budget which however has been gradually increased over the period. No budget was earmarked for preparing the 1999 COSOP while a limited budget is available for preparing the 2008 COSOP. Annual travel budgets for the CPM to visit Ethiopia and support project implementation and participate in policy dialogue were during the first years after the COSOP extremely limited (US\$5,000 per year or less)

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<sup>29</sup> According to the PSIDP appraisal report, to enhance outreach, preference would be given to the most densely populated districts. At the household level, attention would be paid to ensuring that food insecure and female headed households and more vulnerable groups would benefit from the programme.

<sup>30</sup> "Although the Field Presence Officer (FPO) has only been working for a little over a year he has already made many tangible contributions to implementation support and partnership development. Successes in policy dialogue and even more so knowledge management have understandably been slower to develop. However, the indication at this point is that the FPO can also be successful with these, particularly if he is provided additional time and resources. Some of these resources could come from cost savings from having the FPO. For example, the FPO organizes more efficient and effective missions which should cut the number of days required by consultants and UNOPS ... With respect to the government, the FPO's assistance in project implementation should help reduce the number of project extensions that increase costs and reduces efficiency".

while today the budget is no longer perceived as a serious constraint.<sup>31</sup> According to the regional division for Eastern and Southern Africa, it is not possible to provide data on the precise allocation and utilisation of financial resources for the management of the Ethiopia programme in the past years which raises some concerns about how scarce resources are managed.

70. **Programme or individual projects?** Was the IFAD programme in Ethiopia a real “programme”? The COSOP was certainly valuable in that it introduced new sectoral priorities for IFAD and clearer goals in terms of portfolio development and management, as well as for policy dialogue. Yet the prescribed COSOP format and the limited role played by COSOPs in the past limited its capacity to generate a fully-fledged programme centred and managed on common issues. For example, the COSOP lacked a general logical framework of overall goals and intermediate objectives. This means that management of results can take place at the level of the individual projects and not at the overall programme level.<sup>32</sup> As has been explained in the CPM self-assessment questionnaire, information on the performance is available and is addressed project by project. Moreover, as previously noted, the Ethiopia portfolio is made of individual programmes each addressing an individual sub-sector (rural finance, small-scale irrigation, agricultural marketing, research, pastoral areas development) while integrating the interventions remains a challenge.<sup>33</sup> Finally the issue of programme management was not dealt with by the COSOP. Recent improvements through the pilot field presence have tried to cope with the constraints of “remote control” from Rome and to enhance synergy between programmes.

#### D. Overall Quality of IFAD’s Strategy

71. The CPE finds that the overall quality of the 1999 COSOP design is moderately satisfactory and that there is room for some improvements, notably with respect to developing a targeting strategy.

Quality Aspect of Strategy	Score	Explanation
Assessment of the main issues and obstacles for reduction of rural poverty	4	The COSOP briefly lists some of the main factors influencing poverty. However, related to obstacles for reduction of poverty, a more critical assessment of the systems for research, extension and input supply would have been pertinent.
Relevance and clarity of general objectives and specific goals	4	The objectives of the strategy are not presented in terms of expected development results but rather in terms of directions and priorities for portfolio development, management, policy dialogue and knowledge management. It is a process rather than result-oriented strategy. Nonetheless, portfolio development goals are clearly defined and relevant.
Analysis of IFAD’s target group and its needs	3	Inadequate analysis and appreciation of spatial diversity and differences in poverty and poverty reduction challenges
Operationalisation of the strategy	4	The directions for portfolio development and management are generally based on the contextual analysis and strategy but there are weak links to the area of agricultural marketing for which the strategy of future support is not elaborated upon
Identification of partners and reinforcement of existing partnerships	4	Traditional partners [(World Bank and Belgian Survival Fund (BSF)] are listed but opportunities for developing partnerships with new co-financiers, NGOs, Ethiopian think tanks and international research (e.g. IFPRI) are not explored
Knowledge Management	5	The COSOP identifies lessons from past cooperation and gives very high priority to improving Monitoring and Evaluation (M&E) systems, and introducing baseline surveys and SEPSS. However, resources requirements are not fully addressed.
Innovation, replication and scaling up	3	The COSOP does not specify any successful innovations for up scaling.
Policy Dialogue	5	The areas singled out for policy dialogue were relevant although some objectives (e.g. land tenure reform) seem too ambitious considering the role and capacity of IFAD
<b>Overall Score</b>	<b>4</b>	

6=highly satisfactory; 5=satisfactory; 4=moderately satisfactory; 3=moderately unsatisfactory; 2=unsatisfactory; 1=highly unsatisfactory

<sup>31</sup> Source: Mr John Gicharu, Ethiopia CPM, personal communication.

<sup>32</sup> The new COSOP format introduced in 2006 will bring about a major change as objectives will have to be established at the programme level which will directly inspire project-level goals.

<sup>33</sup> The new Forum for IFAD programme referred to later on is a proposal to bring about better integration and a culture of team work as opposed to individual CPM management.

## E. An Overview of COSOP Implementation

72. **Portfolio development.** IFAD has designed and is implementing the support for the three areas identified in the 1999 COSOP for future lending. The strategic opportunity of supporting rural financial services, including agricultural credit and strengthening linkages between the formal banking sector and the informal financial systems, has been realised through the approval in 2001 of RUFIP. The support for small scale irrigation development would according to the COSOP depend on the success of the support provided under SCP II. An Interim Evaluation (IE) established the lessons and basis for designing continued support under the PASIDP which was approved in 2007. The support for agricultural diversification and marketing, including improved post-harvest handling, was realised through the approval of the AMIP in 2004.

73. The support for pastoral community development was not foreseen in the COSOP which neglected the special issues of pastoral areas. Reportedly, IFAD's approval (in 2001) of a loan for the World Bank initiated PCDP was part of a concerted and urgent response of the United Nations (UN) system to address the recurrent drought crises in the Horn of Africa.

74. In developing the new portfolio, the COSOP emphasised promotion of co-financing arrangements and partnerships with multi- and bilateral agencies, in particular the World Bank. In the post-COSOP period the two first approvals are based on co-financing arrangements, RUFIP (AfDB) and PCDP (World Bank), while the latest two approvals AMIP and PASIDP have no co-financing with international development partners. This may be explained by changing priorities (donors moving out of agricultural interventions) and conversion to direct budget support of some partners and specialisation according to institutional comparative advantages.<sup>34</sup>

75. **Portfolio management.** With the exception of baseline surveys, notable achievements have been made in all areas that were prioritised within portfolio management:

- IFAD should play an increasingly pro-active role in the design and implementation of sector development programmes; examples of such attempts have been made in microfinance and small-scale irrigation.
- Promotion of beneficiary participation in design, planning and implementation; this has first and foremost been realised through the frames provided for pastoral community development, rural finance and small-scale irrigation development where the approaches have been to involve beneficiaries in determining the use of funds.
- Integrate fully project management into the federal and regional institutional framework; this has been achieved in irrigation (SCP II and PASIDP) and pastoral area development (PCDP).<sup>35</sup>
- Implementation of baseline surveys and SEPSS; while there has been no progress on SEPSS, some RUFIP-supported MFIs have impact studies and there is a baseline study in process. In PCDP, baseline studies have been made for participating woredas but 2-3 years after project start. Generally baseline surveys are implemented several years after project start. Within the ongoing public sector reforms and business re-engineering processes, public management information systems are being improved, with budgets, plans and reporting focusing on concrete outputs, deliverables and physical targets. However, weaknesses remain in information on impact, which generally, and not only in Ethiopia, appears to be an area of limited priority among government institutions

76. **Policy dialogue.** Some progress has been achieved on three main issues that the COSOP identified for policy dialogue (see section IV.F). However, it should be recognised that major challenges remain and that the progress (or lack of progress) cannot be fully attributed to the role of IFAD in policy dialogue. Many efforts and circumstances have contributed to the developments.

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<sup>34</sup> Instead, IFAD can not be involved in general budget support.

<sup>35</sup> In the case of rural finance, the RUFIP management is well integrated with the structure of the DBE.

77. Thus, the major directions of the COSOP have been implemented. The non-achievement of some goals is due to contextual developments over which IFAD had no control, for example the conversion by some key partners to general direct budget support which limited opportunities for co-financing. In another area of under-achievement, i.e. baseline surveys, IFAD does have some influence, but dedicated long-term support, perhaps with the use of earmarked grants, would probably be required.

### **In synthesis**

78. The COSOP was prepared in 1999 and follows the “old” COSOP guidelines. It was not discussed with the IFAD Executive Board but is relatively well known to Ethiopian authorities.

79. The COSOP endorsed IFAD’s progressive shift from integrated agricultural input projects to more specialised sub-sectoral interventions.

80. The COSOP was prepared with limited resources, as is the case for almost all COSOPs of the old generation. The COSOP presents clear directions for portfolio development (which projects to finance and in what sub-sectors).

81. Targeting criteria are not clearly developed, to a large extent due to the absence of detailed data on poverty distribution and characteristics and the time of its preparation.

82. The COSOP policy dialogue and knowledge management objectives are clear although no specific resources are allocated to them (it is assumed that project funding and activities will take care of that).

83. The COSOP did not discuss key resource requirements for managing the programme. Since 2005 a pilot field presence scheme has been run with encouraging results for implementation support and partnership building.

84. The COSOP is rated as moderately satisfactory. Some of its weaknesses may be due to limitation in scope of the old COSOP guidelines. Be it as it may, these lacunae mean that IFAD had a clear idea of the directions to take but did not fully analyse the tools and resources needed to achieve them.

## **IV. PERFORMANCE AND IMPACT**

### **A. Overview of IFAD’s Assistance Programme**

85. As mentioned, the CPE covers seven out of 13 loan projects, where the seven selected projects account for 73% of all IFAD lending to Ethiopia since 1980. The first three projects were conceived and designed before the 1999 COSOP and belong to the pre-COSOP period, i.e. SOCODEP, SCP II and ARTP, while the last four projects belong to the post-COSOP period, i.e. PCDP, RUFIP, AMIP and PASIDP (Table 6).



**Table 6. Overview of the Loans Assessed by the CPE**

	Appr.	Eff.	Clos.	Total - Cost	IFAD Loan	Cofinancier	Coop. Inst.	Criteria Evaluated	Eval. Sources
				US\$ m					
Southern Region Cooperatives Devel. and Credit Project (SOCODEP)	1993	1994	2005	21.9	17.45	BSF	UNOPS	All	Compl. Eval., PCR
Special Country Programme II (SCP II: small scale irrigation)	1996	1999	2007	31.9	22.6	Gov of Ireland	UNOPS	All	Interim Evaluation, PCR, Field Visit
Agricultural Research and Training Project (ARTP)	1998	1999	2007	90.6	18.2	World Bank	World Bank	All	Field visit Project Info
Pastoral Community Development Project (PCDP)	2001	2004	2009	59.9	20	World Bank	World Bank	All	Field visit Project Info
Rural Financial Intermediation Programme (RUFIP)	2001	2003	2010	88.7	25.7	African Dev. Bank	World Bank	All	Field visit Project Info
Agricultural Marketing Improvement Programme (AMIP)	2004	2006	2013	35.1	27.2	None	UNOPS	Relevance - Design	Project info
Participatory Small-scale Irrigation Development Programme (PASIDP)	2007	2008	2015	57.7	20 loan 20 grant	None	Direct by IFAD	Relevance - Design	Project Info

86. In addition to the loan-supported projects, the CPE assesses two minor country grants for rural finance and five larger grants, which are of a regional and inter-regional nature, including Ethiopia among other countries. The grants have primarily financed activities of international research institutions (belonging to the Consultative Group of International Agricultural Research, CGIAR) but have in a few cases also supported activities of NGOs. A wide range of activities has been supported, from testing of stress tolerant cereal varieties, to livestock pest control and rural finance. It is roughly estimated that since 1993, Ethiopia has been part of 15 large and small regional grants of a total value of US\$12 million of which Ethiopia's "share" is estimated at US\$4 million.

## B. Performance Assessment

87. As already noted, IFAD's investment portfolio in Ethiopia is made of a number of discrete projects each focusing on a single sub-sector. Performance can differ widely between sub-sectors. The next sections (relevance, effectiveness, efficiency) will take this fact into account but will also attempt to highlight common areas and, when possible, common explanatory factors.

### Relevance

88. Relevance of the design is assessed against the rural poverty context and the opportunities and obstacles to rural poverty reduction (see Box 1) and needs of poor rural communities and against GoE's and IFAD's objectives and policies. While the assessment focuses on overall project objectives and strategies, as defined in the design, it also includes analyses of proposed approaches, from the perspective of best practices and lessons learnt nationally and internationally.

89. Relevance has been assessed as highly satisfactory in rural finance, small-scale irrigation and pastoral community development. The related activities are in high demand, can be rapidly appropriated by the rural poor in Ethiopia and the design is often inspired by good practices in the region or in the relevant sub-sector. On the other hand, it has been assessed as moderately satisfactory in cooperative development (complex design and negative image of cooperatives), agricultural research (benefits to IFAD's target group uncertain and long-term plus high-cost interventions) and agricultural marketing development (due to the perceived risks of the intervention modalities).

90. **High demand and realistic targeting.** IFAD support for small-scale irrigation has focused on households in low rainfall, drought prone and food deficit areas. The design of these interventions included demand-driven and participatory approaches, expected to allow the users themselves to identify their needs, drive scheme design and manage, operate and maintain the facilities. The design of the follow-up project, PASIDP, has adequately addressed the problems in implementation of SCP II and used the lessons learnt from the Interim Evaluation such as the issue of insufficient attention to water right issues, user participation and use of traditional water user associations.



**Beneficiary watering a cabbage garden. The water was collected from a nearby pond.**

*IFAD photo by Franco Mattioli*

91. Rural finance has high priority in IFAD's corporate strategic framework and in GoE's policies such as PASDEP. Agricultural credit was a major but unsuccessful element of SOCODEP, while credit for post-harvest investments is a major component of agricultural market development (AMIP). In addition, there has been a dedicated comprehensive sub-sector programme (RUFIP) for development of rural financial services, appropriately addressing the key issues at macro, meso and micro level. The RUFIP design defines the programme target group as rural households below the poverty line, while the aim is to develop a strong and vibrant Ethiopian microfinance industry. However, most MFIs, also the large public MFIs, target primarily rural households with economic potential. Many of these households are poor but not among the poorest, and some are above the poverty line.

92. Yet, RUFIP is highly relevant to IFAD's target group and overarching objectives for the following reasons. First, given the small and declining size of landholdings and their continued fragmentation, there is an urgent need of developing off-farm and non-farm income generating activities for which access to rural financial services and MFIs play a key role. Secondly, development of financial savings services, easily accessible by rural households, is needed to facilitate the build up of assets (other than livestock) to cushion against droughts and other external shocks and facilitate future household investments. In explaining the high relevance of RUFIP design, it is important to underline the importance of preparatory studies financed by IFAD through small grants and the involvement in the design of dynamic staff from professional associations.<sup>36</sup>

93. Though not foreseen and planned for in the COSOP, PCDP is highly relevant to IFAD's mandate and GoE's policy as well as to the pastoral communities which generally have been outside mainstream economic development and have had less access to public services than sedentary households in the cultivated cropland areas. Furthermore, the design includes highly participatory and holistic delivery approaches, applying the lessons from past unsuccessful pastoral area projects that used technical, sector-based, and supply-driven approaches. PCDP design also includes a sub-component for very poor groups and categories based on the support to very simple income-generating activities.

94. Cooperative Development was the main objective of SOCODEP though the project comprised many different components. The OE Project Completion Evaluation notes that the design correctly identified some of the key difficulties that farmers in the Southern Region were facing (in 1992/93) and that the design attempted to exploit the opportunities provided by the new cooperative legislation. However, the Evaluation also notes that the project area was too large and the duration too short while

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<sup>36</sup> Notably the Association of Ethiopian Microfinance Institutions (AEMFI).

the design was highly complex<sup>37</sup>. Most critically, the Evaluation found that the design was over-optimistic about how quickly one could change the negative attitude of households about the cooperative concept. The former Derg government had used cooperatives also for coercion and control and the negative reputation of the “name” persists even though the content has changed. While there is no doubt that farmers need to organise themselves in order to better access markets and services, the organisation can be done under other names that are more palatable to farmers.

95. Introducing agricultural research in drought-prone marginal areas. IFAD contributed to a US\$90.6 million loan for the ARTP, with a US\$18 million loan for components that it was solely financing: (i) the establishment of six new Agricultural Research Centres (ARCs) in marginal, drought-prone areas (72% of the total IFAD loan); (ii) an Agricultural Research Fund (ARF); and (iii) linkages with agricultural extension.

96. According to the ARTP’s development objective at appraisal, research should develop and identify technologies and then transfer the technologies to the extension services<sup>38</sup>. This in turn would lead to the overarching sector goal of “sustainable and ecologically sound growth in the agricultural sector accelerated” if a number of assumptions were fulfilled, amongst others: “continued availability of complementary agricultural support services, including extension and credit”. The word “continued” indicates that at the time the needed support services were available, and therefore if just research would be able to transfer technologies to extension, then the extension system and other support services would ensure that the technologies were transferred to and adopted by farmers. This appears far from the reality, then and now, even though GoE has undertaken a very significant investment in up-scaling the outreach of extension services and increasing the supply of improved seed/fertilizer packages under Sasakawa Global 2000 and PADETES (Chapter II, section B). Recognising that the research system has no direct control over farmers’ technology adoption, the 2002 Mid-Term Review (MTR) introduced a revised objective that emphasises the strengthening of the research system to make it effective, efficient and responsive. This definition is more realistic considering the project design as it acknowledges that any direct and immediate benefits to the rural poor cannot be guaranteed.

97. At the time of formulation, IFAD’s Technical Advisory Division (PT) highlighted the risk of this assumption and the proposal to only support the research system, without simultaneously ensuring the necessary capacity of extension services. PT also raised questions about the approach proposed for introducing agricultural research in remote drought-prone areas (heavy investment in building construction), considering international experiences suggesting that it is difficult to attract qualified research staff and their families to such locations. On-farm research combined with a modest rest-house for visiting researchers was recommended instead. It is important to note that neither PT nor this CPE questions the justification and rationale of introducing agricultural research in remote, marginal, drought-prone areas. The question is how to do it in the most cost-effective way, optimising the benefits for poor households.

98. The above discussion is also pertinent to IFAD’s Technical Assistance Grants (TAGs) that support activities of member agencies of the Consultative Group on International Agricultural Research (CGIAR). The regional research TAGs, assessed by the CPE, have had no clear or adequate mechanisms for how the eventual results would be transferred to and adopted by Ethiopian poor farmers, i.e. IFAD’s target group. In no cases, did the regional research TAGs address specific issues faced in the implementation of IFAD-loan-financed activities. This raises questions about the rationale and justification of having one multilateral organisation (IFAD) supporting another multilateral organisation (a CGIAR institution) with resources obtained from member countries, which, bilaterally, are already providing grants for the CGIAR institutions.

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<sup>37</sup> Its implementation involved seven regional government bodies in SNNPR, three financial institutions, and many other stakeholders. Integrating the components and coordinating their management proved particularly problematic.

<sup>38</sup> The development objective was defined as: “Practical, responsive and ecologically sound technologies for small-holder crop and livestock production systems identified and transferred to extension”.

99. **The challenge of private sector development.** IFAD's Regional Strategy Paper for Eastern and Southern Africa (2002) identified four major thrusts of which one was "promoting efficient and equitable market linkages" where IFAD inter alia could help the private sector provide more competitive and efficient services to smallholders. The AMIP is in line with and relevant to this strategic thrust. However, even though the design has benefited from comprehensive IFPRI studies of the issues and problems in agricultural markets of Ethiopia<sup>39</sup>, it remains debatable (Appendix 6) how one may best achieve the declared GoE objective of developing efficient private agricultural markets.

100. The design anchors the programme in the public sector, with activities driven by public sector planners and officers. The articulation of the project design follows the administrative structure of the public sector (kebele, woreda, region) which is not necessarily the approach private sector operators would adopt (private operator would adopt solutions that minimise production costs rather than following administrative criteria)<sup>40</sup>. The GoE does not agree with this assessment. A priori, a necessary condition to mitigate these risks seems to be that from the outset the project partners pursue and promote public-private partnerships, outsourcing of services, e.g. management services, to private providers, and partnerships and joint ventures between cooperatives and private enterprises. It is to be noted inter alia, that the design was changed significantly between the formulation and the appraisal report. PT raised concerns on the formulation report that find an echo in the present CPE (see also section IV.G).

101. **Compliance with IFAD operational policies.** IFAD's operational policies that are relevant to the Ethiopia country programme include those on rural finance, rural enterprises, private sector development and targeting.<sup>41</sup> In line with IFAD's policy on rural finance and micro-enterprise development, the RUFIP design includes measures to address the identified weaknesses (i) of the sector at the macro level (policy and regulatory issues), ii) at the meso-level by supporting financial infrastructure comprising linkages between the microfinance and the banking industry and (iii) at the micro level by providing resource and capacity building to rural finance providers and, also, information systems and other technical support structures. Finally, the design includes support for developing a diversified rural financial services sector in terms of types of institutions and products. To reach the rural poor, promotion of a multi-tier system is supported, including development of grassroots financial institutions, such as Rural Savings and Credit Cooperatives (RUSACCOs).

102. The AMIP design appears to be generally consistent with IFAD policy on private sector development. However, for this project there is no partnership with other UN and multilateral organisation (the project is not co-financed), as recommended by the policy. The explanation for this, however, can be largely identified in the shifting priorities of other donors (out of agriculture). Key concerns on the AMIP design relate to the proposed approach for developing efficient private agricultural markets. PASDIP (small scale irrigation) is the only project submitted to the Executive Board after the approval of IFAD's targeting policy and is the project with the best devised targeting strategy in the Ethiopia portfolio, broadly in line with the tenets of the targeting policy. The targeting sequence would start with the identification of food-deficit woredas (districts), and then food security households with special emphasis on women-headed households and more vulnerable groups.

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<sup>39</sup> IFPRI/Ethiopia together with Ethiopian researchers have done substantial work on agricultural markets in Ethiopia and contributed to the plans for a commodity exchange, a warehouse receipt system, and a decentralised coffee liquoring system, amongst others through the document of November 2003, "Getting Markets Right in Ethiopia – An Institutional and Legal Analysis of Grain and Coffee Marketing."

<sup>40</sup> Details are provided in Appendix 6. 1. The design of AMIP has undergone major changes before it was approved by the Executive Board in December 2004, and also after it was declared effective in February 2006. During the formulation phase it was agreed that AMIP would support the establishment of a warehouse receipt system, an Agricultural Marketing Information System (AMIS) and a decentralised coffee liquoring system. The warehouse receipt system would be linked to a Commodity Exchange which government and other development partners were considering at the time. However, during appraisal, these components were taken out, at the request of GoE, reportedly because other funding was available. After effectiveness, they were re-introduced.

<sup>41</sup> As for two other recent operational policies: (i) Policy on SWAPs: there are no SWAPs in Ethiopia in the agricultural sector, (ii) policy on corruption: there have been, to our knowledge, no specific interventions but, on the other hand, the CPE team is not aware of any major or systematic violation of procedures.

103. **Overall assessment of relevance.** Relevance is assessed by this CPE as highly satisfactory, satisfactory, or moderately satisfactory<sup>42</sup> in all (100%) the examined projects. Details are presented in Appendix 1.

### **Effectiveness**

104. Effectiveness is assessed in terms of the extent to which the projects' immediate objectives have been achieved.<sup>43</sup> The assessment of contribution to the immediate objectives is limited to the project period, i.e. excluding guesstimates of possible contributions after project closure. Three projects have recently been closed (SCP II/irrigation, SOCODEP/cooperatives, and ARTP/research). For these three projects, information is available for the entire project period. Two projects are ongoing (RUFIP/rural finance and PCDP/pastoral communities) but have progressed very far in the implementation and there is a good basis for estimating their contributions during the project life. Finally, two projects (AMIP and PASIDP) are too recent for assessing effectiveness, efficiency and impact. Thus, only RUFIP and PCDP from the post-COSOP period are assessed.

105. Effectiveness is assessed as satisfactory for interventions in rural finance, pastoral community development and irrigation. Coverage of beneficiaries or intervention areas has gone beyond initial plans and the overall quality of services has matched the needs of the project users. Considering the revised objective of the support for agricultural research, emphasising the institutional development and that the support has provided benefits to the broader research system of Ethiopia (though still limited transfer to extension and farmers), the effectiveness of IFAD's support for agricultural research is assessed as moderately satisfactory. Instead effectiveness has been assessed as moderately unsatisfactory in the case of cooperative development (limited progress in the quality of services and bankruptcy) and agricultural research.

106. **Well-adapted intervention models and high outreach.** In pastoral community development<sup>44</sup>, effective and innovative models of local governance for planning and implementing investments in community infrastructure as well as in private income-generating activities for the poorest have been introduced. Woreda Development Committees (WDCs) and Community Development Committees (CDCs), comprising government, private sector and civil society, are functioning, providing a sense of ownership among stakeholders and beneficiaries. Communities are actively engaged in the planning and implementation of micro projects to which they contribute in kind or with cash. Substantial improvements in livelihoods can be noted. However, the objectives for the pastoral risk management component and the sub-components related to monitoring and evaluation and policy analysis and strategy development have not yet been fully achieved.

107. In rural finance, impressive outreach has been achieved through the development of microfinance institutions (MFIs: they can be considered as small banks), while more limited but still remarkable progress has been made with RUSACCOs. At the design stage of RUFIP in 2001, the rural finance sector had 19 MFIs with a combined outreach of about half a million households (5% of rural households).<sup>45</sup> Outreach has expanded at an average annual rate of 34%, reaching 1.72 million clients by the end of June 2007 (an increase in coverage from 5% to about 20% of the number of rural households). Growth in outstanding loans has been at an annual average of 105% and 50% for net

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<sup>42</sup> Rating scale: 6=highly satisfactory; 5=satisfactory; 4=moderately satisfactory; 3=moderately unsatisfactory; 2=unsatisfactory; 1=highly unsatisfactory.

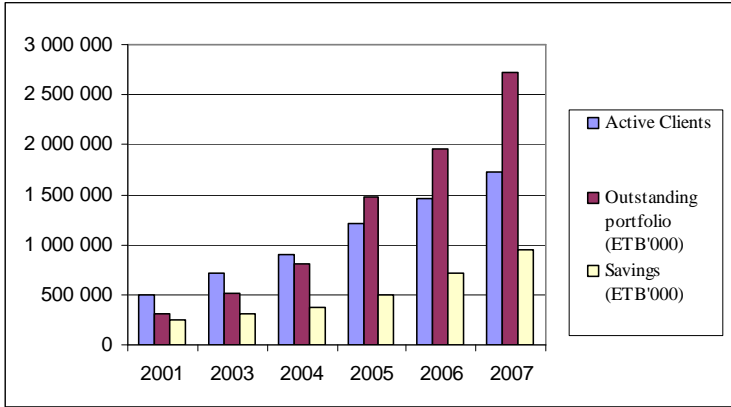
<sup>43</sup> In some cases, the logical framework does not define "immediate objectives" but component outcomes, similar to immediate objectives.

<sup>44</sup> The logical framework matrix does not define immediate objectives but an overall development objective: "To establish effective models of local governance, investment and disaster management in pastoral areas [in selected woredas] that address the needs of communities and reduce their vulnerability". In addition, the Logical Framework defines a number of outcomes for the components, which in reality are formulated as immediate objectives.

<sup>45</sup> This number had gone up to 721,000 households by the time the programme began its operations in 2003.

savings and RUFIP’s targets for project year seven (PY7) were surpassed already by Project Year (PY) 4. Discussions with various stakeholders in the sector indicate that RUFIP has been the major catalyst to this growth, particularly thanks to linkages between the MFI and the banking industry. Before RUFIP, no MFI had ever borrowed from the commercial banking sector but MFIs are now able to do so thanks to: (i) promotion of best practices in management of MFIs; (ii) demonstration effects from RUFIP; and (iii) policy dialogue with the banking industry.<sup>46</sup> However, the MFIs that have borrowed from the banking sector so far have ownership relationship with regional governments and have received bank guarantees from their respective regional governments.<sup>47</sup> Private MFIs are still unable to access loans from the banking sector, which was an area envisaged for RUFIP’s intervention.

**Chart: Growth in the MFI Industry in Ethiopia (2001 – 2007)**



108. Outreach of RUSACCOs has not grown so fast. While the number of RUSACCOs established exceeds the target for the period by 39%, targets set for indicators that point to the quality of RUSACCOs and their effectiveness in meeting the demand are lagging behind. Average membership per RUSACCO is 76 compared to a targeted average of 150 members expected to be the minimum number required for operational viability. Overall, membership in the established RUSACCOs is 70% of the target set for the period, while savings mobilization and loan disbursements stand at 47% and 27%, respectively. These low levels of achievement are accounted for by (i) lack of progress in the capacity building initiatives for RUSACCOs (financed by AfDB); (ii) lagged budgetary support to the Regional Cooperative Bureaux; and (iii) failure by RUSACCOs and their unions to access loan capital funding from RUFIP. The performance with regard to RUSACCOs is, however, still quite impressive given that these institutions were started from scratch in the last four years (please see Chart 1 in Appendix 5).

109. Targeting in small-scale irrigation has prioritised woredas that are classified as highly or very highly vulnerable. About 70% of the SCP II schemes were in these areas, where a significant contribution has been made to the main objective of increasing yields and cropping rates by expanding irrigated agriculture, surpassing the targets for beneficiaries and area brought under irrigation. The contribution to other objectives related to water management and resolution of water right issues, user organisations, soil conservation, crop husbandry and vegetable seed production, and development of economic activities for women has been modest. However, considering that the SSI component accounts for the major part of the budget and has surpassed targets for beneficiaries and irrigated area, the CPE considers the overall effectiveness as satisfactory.

<sup>46</sup> Out of the 27 MFIs currently in operation, RUFIP has disbursed loans amounting to Ethiopian Birr (ETB) 345 million to 17 of them (which command over 99% share of the outstanding portfolio). Together with already committed disbursements (amounting ETB 438 million) this amount represents over 97% of the credit component allocated for MFIs for the whole seven-year program. Although total disbursements from RUFIP directly account for only about 13% of the outstanding portfolio of MFIs, it is noteworthy that the programme has been a major catalyst in driving MFIs towards savings mobilization (accounting for 33% of loans) and borrowing from the banking industry (accounting for 17% of loans).

<sup>47</sup> To borrow, an MFI is required to present an external audit report, a business development plan and a National Bank of Ethiopia (NBE) supervision report. In addition, a guarantee is required.



110. **Limited institutional strengthening for cooperatives.** The key objective of establishing a model for cooperative development was not achieved. Though quantitative targets for re-registering and restructuring cooperatives were surpassed, at the end of the SOCODEP intervention, the cooperatives were weak, some on the verge of bankruptcy. The contribution to development of commercial activities of cooperatives, e.g. flour mills and retail shops, was modest. Lack of business management skills resulted in poor performance of the activities of which many today are closed due to competition from the private sector. Loan disbursements and loan recovery (68%) was unsatisfactory.

111. **Institutional strengthening of the agricultural research system.** There is little doubt that the combined support of the World Bank and IFAD has made a contribution to strengthening the Ethiopian Agricultural Research System, in particular the large World Bank supported human resource development components but to some extent also the three IFAD financed components. Assessed against the revised objective, the effectiveness of ARTP is moderately satisfactory, a more positive conclusion than if the effectiveness of IFAD's contribution (and the World Banks<sup>48</sup>) to ARTP had been assessed in terms of its contribution to ARTP's original objective, which was to transfer technology from research to extension, which would ensure the adoption by farmers.<sup>49</sup> While the research system is releasing an increasing number of agricultural technologies, the adoption of these technologies by the majority of farmers, resulting in major improvements in national yields, is still to be achieved. Factors resulting in this situation may be found within the research system but also in the input supply and extension systems.

112. Research-extension linkages were weak in the past but recently improvements have been made partly thanks to the IFAD-financed research-extension-farmer linkage component.<sup>50</sup> Farmer Research Groups (FRGs) were promoted and supported by the Agricultural Research Centres (ARCs), but in some cases without actively involving woreda agricultural offices and the development agents (DAs~extension workers) in the daily activities. Recently the engagement of extension is being promoted, and in some areas the FRGs have become Farmer Research Extension Groups (FREGs). IFAD's support has contributed towards the establishment of 159 FRGs with 2,831 member-farmers (October 2007), focusing on improved crop variety demonstrations. Though the intention has been to demonstrate and diffuse new varieties, signboards with information on the variety and its characteristics and performance did generally not appear in the farmers' field. This is partly because no guidelines were prepared for the FRG pilot, clearly defining the objectives and methodologies. If it had been clear from the outset that a key objective was to transfer technologies to the extension system, then it is probable that the woreda agricultural offices and the DAs would have been more actively involved in the exercise.<sup>51</sup>

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<sup>48</sup> The CPE did not have the time and resources to assess the World Banks financed components but did make a brief review of literature describing the technologies developed by the research system and the diffusion of these technologies.

<sup>49</sup> The focus on transfer to extension was a major element of IFAD's support, but it was unfortunately eliminated through a revision of the development objective made at the 2002 MTR which decided on the following formulation: "to support modernization and enhancement of the efficiency and effectiveness of the Ethiopian agricultural research system and related higher education programs in the generation of ecologically sound agricultural technology and human capacity development while making the system more responsive to farmers' technology needs and priorities".

<sup>50</sup> Under the IFAD-financed research-extension-farmer linkage component, the Ethiopian Institute for Agricultural Research has established a Research-Extension-Farmer Linkage Department (REFLD), while Research-Extension Departments (REDs) have been established in the Agricultural Research Centres (ARCs). A Federal Research Extension Advisory Council (FREAC) was established in 2001 but was then dormant until 2005.

<sup>51</sup> An FRG guideline is expected to be prepared with Japanese support after project closure. Another potential explanation is that the REDs perceive it as their role to provide extension services to farmers in the vicinity of the research centres and do not consider it necessary to solicit the cooperation of woreda agricultural offices and the DAs.

113. The ARF component has successfully introduced a system of competitive grants and funded 29 research projects of which 24 have been completed, two are ongoing and three are discontinued. However, in most cases, the results of the projects are still being finalized for publication (December 2007). The contribution of the six Agricultural Research Centres, for which 72% of IFAD's loan was allocated, has not been as expected. While all the six ARCs originally were expected to be operational by 2003, only four were operational at the project completion in December 2007 and these four have problems of high staff turnover and attracting qualified researchers (e.g. due to problems of potable water access and unattractive accommodation/location). GoE is taking action to solve these problems, and in spite of the construction delay some research and technology transfer has taken place at the sites during the construction phase. Yet, any significant contribution from this component in terms of raising agricultural productivity will only be achieved several years after project closure. A study of EIAR<sup>52</sup>, reviewing research papers dealing with 13 on-farm trials in the period since 2000, finds that adoption of the technology in most cases is limited to the farmers involved in the trials plus some neighbours, with the exception of four success stories: finger millet, durum wheat<sup>53</sup>, lentils, and potatoes. Scaling-up and diffusion of new technologies seems to be blocked by various barriers, including: (i) the investment cost to the farmer, (ii) ineffective technology transfer including weak demonstration, (iii) farmer risk aversion associated with erratic climatic conditions, and (iv) problems of accessing inputs (seed and fertilizer) at the appropriate time. In conclusion, the CPE finds that IFAD's support has provided only a modest contribution to the transfer of technologies from research to extension (and to farmers) during the project period<sup>54</sup>, but that it has made a moderately satisfactory contribution to the revised objective of strengthening the agricultural research system, including introduction of institutional linkages to extension.

114. **Overall assessment of effectiveness.** The CPE assesses effectiveness as satisfactory<sup>55</sup> in 60% of the examined projects. It is worthwhile to note that effectiveness is higher in more recent projects (RUFIP, PCDP).

### Efficiency

115. Efficiency is assessed in terms of: (i) the outputs / inputs proportions, considering quantitative and qualitative aspects, the targets at appraisal, and whether outputs were spread too thinly to have any likely impact; (ii) the time it took to deliver the outputs as compared to original plans; (iii) the costs of delivering the outputs, as compared to original budgets but also comparing project units costs and standards with unit costs and standards obtained by other projects; and (iv) the management of delivery, including issues of accountability.<sup>56</sup>

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<sup>52</sup> EIAR (2006), *Successes with Value Chain*, Edited by Tsedeke Abate.

<sup>53</sup> Small Farmers and their cooperatives have become durum wheat suppliers to nearby pasta factory by acquiring inputs and technical skills, and by building non-traditional relationships with the private sector. This is a story of value chain cooperation between: (i) the Debre-Zeit ARC which developed and supplied the new wheat variety; (ii) the woreda level extension agents who promoted the wheat to smallholders; (iii) local cooperatives who managed input supply storage, and delivery; and (iv) a private food processing firm in Kaliti which purchased the wheat to produce pasta. The story demonstrates how successful partnerships can rapidly improve the incomes and livelihoods of smallholder farmers in Ethiopia- Source: IFPRI, Ethiopia Brief # 12, June 2006.

<sup>54</sup> The CPE hopes and does not exclude the possibility that the six ARCs, the ARF, and the research-extension linkage system, including the FRGs, in the decades after project closure and with GoE and other funding, will make important contributions to the transfer of technologies from research to extension and to diffusion of technologies.

<sup>55</sup> This corresponds to a rating of moderately satisfactory (4) or higher.

<sup>56</sup> In the case of RUFIP, providing "sector programme support" for the microfinance industry, efficiency may also be assessed by comparing the performance standards of the Ethiopian microfinance industry with the standards obtained in other countries. Ideally, the efficiency assessment should also include an ex post cost-benefit analysis to determine the Economic Internal Rate of Return that was actually achieved. However, this has not been possible due to lack of precise and detailed data on benefits.



116. Efficiency is assessed as satisfactory (5) for rural finance, due to the favourable operating cost ratios when compared to regional standards in the industry. Efficiency is assessed as moderately satisfactory (4) for pastoral development and small scale irrigation: while unit cost for construction are within the parameters of comparable interventions, the incomplete status of much infrastructure (pastoral development) and the implementation delays (irrigation) mean that benefits will accrue to the project much later than expected. Finally efficiency is assessed as moderately unsatisfactory (3) for both cooperative development and agricultural research. This is due to a combination of project outputs that are significantly lower than expected and delays and very high unit costs of construction or delivery. However, this situation is caused by many factors outside the control of the project management teams.

117. **Low operating expense ratios for MFIs.** For rural finance, at the industry level, applying the two commonly used measures of efficiency in rural finance - operating expense ratio and staff workload<sup>57</sup> - the CPE notes that the MFI sector in Ethiopia is operating efficiently and RUFIP has contributed to improving efficiency of the sector, particularly through facilitating an increased scale of MFIs to a level where unit costs are low. The operating expense ratio has been reduced from 20% in 2003 to 13% in 2005 and is now estimated to be less than 10%, compared to an average for Africa of 26.4% in 2005 (Microfinance Information eXchange, MIX). Staff productivity has also significantly improved from a workload of 383 borrowers per Loan Officer in 2003 to 434 in 2005 where the average for Africa was 319. The high efficiency levels are generally accounted for by the scale of operations, lower cost structures (particularly staff salaries) and, appropriate design of products that allow for higher staff workloads. However, lower cost structures are also due to a special feature of the Ethiopian MFI industry where the large MFIs, affiliated with regional governments, have the (free) support of credit and savings committees at *kebele* level assisting with screening of clients and enforcement of loan recovery.

118. At the overall project implementation level, certain activities have not been undertaken as planned: (i) no credit has been approved to RUSACCOs due to stringent qualification criteria, inconsistent interpretation of the criteria, and/or delays in AfDB-financing of the capacity development; (ii) the equity fund has not been implemented, partly due to inappropriate design and insufficient management attention: so far, only MFIs with affiliation with regional governments are able to access loans from commercial banks with guarantees from their respective regional governments but this is not the case for private MFIs; and (iii) capacity building for MFIs and RUSACCOs is lagging largely because of procurement complications of AfDB.<sup>58</sup> Despite these cases, the overall picture for rural finance is satisfactory, considering the very high efficiency at the industry level and the very rapid progress in the credit component.

119. **Favourable unit cost outweighed by incomplete/delayed implementation.** PCDP interventions have managed to provide training to a large number of persons<sup>59</sup> at a cost that is far below the budget originally allocated. Construction costs for health posts and schools within PCDP compare favourably with those of NGOs following similar construction standards. The apparently relatively low unit costs in the PCDP financed micro projects may be due to the communities' involvement in implementation, control, supervision and purchase of materials through community project management committees, with no or low overhead cost. However, several of the 2,071 micro projects funded under the Community Investment Fund (CIF) were approved though there were no funds available to finance the projects. As a result, some 25% of micro projects could not be completed due to lack of funds (see Appendix 7). Many structures stand incomplete, which is a major

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<sup>57</sup> Operating expense ratio compares operating costs to the total earning assets (outstanding portfolio) while staff workloads measure the number of active clients (borrowers) per frontline staff (Loan officers).

<sup>58</sup> Capacity building for MFIs and the cooperative sector continues to be urgently required and it is hoped that recent efforts made towards ending the stalemate (through a pilot-test phase) will be successful.

<sup>59</sup> For example, more than 10,000 people have been trained, of whom 8,000 members of woreda and community development committees, community project management teams, and woreda Mobile Outreach Teams. In addition some 2,200 public employees working with animal and human health have been trained.

efficiency loss. It also reduces the confidence in PCDP among beneficiaries and contractors who are waiting for their payment.<sup>60</sup>

120. Effective unit cost per hectare brought under small-scale irrigation ranges between US\$1,500 and US\$1,850, which according to the Project Completion Report and the Interim Evaluation is in line with the commonly quoted figures for this sort of infrastructure development in Ethiopia. The above positive points are balanced by delays in implementation and slow disbursement of allocated funds as well as inadequate extension services delivered for water management, soil conservation and crop husbandry.

121. **Cost overruns and delays.** The major IFAD component of support to agricultural research (72% of the budget) is the support for constructing and equipping six ARCs which has suffered significant delays and cost overruns.<sup>61</sup> Furthermore, the centres that have been completed are only partially staffed. Implementation of the research-extension linkage component, including Farmer Research Groups, has suffered from the lack of clear guidelines and the fact that FREAC was dormant during 2001-2005. At the regional and zonal level, the large workshops (100-200 participants) of the Research Extension Agricultural Councils provide a forum for coordination and information exchange but may not be the most efficient way of deciding research priorities and providing feed-back from farmers and extension. The relation between research and extension has to move beyond periodic coordination to practical daily operational cooperation. Other interventions have done better: guidelines and well-functioning systems for the ARF are in place and generally ARF has been efficient and delivered the expected outputs. Research projects with ensured grants of up to three years provide for more efficient research implementation as compared to research that depends on more uncertain annual allocations from the budget. A few researchers outside the government system have also benefited from the competitive grants. However, the overall efficiency of the IFAD-supported ARTP-components is assessed as moderately unsatisfactory. This is primarily due to the problems in the ARC component, and the weight of this component in the total IFAD share of costs.

122. In the domain of cooperative development, while the BSF financed health and water component did achieve the quantitative targets and with satisfactory quality, the achievements were in many other sub-components far from the quantitative targets, with a few exceptions (e.g. number of cooperatives restructured, number of people receiving vocational training). However, where the quantity was achieved, there were serious problems of quality (e.g. most of the re-structured cooperatives were found to be very weak in finances and management). The vast geographical area covered and the focus on quantitative output targets contributed to dilution and low quality of outputs which combined made it difficult to achieve the intended outcomes.

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<sup>60</sup> The background to this unfortunate development is that the previous PCDP management was concerned with the low rates of disbursement in the first years and therefore launched an aggressive campaign among communities to utilize project resources. In this push for rapid disbursement, the perception developed that all projects would be financed as long as they met the defined set of criteria. No consideration was given to the balance available in the CIF when approving the requests for micro projects. Furthermore, no indicative annual budget ceilings were defined and provided for the Regional Project Coordination Units (RPCUs) and woredas. By the end of PY 4, about 91% of the available budget had been spent. This issue was not picked up until the MTR. During 2007, PCDP has taken various initiatives to solve the problem, and GoE has assured that the required funds will be made available. PCDP now anticipates that the remaining unpaid amount to contractors and other service providers will be paid by December 2007 from contributions of Regional and Federal Governments and through a budget re-allocation.

<sup>61</sup> Yabello ARC was completed in 2005 at which time it had no functioning water supply. Jijiga was completed in 2006, while Humera and Sekota (without potable water supply) were completed in 2007. Jinka and Dubti Semera ARCs will be completed with government funds after project closure in December 2007, even though the closing date has been extended three times. In October 2007, Dubti Semera was 50% complete while Jinka was 35% complete. For security reasons, the CPE was unable to visit Humera, located close to the border with Eritrea, an area with a significant army concentration. For the same reason, limited updated monitoring information on status and activities was available.

123. **Overall assessment of efficiency.** Efficiency is assessed by the present CPE as satisfactory<sup>62</sup> in 60% of the examined projects.

### **In Synthesis**

124. IFAD Portfolio in Ethiopia is made of sub-sector specific projects and performance varies significantly.

125. Relevance is assessed as highly satisfactory in rural finance, small-scale irrigation and pastoral community development as design is inspired by good international practices. For RF, preparatory studies were financed through IFAD small grants and sub-sectoral associations were involved in the design.

126. Relevance is assessed as moderately satisfactory for cooperative development (over-complicated design and reputation problems of cooperatives), agricultural research (absence of clear mechanisms for technology transfer) and agricultural markets (perceived difficulties and risks in private sector development).

127. Effectiveness is assessed as satisfactory for rural finance, pastoral community development and irrigation, characterised by broad coverage, well performing models of local governance, and high adoption by end users.

128. Effectiveness is assessed as moderately satisfactory for agricultural research considering the revised objective and the institutional impact.

129. Effectiveness is assessed as moderately unsatisfactory for cooperative development in view of the very limited progress in strengthening cooperatives.

130. Efficiency is assessed as fully satisfactory only for recent rural finance interventions (credit product design generates low cost of service provision), moderately satisfactory for pastoral development (construction delays outweigh affordable unit costs) and moderately unsatisfactory for cooperative development and agricultural research (incomplete project delivery is coupled with high cost of service delivery)

### **C. Impact – Reduction of Rural Poverty**

131. **Contextual factors and attribution/contribution.** In all evaluations, it is a major challenge to isolate the impact of the project from external effects (for example a very good or bad harvest).<sup>63</sup> This is particularly true in Ethiopia, due to the significant annual fluctuations in the agricultural sector determined by the weather.

132. The normal way of dealing with this issue is to establish the counterfactual evidence, i.e. what has been the development for the households covered by the project as compared to the development for similar (neighbouring) households not covered by the project.<sup>64</sup> In the context of the present evaluation, counterfactual evidence has been gathered in three ways: (i) data and information on households and communities “without the project” available through surveys conducted in the context

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<sup>62</sup> This corresponds to a rating of moderately satisfactory (4) or higher.

<sup>63</sup> In addition, it is now recognised that, in several instances, development results can not be attributed to an individual organisation but plausible linkages can be established between the common work of several agencies and an observed development result.

<sup>64</sup> However, when external shocks are extreme, the counterfactual approach may reveal limited differences between beneficiaries and non-beneficiaries. For example, when the rivers dry out, irrigation beneficiaries are no better-off than their neighbours.

of the IFAD projects; (ii) using national data as reference points<sup>65</sup> (iii) data collected through focus group discussions undertaken in the field and interactions with key informants.

133. Impact is assessed for interventions that have been implemented for a minimum of three years, due to the typical “incubation” period before socio-economic changes can be observed. The exception is agricultural research because it is practically impossible to assess the livelihoods impact of ARTP at this stage since a long-term process is involved in the dissemination and achievement of the benefits of agricultural research. The new ARCs, the construction for which has been financed by IFAD, were only recently completed. Though activities are increasing, the centres are operating below their full capacity level. The papers on the research projects financed by the ARF have not yet been published (December 2007). And the experience of the 159 FRGs is not yet fully documented. Impact and adoption data on the National Agricultural Research System (NARS) are mixed. Findings from IFPRI (2007) are that farmers’ use of improved seed was only 3-5% in 2005. Estimates of the Central Statistical Authority indicated that areas planted with improved seed are just 4% of the total wheat area, 16% of the maize area, and 1% for pulses and sorghum.<sup>66</sup>

134. **Impact on household income and assets.** In terms of numbers of households having experienced improvements in their income and assets, the most significant contribution comes from the support to rural finance, followed by the support for pastoral communities and irrigation.

135. Rural financial services and the MFI industry are making a significant contribution to poverty reduction in Ethiopia, by reaching the poor, however not always the destitute (at least not directly). Impact studies consistently find widespread and significant improvements in household income, consumption, and asset building among the vast majority of MFI clients who are mainly “economically active poor”. Several studies are available. A short selection is presented in Table 7 and a more comprehensive synoptic table in Appendix 4. The mission field visits suggest that most MFIs have a targeting strategy where they use local opinion leaders to identify which households are well-to-do (relatively wealthy), poor (but economically active and able to borrow and repay) and destitute (requiring welfare support). The wealthy and the destitute then tend to be excluded. However, in small local communities there are often strong linkages between households of different categories and trickle-down effects may occur; for example, the successful MFI client may create jobs for the “destitute” or be in a better position to help a destitute family member.

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<sup>65</sup> For example data such as data from the Household Income, Consumption and Expenditure Surveys, as well as anecdotal evidence from focus group discussions. However, the problem with national data.

<sup>66</sup> A series of research results on the field trialling and upscaling of improved agricultural technologies has been recorded by EIAR (2006). This review presents research findings dealing with the on-farm trials, popularisation and scaling up of thirteen improved crop and livestock technologies in the period since 2000. In most cases, the evidence on diffusion of improved technologies beyond the immediate trial farmers is limited. The research papers document the experience and trial results pertaining to those farmers who were involved directly in the trials, and who therefore received inputs, training and technical assistance. Information on diffusion beyond the immediate group of farmers being supported by research is either not recorded, or diffusion is limited. From these thirteen studies, only the cases of finger millet (more than 10,000 adopters), bread wheat (adoption on up to 2,000ha), lentil (2,400 adopters in one woreda) and potatoes (adopting households increased to 15% of woreda population) show improved technologies adopted by significant numbers of farmers (i.e. more than 1,000).

**Table 7. Summary of Findings on Rural Finance Impact Studies**

Source	Region	Household (HH) Income and Assets	Food Security	Social Capital	Other Notes
Tsehay and Mengistu (2002)	National	84% of women rural borrowers able to contribute substantially to HH income		46% of rural women borrowers controlled income from business	All women interviewed experienced greater self-esteem and satisfaction
Borchgrevink et al (2003)	Tigray	Significantly positive. 69% of female clients (generally poorer than males) and 54% of men reported improved living conditions	More food secure and less vulnerable to shocks	Women's overall social and cultural position improved	Women comprised 39% of DECSI clients
Assefa et al (2005)	National	85% of respondents increased their income from non-farm activities, and 35% experienced "remarkable increase"			80% of respondents said that compulsory savings are important to repay loans
MDTCS (2007)	National	76% of existing, 58% of new borrowers experienced increased income	82% of new and 61% of existing clients gave priority to food purchase	Women clients gained new respect and self esteem, and stronger involvement in community affairs	70% of PEACE's clients are female. 97% of ex-clients benefited from their MFI experience

136. As is common in microfinance, the available information suggests that though some changes start occurring from the very first loan, it is not until after the fifth loan (usually by the fifth year) that significant improvements in income and livelihoods can be noticed. Several studies concur that by the 7<sup>th</sup> or 8<sup>th</sup> loan, clients move permanently out of poverty. A study undertaken by the microfinance Amhara Credit and Saving Institution (ACSI) used a statistical model that estimated the average annual increase in income among clients with access to finance was ETB 413 in 2004/05. If this was generalized to the whole microfinance sector in Ethiopia, this would mean that the impact of microfinance in the country during that year was an annual increase in income of clients of ETB 0.5 billion<sup>67</sup>. When this is compared to the amount of loans in the hands of clients during the year, this suggests that every Birr borrowed by clients during a year leads to an increase of Birr 0.34 in their household income during the year – roughly, an annual yield of 34%. The impact is however not even among clients; some benefit more than others and some may even experience negative impacts.

137. While there are many factors that influence the direction and magnitude of change (including size of loan, type of enterprise, education/experience levels, gender, macroeconomic factors etc), a major determining factor is the extent to which clients apply the loan for the intended use and have good management practices. Recognising this, most MFIs have integrated basic business management training and advisory services in their financial service packages to clients. All the MFIs see the unavailability of Business Development Services (BDS) in rural areas, accessible to their clients, as one of the major challenges. For microfinance services to make any positive sustained impact, access of the poor to BDS needs to be developed in tandem with rural/micro financial services. However, international best practice does not recommend that the MFIs undertake major investments in developing BDS in-house.

138. There is evidence of deeper poverty reach in pastoral community activities. Through an income-generating scheme, interventions have directly contributed to improving income and assets of some 10,000 of the poorest community members of whom 78% are women, including female heads of household. According to the evidence gathered through focus group discussions, it appears that activities are simple and affordable for very poor households, for example petty trading, breeding of poultry, fattening of goats and sometimes oxen. These poverty results can also be attributed to an effective participatory rural appraisal conducted in preparing intervention plans. It may also be due to the open and egalitarian culture of the specific pastoral communities where interventions have taken place, for example in Oromia Region, where most of the active income generation groups are

<sup>67</sup> Number of active clients during 2004/05 was 1 211 305 with ETB 1.48 billion in outstanding loan portfolio.

concentrated. The observations of the evaluation mission in southern Oromia Region were that the phenomenon of “elite capture” had generally been avoided, and that very real benefits were being obtained, even by the very poor with very limited assets. In addition, many more households may have obtained indirect income effects from the community micro-projects, in particular the water supply schemes.

139. Some 31,000 households in densely populated drought-prone areas have been reached through the support for small-scale irrigation and many of these households are gradually experiencing an improvement in incomes. The IE and PCR of SCP II document increases in crop yields in the range of 25% to 40% over the traditional yields, and where the schemes were built around springs, the increases were between 75% and 100% over pre-project conditions. Due to irrigation, there has also been a significant shift in cropping patterns. The IE found that physical and financial assets of target irrigation farmers had started to improve but that it would take six or more years before irrigation farmers could experience the full benefits which would be around 2010-12 for most of the schemes. According to the same evaluation, the impact on women and their income through the promotion of women’s vegetable gardens has been small in numerical terms but significant in terms of poverty depth.

140. In most cases, projects have intervened separately, for example irrigation schemes or pastoral community interventions have not benefited from rural finance. Credit is important for ensuring the provision of inputs both for agricultural and non-agricultural activities. By the same token, all income-generating activities benefit from improved market linkages. The challenge is how to ensure better synergy between projects and sub-sectoral interventions.

141. **Food security.** The most direct and significant contribution to improving food security of food insecure households has been obtained from the support for small-scale irrigation. However, the support for rural finance and pastoral community development has also made important direct and indirect contributions. The OE IE of SCP II found that food security, in the sense of increased and more reliable yields and increased income, was improving. The range of dietary intake was also widening due to crop diversification. The cash generated from selling vegetables and other produce was commonly used to buy food to cover the household food demand during the food deficit months. Anecdotal data collected by the interim evaluation of SCP II showed that some farmers were experiencing a reduction in hungry months from about 6 to 2 (July and August).

142. For rural finance, the various impact studies show that the first area of impact for new clients is in terms of consumption smoothening, enabling households to meet their food requirements throughout the year. In Ethiopia, over 75% of the MFI loans are used in farming related activities. Generally for most rural clients, the first couple of loans are for purchase of oxen, usually for use in ploughing but also for sale when the oxen are fattened. Improved agricultural production and productivity is thus one of the major impacts of the rural finance sector. Multiple-access to loans has led to diversification of the income base, and this, combined with increasing savings deposits, has improved the capacity to cope with drought and other external shocks.

## **Box 2. Getting Out of Poverty through Incremental Steps The Microfinance Story of Ashagre Kasa**

In the village of Wara near Yirgalem town in Sidama Zone, SNNPR, Ashagre Kasa, aged 40, has become a symbol of what microfinance can do in poor peoples' lives. In early 2000, Ashagre and four of his friends from the village heard about services offered by Sidama Microfinance Institution and formed a group to access services from the MFI's branch located in Yirgalem town. In those days, Ashagre depended on his ½ hectare land planted with enset and other food crops for his subsistence. His farm had also about 300 coffee plants of the traditionally cultivated coffee (overgrown) which also provided him with some cash income during harvest time. These sources were however far from enough for his family's needs and he therefore had also started a petty trade business at the local market to supplement his income. From all his sources, he estimates he was making an average of Birr 1,000 per year. He was struggling to meet the basic needs of his family and this was the same for his friends.

After going through the intake process at Sidama MFI, Ashagre got his first loan of Birr 2,000. With this amount, he purchased more stock to expand his petty trade, opened a breakfast snack bar and used Birr 1,000 to lease a piece of land (½ ha) with river frontage to start a commercial irrigated vegetable farming. He also used Birr 250 to purchase 1,000 seedlings of the improved coffee variety which he planted in his ½ ha farm. With proceeds from the two small off-farm businesses and the first crop from the vegetable farm, he managed to repay the loan within six months and go for a second loan, this time of Birr 3,000. With this second loan, Ashagre put up a semi-permanent rental house at the local shopping centre and expanded his other commercial enterprises. Ashagre is now in his 6<sup>th</sup> loan of Birr 5,000. He has used the same strategy each time – expanding the commercial activities he is already involved in and exploiting on-and off-farm business opportunities to diversify his sources of income.

Today, Ashagre has eight sources of income – three in farming and five in off-farm small businesses. He has built a better residential house for his family and furnished it with basic household assets and also a TV and DVD. Most important, he no longer struggles with feeding his family and is able to give his children quality education which he treasures most. He plans to purchase a pick-up truck to use in his agricultural trade business and has been saving towards this. Overall, Ashagre modestly estimates that he now makes at least Birr 18,000 (US\$2,000) annually.

143. In the support for pastoral community development the largest share of community micro projects has been for water supply which enables communities to better deal with the recurrent periods of drought. The support for cooperative development made a mixed contribution, far below par, to improving food security.

144. Unfortunately, no baseline surveys have been conducted for the nutrition status of children, one of the best indicators of overall food security according to the World Health Organisation (WHO). The lack of baseline surveys which were advocated for in the COSOP is a generalised problem in the IFAD portfolio and is particularly serious for food security, because Ethiopia still suffers from high prevalence of child malnutrition (51% according to WHO and 48% according to PASDEP) in spite of a reduction over the decade 1995-2005.

145. **Access to markets.** Improving the access to markets has not been among the key objectives for several of the interventions, with the notable exceptions of AMIP and SOCODEP, and therefore, not surprisingly, the contribution of the programme to this domain has been modest compared to the contributions to other domains. While there might be individual cases of improved market access, there is no sign of generalised improvements. Some rural finance clients who have bought oxen or other transport animals have improved their access to markets. Similar effects may be seen for some beneficiaries of the income-generating scheme supported in pastoral communities. The support for cooperative development included construction and rehabilitation of roads which did improve market access for some households, though fewer than targeted. Limited achievements were made in promoting viable service cooperatives that provide efficient access for their members to markets and services.



146. **Human capital.** The main contributions to development of human capital have come from the support to pastoral communities and the BSF-financed water supply, health and basic sanitation component attached to the cooperative project while the support for rural finance has made more indirect contributions. More than 10,000 staff and community members in pastoral areas have been trained and households are starting to benefit from health posts and the new schools (although no data is available on the quality of teaching and learning progress). The health outcomes of the BSF component were according to a BSF-financed impact study and the OE Project Completion Evaluation positive and substantial. In rural finance, the impact is more indirect. Some impact studies report on clients who have improved their income and therefore now are in a position to send their children to school. However, progress in the support for developing the skills of MFI staff and RUSACCO members has been modest due to the lengthy procurement procedures of the co-financing partner, AfDB.



**A health agent advising the patient's parents at the Health Station of Bugie, near Damot Galle.**

*IFAD photo by Franco Mattioli*

147. In irrigation, the Interim Evaluation found that impact on human assets, in the form of skills and knowledge, had been limited by the generally poor quality of extension work, unimaginative use of trials and demonstrations, and limited institutional support provided by the project. While a large training programme was delivered in the support for cooperatives, any lasting impact on the institutions involved was undermined by the capacity building component's ad hoc nature and by frequent government restructuring and re-deployment of personnel. Furthermore, the capacity-building efforts largely ignored issues of attitude change towards the cooperative model.

148. **Social capital.** The most significant contribution to this domain has come from the support to pastoral community development. Communities have been empowered through effective use of Participatory Rural Appraisal (PRA) and the decentralisation process has been strengthened through the formation of the Woreda Development Committees and CDCs. These comprise government, private sector and NGO members, and can serve as a model for woreda and community planning throughout the country. Important impacts are also observed in rural finance, where credit groups, local networks and RUSACCOs are contributing to developing the social capital at grassroots level. While the support for cooperatives was expected to make a major contribution to social capital domain, at project completion most of the cooperatives were weak, both financially and with respect to management capacity and business skills.

149. In irrigation, the impact on social capital, through the establishment, strengthening and empowerment of local organisations for water management, has been more limited, with cases of three organisations co-existing in the same scheme: the traditional water user group, the “modern” Water User Association (WUA) and the “irrigation cooperative”. Traditional water user groups had not been exploited effectively in the move to ‘modern’ organisational forms (WUAs and cooperatives). The Cooperative Promotion Departments, mandated to strengthen WUAs, were focused on the promotion of “irrigation cooperatives”, which was unattractive to some (perhaps many) farmers because of associations with the former Government (the Derg).<sup>68</sup>

<sup>68</sup> This aspect is considered in the design of the new PASIDP.



150. **Institutional impact.** The support for pastoral areas has effectively contributed to new approaches and systems for planning and implementing public investments at community level. The woreda and community development committees are functioning and contributing to a sense of local ownership. The support for rural finance has made a significant contribution towards building an inclusive financial system that can sustainably address the financial needs of the poor. Mechanisms for linking the MFI sector and the banking industry have been introduced and a diversification process has been initiated in terms products offered and the range of institutions servicing the poor, including RUSACCOs. Finally, the capacity of the regulatory framework both for MFIs and RUSACCOS has been strengthened, in particular by helping the NBE upgrade the Microfinance Supervision Division to a full department in 2004 soon after commencement of the RUFIP.<sup>69</sup> Also some steps have been taken in reinforcing the self-regulatory mechanisms in the microfinance industry by supporting the AEMFIs. These processes are already having positive impacts but it must be recognised that they are at an initial stage and a lot needs to be done in the coming years.

151. The overall Ethiopian Agricultural Research System has been significantly strengthened through the support of ARTP for human resource development and facilities. IFAD's part of the support has contributed to introducing competitive research grants and establishing the basis for improving linkages to the extension system. Any positive institutional impact of IFAD's support for six agricultural research centres in remote drought-prone areas will depend on how the current problems of these centres (incomplete construction, lack of potable water and inadequate accommodation facilities) are solved. At project closure, major efforts are being made to solve the water problems.

152. In irrigation, the institutional impacts were limited by local government reorganisations. However, various lessons learnt, some of which were identified and highlighted in the Interim Evaluation, have had an impact on current policies and approaches and on the design of the follow-up project, PASIDP. First of all, GoE is now recognising the importance of the participation of beneficiaries in the design and implementation of small-scale irrigation schemes and that one needs to build on traditional user organisations. Secondly, it is recognised that the issues of water user rights upstream and downstream as well as proper management of the micro-watershed need to receive high priority. Thirdly, it has become generally accepted that more emphasis has to be given to crop husbandry and marketing issues, and not only the technical and engineering aspects of the schemes; the recent transfer of responsibility for small-scale irrigation from the Ministry of Water Resources to the Ministry of Agriculture and Rural Development is likely to facilitate this shift in the balance of priorities. Finally, the legal and regulatory framework for water user associations is currently in the process of being established.

153. The support for cooperatives did not succeed in delivering a model for efficient and viable cooperatives. Despite considerable support, the Southern Region Agricultural Bureau (SRAB) had at project completion insufficient capacity to carry out its mandate with respect to cooperative development.

154. **Rating of overall impact.** While individual project ratings are presented in Appendix 1-Table 2, the CPE rates impact satisfactory<sup>70</sup> in 75% of the examined projects.

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<sup>69</sup> NBE since increased the number of staff necessary to make the department well functioning – in total 22 Inspectors up from 5 in the department when it started in 2004. Half of the staff have received requisite training while the rest are largely newly recruited and therefore not yet trained. Overall however, as discussed under Section IVA(c) the department has only utilized 36% of the budget allocated to the bank for the period for development of a capacity sufficient for supervision and regulation of the MFI sector. Main pending areas relate to development of the external Audit Framework for MFIs as well as a manual for their supervision. Work on development of the supervision manual (which is long overdue) is estimated to be 70% complete due to poor performance of the contracted consultant. Work on the External Audit Manual has not began as a bid floated seeking expressions of interest did not attract any bids. In terms of actual supervision and regulation of MFIs, however, NBE can be said to have significantly improved the situation through its increased staffing capacity, even in absence of the important manuals.

<sup>70</sup> This corresponds to a rating of moderately satisfactory (4) or higher.

## D. Sustainability

155. The assessment of sustainability attempts to predict what may happen after project closure, considering in particular: (i) the likelihood that services supported during the project (e.g. provision of rural finance, operating and maintenance of infrastructure) will be continued; (ii) the likelihood that financed capital structures will be maintained or replaced to continue providing a service, e.g. roads, irrigation schemes etc. (iii) the sustainability of beneficiary organisations, and the likelihood that they will continue to perform their role; and (iv) the sustainability (viability) of supported commercial ventures and the likelihood of their survival.

156. The sustainability prospects are assessed as moderately unsatisfactory in cooperative development; moderately satisfactory for irrigation and research, while satisfactory for rural finance and pastoral community development. The sustainability of post-COSOP operations in rural finance and pastoral community development is assessed as satisfactory. This is a remarkable result particularly for IFAD and low-income countries.<sup>71</sup> Key explanatory factors include: (i) GoE's high priority for agriculture and rural development in policy and budget allocation; (ii) the high degree of connectedness between IFAD interventions and the country development strategies; and (iii) the fact that IFAD project management units are well embedded within the decentralised government structure (SCP II, PCDP) or in permanent national organisations (RUFIP, ARTP), rather than in ephemeral ad hoc project agencies and (iv) for rural finance, the high quality of the loan portfolio and operational sustainability of MFIs, which may be explained by pro-activeness of MFI managers and staff against loan delinquency and also by the work of credit and savings committees at the kebele level assisting with loan repayment enforcement.

157. GoE's high prioritisation of agriculture in policy and budget allocation improves the likelihood that activities within the public domain, e.g. agricultural research, will be sustained. However, a general risk for many government agencies is that they may find it difficult to attract and retain highly qualified manpower due to competition from the growing private sector that provides better salaries and operational facilities. This risk is somehow mitigated by GoE's enormous investments in the education sector which is producing rapidly increasing numbers of graduates and skilled personnel. In spite of this, the public sector is likely to face high staff turnover, taking in young graduates who then leave for the private sector once they have the necessary experience and qualifications. For project design, this implies that human resource development is not a one-off exercise in the initial phase of the project but a continuous process for which budget has to be allocated.

158. **Embedding project management in central and decentralised government agencies.** Project management is generally well embedded in permanent agencies rather than ad hoc structures. This is the case of rural finance with the DBE, and agricultural research with EIAR. In irrigation and pastoral community development, while there is a coordinating unit at the federal level, the regional and woreda bodies are responsible for actual planning and implementation. In particular, for pastoral community development, the project works through the woreda planning and implementation managed by the Woreda Development Committees, while at the community level working with CDCs. This has built the confidence of community members to plan and manage community micro projects after project completion and represents a significant progress vis à vis the situation assessed by the OE Thematic Evaluation on Decentralisation in 2004-2005. However, capacity development support is a continuous requirement and should not be considered as a one-time exercise.

159. **Impressive progress on portfolio quality in rural finance.** Overall, the rural finance sector in Ethiopia is operating on a sustainable path with improvements over the last four years in indicators for portfolio quality, efficiency and operational sustainability (please refer to Appendix 5). Repayment

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<sup>71</sup> A recent consolidated analysis of IFAD evaluations [(Annual Report on Results and Impact of IFAD Operations (ARRI 2007))] shows that weak sustainability is a problem shared by many IFAD projects and that sustainability scenarios are more favourable in middle-income rather than low-income countries.

rates are at 96% and Portfolio at Risk (PAR<sup>72</sup>) has declined from 6% to 2.6% between June 2003 and June 2006. Only about 15% of MFIs in Ethiopia are not operationally sustainable – most of them relatively new. The CPE field interviews suggests that professionalism of MFI staff, proactive behaviour of MFI manager at early sign of default and, for MFI affiliated with regional governments, the (free) support of credit and savings committees at kebele level assisting with screening of clients and enforcement of loan recovery.

**160. Inflation may threat long-term sustainability.** In spite of excellent portfolio quality and good operational efficiencies, the return on assets and the return on equity of the MFI sector are both negative (although improving). Unlike in other African countries, negative returns are in Ethiopia not caused by high cost structures. The problem is a combination of low yield of assets<sup>73</sup> (generally due to low interest rates on loans) on the one hand and high inflation rates on the other. Indeed, due to accelerating inflation over the last two years, it is expected that the viability position of MFIs is now worse than it was in 2005. With increasing negative real interest rates, the real value of the MFIs' loan capital is gradually eroded. Unless interest rates are raised, all the gains made so far in building a sustainable financial system capable of serving Ethiopia's poor will be lost. However, higher interest rates may have its trade-off on poverty reduction, particularly given the generally low rates of return in agricultural enterprises. The issue of the prevailing double digit inflation rate is a crucial macroeconomic issue that needs to be urgently addressed in the relevant framework.

**161. Low sustainability prospects for cooperative-based credit models.** While the supported cooperatives may continue to exist, many are likely to be operating poorly, on the verge of bankruptcy. Most of the supported credit schemes had low rates of repayment and are therefore unlikely to continue.

**162. Prolonged support from public agencies is required.** While WUAs are charging membership fees, the level of fees and revenue is generally far from sufficient to cover maintenance work, especially on the main civil works. The latter therefore assumes that sufficient budget will be provided by regional governments, perhaps earmarked for emergency situations such as floods that from time to time destroy the main civil structures. This issue needs attention as highlighted by the fact that IFAD under SCP II had to allocate resources for rehabilitation of 15 SCP I schemes with a total command area of 1,824 hectares.

163. Concerning agricultural research, GoE will need to consider special incentive packages in order to ensure that all six ARCs will be able to fully utilise the capacity for which they were designed. Sustainability is more likely for the systems and activities financed by the other IFAD-components. GoE has decided to institutionalize REACs (including FRGs) and provide funding under the national budget. Furthermore, the World Bank financed project, Rural Capacity Building Project (RCBP), supports the REACs and a continuation of the ARF. In an effort to improve research-extension linkages, Japan International Cooperation Association (JICA) is currently implementing a project, 'FRG Innovative Farming' in SNNPR and most likely, the JICA project will be expanded to other regions.

**164. Overall sustainability rating.** Sustainability is rated as satisfactory<sup>74</sup> in 80% of the examined projects.

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<sup>72</sup> This is the ratio of the amount of outstanding loans past the due repayment date by more than 30 days to total outstanding amount of loans by a certain date.

<sup>73</sup> The average yield of assets in among Ethiopian MFIs was 9% in 2005 compared to 29% average for Africa.

<sup>74</sup> This corresponds to a rating of moderately satisfactory (4) or higher.

## E. Innovation, Replication and Scaling Up

### Loan-Related Activities

165. Several of the IFAD-financed activities and systems are new and innovative in the Ethiopian context, though not always internationally. Furthermore, several of the innovations introduced are continued, replicated and up-scaled after project closure.

166. **Institutional innovations.** Within agricultural research, three innovations have been introduced. With IFAD support, GoE has established the ARF which is providing competitive grants for researchers, also from the private sector. Secondly, the formalisation of coordination between research and extension through the REACs is also a new feature in Ethiopia. GoE has decided to continue the ARF and the REACs, inter alia with funds and proceeds from the International Development Association (IDA) loan obtained from the World Bank for the Rural Capacity Building Project. Third, the introduction of the FRGs represents a new way of doing participatory research together with the farmers. The FRGs will be continued and up-scaled with government and donor funds, amongst others support from Japan.

167. The support for pastoral communities has included some highly innovative features that have potential for up-scaling, not only in pastoral areas but nationally. The Community Driven Development approach has proven its worth, and the new Woreda and CDCs, with participation of government, civil society and the private sector, are working and contributing to local ownership/accountability in public investments and activities. In terms of replication / upscaling, the World Bank is preparing a further funding phase of PCDP which IFAD may decide to join.

168. **Technology innovations.** Small-scale irrigation has been practiced since time immemorial in Ethiopia. However, the combination of the specific irrigation and soil conservation technologies adopted in the IFAD project areas are fairly innovative. Replication in the same form will remain dependent on donor funds for the foreseeable future. Some non-target farmers have been observed to imitate the technology which they see, but mostly using local materials in what amount to contemporary ‘traditional’ schemes”. PASIDP was approved in 2007 to provide funds for up-scaling, with strong emphasis on participatory approaches. Funds from other development partners, e.g. Canada, are also being made available.

169. From a global perspective, the Ethiopian rural finance sector is innovative and a regional leader with respect to providing services to the agricultural sector and still maintaining high portfolio quality, and with respect to the geographical penetration into remote rural areas.<sup>75</sup> Innovative elements of IFAD’s support are addressing these weaknesses, for example: (i) the promotion of linkages between the MFIs and the banks; (ii) the introduction of money transfers and micro-insurance as new services in the sector; and (iii) the diversification of the range of providers through promotion of RUSACCOs as a major player in the rural finance sector. However, there are unexploited opportunities for replication and up-scaling. MFIs are the only financial institutions with a network reaching down to kebeles in the four main regions: in recognition of this, the government and other institutions now use MFIs for money transfer. This system has however not been fully developed and replicated, due to poor information systems (almost all MFIs are operating on manual systems). Until the sector improves on information systems to allow for real-time networking, this will continue to be a lost opportunity also from a point of view of providing a much needed service to the rural poor.

170. Contribution to innovation is assessed by this CPE as satisfactory<sup>76</sup> in 80% of the examined projects.

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<sup>75</sup> Some 90% of clients are operating outside the major urban centres and over 75% of the loans are given for agriculture or agriculture-related activities.

<sup>76</sup> This corresponds to a rating of moderately satisfactory (4) or higher.

## **Grant-Related Activities**

171. In addition to the loans, IFAD has approved a number of grants with specific activities in Ethiopia, although most of these grants have a regional scope. Grants are given to research institutions, including those that belong to the CGIAR, networks and NGOs. The present CPE has sampled the existing grants with activities in Ethiopia by thematic area and has reviewed five regional/global grants (2 in crops development, 2 in livestock development and 1 in rural finance) provided to International Centre for Wheat and Maize Research (CIMMYT), International Potato Research Centre (CIP), International Livestock Research Institute (ILRI) and African Rural and Agricultural Credit Association (AFRACA) and, in addition, two small country grants for rural finance linked to RUFIP (Appendix 8).

172. All the grants have supported activities that are potentially interesting for IFAD's country programme in Ethiopia. In particular, these grants have permitted to test new crop varieties or improved animal husbandry practices, and train farmers as well as to prepare studies and share information (AFRACA). There are two paradigms which have yielded different results. On one hand, the five regional and global grants have been carried out as autonomous initiatives, independent of IFAD loans and without any direct linkage to the loan-financed activities. Given their limited financial allocations, these grants have funded localised research and trial packages without having a clear strategy and resources for upscaling and diffusion. In Ethiopia, the organisations in charge of the grants (international research facilities and NGOs) are not the same as those in charge of managing loan activities (government agencies). Furthermore, while IFAD loans are managed by regional divisions, grants are often managed by PT which may be one explanation why activities financed by loans and grants are often not interconnected.

173. On the other hand, the two small country grants have been earmarked to a specific loan (RUFIP) and have been devoted to facilitate the start-up of the programme and to conduct preliminary studies and data collection that could be capitalised upon in the project design and implementation. This second model is better adapted to flexibly support a larger loan project, particularly in conducting preparatory work or addressing specific issues.

174. In sum, while the traditional system of regional grants to international research facilities finances activities, that are potentially innovative, there is a clear risk that programmes of grants and loans run in parallel without exploiting the potential for synergies and replication/up-scaling. While the "ingredients" to foster innovations exist, there is neither structure nor system to ensure that the development of successful innovative technologies or approaches will result in adoption by a significant number of rural poor. On the other hand, the more customised and focused small grants may help to solve specific IFAD project issues that require innovations in technologies or approaches.

## **In Synthesis**

175. Rural finance interventions record the most significant outreach and magnitude of impact. Lack of business development services is singled out as a key constraint to microfinance impact. One challenge is how to ensure synergies between the projects' sub-sectoral interventions.

176. Pastoral development intervention had the most remarkable impact in terms of poverty depth: the very simple income generating activities promoted were affordable by very poor people including women.

177. In spite of the fact that the national agricultural research system has been strengthened, there is yet no robust data that indicates any substantial impacts on household welfare. However, such impacts may be achieved and observed in the future.

178. Impact appears as more significant in post-COSOP projects than in pre-COSOP ones, in spite of the shorter implementation life span of the former.

179. The sustainability profile is better than in several other IFAD intervention countries. In particular agriculture and rural development are a high priority for GoE in budget allocation and IFAD project management units are well embedded within the (decentralised) government structure.

180. The portfolio of loans is fairly innovative, particularly for pastoral community development and rural finance. Replications have been already observed or will start soon. Small grants with clear linkages to loans are a more effective innovation tool than large regional grants run as a “parallel” activity.

## **F. Performance of Non-Project Activities**

181. At the COSOP stage no separate allocation was made for activities such as “partnership”, “policy dialogue” and “knowledge management” and the related resources were scanty until 2005 when a field office was established. As a consequence, the volume of non-project activities has been limited. While adhering to the OE terminology of “non-project activities”, the present CPE notes that it is largely a misnomer in Ethiopia at least, because partnership, policy dialogue and knowledge management mostly take place within the context of IFAD loans or grants, sometimes as project components (RUFIP, PCDP).

### **Partnerships**

182. Partnership development has mainly taken place in the context of loan-financed projects. In terms of partnership with the GoE, IFAD has kept tight contacts with the MoFED, the MoARD, the Ministry of Water Resources, as well as with national institutions such as the DBE and the EIAR. IFAD is appreciated by GoE as a relatively flexible partner, supporting innovative institutions that serves geographical areas or sub-sectoral niches which are often not catered for by other donors.

183. IFAD has also cooperated with other donors active in the rural sector in Ethiopia such as the World Bank, the AfDB and other agencies (BSF, Irish Aid). In addition to increasing the financing volume, the partnership with the World Bank has raised the profile of the policy dialogue activities of IFAD projects, although the performance of World Bank as a cooperating institution has varied significantly. In the latest projects (AMIP and PASIDP) there have been no international cofinanciers and this is largely explained by shifting priorities of other agencies out of agriculture as well as their increasing use of general budget support, an aid modality which can not be used by IFAD due to IFAD’s specific mandate.

184. Outside this context, IFAD has had cooperation with some research institutions, such as IFPRI which has a large unit in Ethiopia and is doing work relevant to IFAD, and the membership organisation AFRACA for rural finance organisations in Africa. New opportunities for partnerships are being explored in the context of the Technical Working Group on Agriculture where joint initiatives, e.g. on support for sustainable land use management, are being identified. Recently, IFAD and the Global Environmental Facility have joined to formulate a project for protecting and rehabilitating the watershed around Lake Tana, the source of the Blue Nile.

185. Non government and civil society organisations [NGOs and Civil Society Organisations (CSOs)] play a less important role in the development cooperation in Ethiopia as compared to some other African countries. However, the capacity of NGOs and CSOs is improving and as suggested by the experience gained in the support for pastoral communities: NGOs and CSOs can play an important role in the support for communities and grassroots organisations. Also the capacity of private sector service providers is expanding from a low base. IFAD’s decision to directly supervise implementation may require that partnerships are developed with private Ethiopian service providers, such as consultancy and audit firms. Though the current capacity may be relatively limited, usually the private sector tends to respond to increased demand for services.

## Policy Dialogue

186. IFAD has not had the resources or position to engage in any substantial way in stand-alone dialogue on general policy issues such as land tenure reform, and perhaps this form of dialogue is less effective in the Ethiopian context. Demonstrating the merit and value of reform through projects appears more effective. Furthermore, well planned and targeted study tours may have a significant impact. A study tour organised by UNDP to the commodity exchange in Mumbai as well as an IFAD-organised study tour to South Asia on microfinance have clearly contributed to inspiring and influencing the decision makers.

187. The 1999 COSOP prioritised three areas for policy dialogue. Some progress has been achieved but this cannot be attributed to the role of IFAD alone. Many efforts and circumstances have been involved in making progress in the three areas:

- re-orient the role of the RAB, withdrawing RAB's engagement in management of input and credit distribution, while concentrating on advice and promotion; this has largely been achieved though RABs continue to play a coordinating and facilitating role;
- reduce the role of GoE in economic production activities that are better done by the private sector; this has happened in particular in agricultural produce markets, but public entities remain in a dominant position within seed production and supply as well as within fertilizer trade and supply; and
- promote reforms of land tenure systems and management of riparian rights, using the support for small-scale irrigation as the platform; a major effort to issue land use certificates is in process but land can still not be traded or used as collateral; the legal framework for Water User Associations is in the process of being adopted by Parliament.

188. Though PASDEP has provided a common framework for direct budget support, in the past there has been limited donor coordination and lack of a joint GoE-Development Partner framework for exchange of experiences and policy dialogue. Recently (2006) such a joint framework has been established, including a Technical Working Group on Agriculture as well as a High Level Forum. The IFAD Field Support Manager participates in the meetings. However, work and consensus building are at an early stage. Therefore, it seems unlikely that a comprehensive agricultural sector or sub-sector strategy/SWAp and a related basket fund, supported by all major development partners in agriculture, will materialise in the foreseeable future.

189. Thus, IFAD's engagement in policy dialogue has largely been project-based, and mainly during the design of new projects, where important institutional and systemic changes have been introduced. In the case of PCDP and RUFIP the loan budgets made allocations for policy work during implementation, but activities have not progressed and achieved the results as expected.

190. The design of RUFIP provided for establishment of a rural finance Policy Advisory Committee (PAC) chaired by the Deputy Governor of the Central Bank to address matters of policy and regulation of the rural finance sector. The programme also provided for policy dialogue seminars and workshops to discuss and build consensus on pertinent issues related to the development of the sector. However, no policy related workshops or seminars have been held and the PAC has not been meeting regularly though it must be noted that a number of policy regulatory changes on the microfinance sector (such as a recent adjustment of conditions for maximum loans by MFIs) have been addressed through consultations in the PAC. Nevertheless in this an area there is room for improvement and a more transparent and inclusive approach to policy dialogue. For example, in the ongoing review of the law (Proclamation 40/96) and policy framework for microfinance development, which is said to be near completion, most players including RUFIP and most MFIs have not yet been consulted or seen the draft for comments.

191. PCDP has supported the development of a knowledge sharing network, the Ethiopian Pastoralists and Agro-pastoralists Development and Good Governance Network (EPADGONE), which has conducted a number of meetings where invited institutions present their experiences. With more actors and improved strength at regional, woreda and community level, EPADGONE could become a

framework where people in pastoral areas can present their views for discussion in order to influence national and local policies. The Review of Development Policies and Strategies Related to Pastoral Areas in Ethiopia also constitutes one starting point for future policy dialogue but follow up is needed.

192. It is too early to assess the progress made by IFAD in terms of donor harmonisation as envisaged by the Paris Declaration of 2005. It should be recognised that there has been, for years, a shift of donors (mainly but not only bilateral ones) away from agriculture, as previously noted. Some revival of interest for agriculture can now be observed and initial discussions on joint (e.g. semi-commercial smallholder sector, horticulture, and sustainable land use management) are taking place within the High Level Forum and the Technical Working Group on Agriculture. IFAD's field office has been participating in several meetings: the major constraint at the moment pertains to the limited staffing level of the country office.

### **Knowledge Management**

193. Though the COSOP gave high priority to knowledge management and baseline surveys, the achievements have been modest. Generally, the Project Appraisal Documents made limited provision for systematic baseline and subsequent annual beneficiary surveys. The skill and budget implications of baseline surveys, Management Information System (MIS) and M&E have been underestimated at all stages. None of the projects in the IFAD programme have been able to fulfil their baseline requirements.

194. In ARTP, pre-investment viability studies were carried out for the six new research centres but did not include an assessment of the availability of water. The national agricultural research system has a good record on publishing papers derived from its research projects but research papers take considerable time to go through the standard scientific peer review arrangements. MIS sections have been established, with IFAD funding, at the EIAR and the regional research centres, but they are not all fully operational. Researchers have been trained on MIS as well as research proposal writing. Data banks have been established but they are unable to provide information when requested. The information network is not yet established. In order to facilitate the sharing of information, EIAR and the Regional Agricultural Research Institute (RARI) of Amhara region have created websites, but no newsletters have been published by the RARIs to share information with farmers and other stakeholders.

195. In RUFIP, the 100 baseline surveys planned by PY4 have not yet been implemented though plans are in hand (by AEMFI) to organise them as one impact study. AEMFI generally has quite a good record in collection, coordination and dissemination of knowledge. AEMFI has played an important role in knowledge management in the Ethiopian rural finance sector and continues to do so. However, an assessment of the timeliness and quality of information available suggests that there is need for further capacity development of this repository of knowledge in the rural finance sector.

196. PCDP has carried out woreda level baseline surveys for all 30 woredas, but these were carried out 2-3 years after project start-up. In practice, they are of rather limited use for monitoring and evaluating project outcomes since they were not designed against project activities. The support for EPADGONE has contributed to developing a forum for exchange of experiences. The start is encouraging but the effort needs to be continued, which probably will require the establishment of a network secretariat, supported by PCDP.

197. Weaknesses in baselines continue into the overall M&E and MIS systems, the establishment of which has tended to be late and weak. Project reporting systems generally experience major deficiencies in timeliness of reporting (with lags of more than six months for both PCDP and RUFIP), and comprehensiveness and quality of information. Given these imperfections, dissemination and sharing of information is very limited. The causes relate to project management prioritising implementation issues over M&E and MIS, the lack of appropriate skills and capacities in both the government (where retention of skills is a particular problem) and the private sector, shortfalls in project budget, and procurement procedures. Also, extremely low per diems for government officers have de-motivated monitoring officers to visit the field activities.





**A dam on the Nego river which forms part of the irrigation system built by an IFAD project (Rehabilitation Programme for Drought Affected Areas). Note the gabions, stones lining the river bank and being kept together by a metallic net. This irrigation scheme will benefit farmers of cooperatives in the area.**

*IFAD photo by Alberto Conti*

198. In 2007, an IFAD Country Programme Forum was introduced to promote knowledge exchange, cooperation and synergies between all IFAD-supported projects and programmes.<sup>77</sup> Before then, there were limited knowledge exchange, cooperation and synergies between projects in the country programme though potentially benefits could have been obtained, for example by promoting linkages between rural finance (RUSACCOs) and irrigation, and by introducing farmer research groups in irrigation schemes. Recently, IFAD and GoE have agreed that FRGs will be introduced in all PASIDP irrigation schemes.

199. Based on the above analysis, partnerships are assessed as satisfactory (5), policy dialogue as moderately satisfactory (4) and knowledge management as moderately unsatisfactory (3) and an overall rating of moderately satisfactory (4) for “non-project” activities.

### **G. Performance of IFAD and Its Partners**

200. This section assesses the performance of the partners that are or were involved in the implementation of five projects supported by IFAD loans. Thus, it is the performance of project partners within the context of a specific project, and therefore the performance of one partner may differ from project to project. The section looks at partner performance in the design/formulation phase as well as in the implementation phase. In the case of “government”, many different government agencies may be involved in one project, each having different performance. Therefore, the rating is based on the overall performance of the different agencies. On average, IFAD’s and Government’s performance is satisfactory for the post-COSOP projects while less so for the pre-COSOP projects. The performance of UNOPS as cooperating institution has overall been satisfactory but when a project faced major problems, e.g. SOCODEP, one mission per year was far from sufficient. The World Bank’s performance as co-financier has generally been satisfactory but the Bank has a highly varied performance as cooperating institution for IFAD. For SOCODEP and SCP II, the PCRs (self-) assess the performance of IFAD and partners higher than the assessments of the independent OE evaluations.

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<sup>77</sup> According to PF, in addition to the Forum, it was agreed with the Government that at least two FRGs would be established at each command area in order to link the ARTP with the PASIDIP. Further linkages will be created between the latter programme and the ongoing RUFIP by establishing rural savings and credit cooperatives or groups among members of water user groups.

201. **IFAD.** During the major part of the period reviewed, IFAD has operated under the old business model whereby implementation support and supervision was delegated to the cooperation institution and IFAD's main operational engagement during implementation was to approve proposals on re-allocations between expenditure categories. In this role, government partners appreciated IFAD as being a flexible and responsive partner but some did also express the wish for IFAD to be more proactive and supportive in the implementation, which, however, has not been possible due to the limited operational budget for the CPM and for implementation support (chapter III, section C).

202. During the period, IFAD did become more involved in implementation issues, in particular from 2005 when the field presence office was established. Since then, the Field Support Manager has participated in supervision and implementation support missions and served as the daily contact for project partners that had issues to be resolved. The field presence experience had been running for only two years at the time of the evaluation. Nonetheless it is clear that this has facilitated the flow of information and the timely identification of implementation problems, as the Field Support Manager has participated in supervision mission. At the same time it has facilitated dialogue with the Government and other partners, as IFAD can have a representative attend meeting convened by Government and other donors on sectoral and development issues. It is planned that the field office will have a major role in direct supervision, starting with the recently approved PASIDP. This raises the issues of human resources available to the IFAD country office which are limited at present (only one professional staff member). In spite of the positive contributions, the mission also received complaints from ARTP that the field office had not visited the field activities and provided the necessary support.

203. In the old business model, IFAD's main value added, apart from loan funds, was provided during the project design and formulation phase. Where IFAD was the "project initiator" (together with GoE) or played a lead role in the design phase, IFAD's value added was more significant. This applies to small-scale irrigation, rural financial services and agricultural marketing. Furthermore in these areas, but in particular in rural finance, IFAD has built up in-house and external resources that can provide professional and technical support for the design and implementation phases.

204. In the areas of agricultural research and pastoral community development, the World Bank was leading the formulation and IFAD's value added was relatively less significant. Nevertheless, during the design of ARTP, IFAD did reportedly contribute to introduction of the farmer research group concept.

205. **IFAD quality assurance mechanisms.** Internal quality assurance of project design at IFAD takes place through semi-formal project development teams and formally through TRCs and OSCs. In the case of the support for agricultural research (ARTP), the risk of the proposal to only support the research system without simultaneously ensuring the necessary capacity of extension services, was addressed by PT in April 1998<sup>78</sup>, before the IFAD loan was presented to the Executive Board in September 1998<sup>79</sup>. PT also raised questions about the approach proposed for introducing agricultural research in remote drought-prone areas, i.e. establishing costly and large research centres<sup>80</sup> and recommended on-farm research combined with a modest rest-house for visiting researchers. PT's observations and serious concerns over the very decision to finance the project did not halt the approval of IFAD funding and ARTP still has to prove these considerations wrong.

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<sup>78</sup> Office Memorandum dated 28 April 1998 from PT to PF regarding: TRC No. 10/98 PF: Ethiopia – Agricultural Research and Training Project – Appraisal Report.

<sup>79</sup> "Strengthening research without simultaneously strengthening extension services .. is not sound use of investment funds ... PT estimates that ten or more years will pass before IFAD's target group benefits in any tangible way from the project ... the proposed project limited to infrastructure and Human Resource Development is not suitable for IFAD funding".

<sup>80</sup> "Experience elsewhere has shown that locating research centres in "distant, remote and harsh environments" should only be done after careful assessment ... Attracting qualified research staff and their families to such locations is extremely difficult".

206. IFAD performance has been assessed as moderately satisfactory or higher (4, 5 or 6) in the majority (60%) of projects.

207. **World Bank as cooperating institution.** The World Bank has served as cooperating institution in three of the evaluated projects, ARTP, PCDP and RUFIP, where its performance has been quite different due to a variety of circumstances. In PCDP, the Bank's performance as CI is assessed as satisfactory (5) both for the design phase and the implementation phase. For the latter phase, there may be two explanations for the satisfactory performance. First, the implementation support/supervision is managed from the Bank's Ethiopia Country Office which has provided close and active support. Secondly, IFAD and the Bank truly co-finance all items, with IFAD providing 40% of the external support while the World Bank provides 60%. Thus in PCDP, there are no separate "IFAD components" that the Bank also has to look after as has been the case in ARTP, where the Bank's performance as CI for IFAD is assessed as unsatisfactory.

208. In ARTP, implementation support and supervision was provided from Washington through visiting missions that supported the Bank financed components but seldom had time to visit the IFAD funded components and activities in remote areas, and therefore did not discover the serious problems that some of these activities were facing. "No objection" was given to go ahead with construction of research centres without first assuring the availability of water at the sites. Design of residential quarters, unattractive to researchers and their families, was approved. The initial problems faced in the implementation of FRGs due to lack of appropriate guidelines were not addressed. The insistence, against the strong advice and requests of senior levels of GoE, on selection of the lowest bidder for construction of the Jinka ARC resulted in considerable problems, and loss of time and money. Subsequently, no constructive assistance was provided to sort out these problems. And finally, response times have been long when the project management requested urgent assistance.

209. In RUFIP, the organisational set-up for supporting and supervising implementation is complex. There are two co-financiers, IFAD and AfDB, while the World Bank is serving as CI for IFAD. It is a heavy burden on the RUFIP Department of the DBE to deal with three large international organisations and their different regulations and procedures. The World Bank appears to have been providing professional support but, also in this case, response times and procurement procedures have been long, for example the project has waited several months into the budget year before receiving Bank approval of its annual budget proposal, one reason why the CI performance of the Bank for this programme is assessed as moderately satisfactory.

210. **UNOPS as CI.** UNOPS served as CI for SOCODEP and SCP II. Generally, UNOPS has highlighted the problems and issues but insufficient resources were allocated for UNOPS to help the partners solve the problems. The PCRs for SOCODEP and SCP II assessed the performance of UNOPS as moderately satisfactory.

211. **Co-financing partnership with AfDB.** IFAD and AfDB finance different components of RUFIP. This partnership has not functioned well. Some components, e.g. capacity building separately financed by AfDB, have not progressed which has negatively impacted on some IFAD-financed components that depend on progress in the AfDB components. The slow progress is mainly due to AfDB's complex and lengthy procurement regulations.

212. **Co-financing partnerships with bilateral donors.** There has been limited co-financing with bilateral donors, except for IFAD's traditional partner, the BSF in SOCODEP, and Irish Aid in SCP II. These partnerships have functioned well.

213. **Performance of government.** The performance of government executing agencies and partners is overall assessed as satisfactory with the exception of SOCODEP and ARTP. In SOCODEP, many agencies were involved and major institutional changes took place which impacted negatively on performance. In ARTP, the anchoring of responsibility has not been fully clarified from the outset, except for the ARF and FREAC. Though EIAR has had the overall implementing responsibility, EIAR has not had the full authority over all implementation matters. Regional governments are the "owners" or "recipients" of the constructed ARCs, and are responsible for ensuring the infrastructural services to

the centres, including water and roads. Furthermore, it is the Regional Agricultural Research Institutes and the ARCs which have responsibility for the promotion of FRGs and linkages with extension in their respective regions. In these areas, EIAR can only provide guidance.

214. The rural finance programme is implemented in partnership with four main institutions – the public DBE, the NBE, the AEMFI and the cooperative sector comprising the Federal Cooperative Agency (FCA) and RCPBs. DBE is the main implementing partner, housing the PCMU and being responsible for overall coordination and implementation. DBE is also a major financing partner, contributing about 20% of the overall programme budget. Staff provided by DBE for management of the PCMU are employees, fully paid by DBE.

215. DBE has performed exceptionally well in the credit component for which DBE is fully responsible. This is also the area of expertise of the bank. Performance has been below par in some areas where DBE is responsible for coordination while direct implementation management is done by another partner. This type of arrangement brings DBE in a difficult position. While having the overall responsibility, DBE has no supervisory or directive powers over the other implementing partners, such as for example the central bank, NBE, which in fact is supervising and regulating DBE.

216. One major dent in DBE's performance occurred in PY4, where the programme manager and the officer in charge of finance were assigned to other duties related to restructuring of DBE. This problem has now been solved but due to their temporary absence the programme has lagged behind in implementation of some components.

217. The NBE is the key partner in the component for improving the regulation and supervision of MFIs. NBE upgraded the Microfinance Supervision Division to a full department in 2004 soon after commencement of the RUFIP and has since then increased the number of staff, e.g. 22 Inspectors up from four in 2004. However, there are some pending tasks such as development of the external Audit Framework for MFIs as well as a manual for their supervision.

218. The AEMFI has performed well. Through participation of the Director in the design of the RUFIP, AEMFI is one of the local partners that fully understands the whole design of the programme. The close involvement of the Director brings insider information and knowledge of the rural finance sector which has helped DBE which had not been involved in the microfinance sector before. The Federal Cooperative Agency (FCA) and Regional\_Cooperative Promotion Bureaux (RCPBs) have established the agreed staffing and implementation structures and undertaken the required implementation activities though with some delays due to factors outside their control (procurement complications related to the AfDB financing).

219. In the support for pastoral community development, the government, at federal, regional and woreda level, has played a positive facilitating role, creating conducive environment for the project. Generally, government has availed the manpower required for project implementation and for the PCDP financed schools, health posts etc. In some cases, woreda officers felt that PCDP imposed new responsibilities and burdens on them while failing to allocate more staff and financial resources, an issue that needs to be addressed in the next phase. One dent in the very positive performance was the approval of micro projects beyond the financial balance available.

220. GoE's performance is assessed as moderately satisfactory or higher (4, 5 or 6) in 60% of the examined projects.

221. **Performance of non-government partners:** In Ethiopia the distinction between government, private sector and civil society is sometimes blurred and occasionally there is limited understanding of the concept "civil society" as being something that is outside the influence of government and the market. It is mainly within the support for pastoral community development that NGOs and civil society organisations have contributed and overall this experience has been positive. Within the support for rural finance, AEMFI may also be considered as a non-governmental partner, even though the major members have public ownership.

222. **Procedure-oriented supervision and implementation support.** In several cases, government partners complained about an inflexible, slow and procedure-oriented performance of cooperating institutions and financiers, resulting in loss of time, money and benefits for the poor. Two cases stand out. In the case of ARTP and construction of the Jinka ARC, government and common sense strongly suggested to reject a contractor, which had badly failed on a previous contract and whose price offer was completely unrealistic. However, due to World Bank procedures and rules this was not possible. The contractor got the contract, and the problems and results were as feared and expected. In the second case, the AfDB procurement procedures have so far hindered the use of national service providers to develop the capacity of RUSACCOs though everyone agree that: (i) it would not make any sense to employ international experts to work with RUSACCO members who only speak a local language; (ii) several Ethiopian institutions, e.g. universities, do have the capacity to provide the services with adequate quality and in a language that the recipients understand. The victory of rules over common sense has in this case resulted in poor performance of the RUSACCO component, and less financial services for the rural poor.

223. These and many other cases are generally not the result of any bad will on part of the portfolio manager, task manager or similar. The problem is systemic. Few development organisations can operate with a fully value-based management system where decisions are guided by overriding development objectives such as poverty reduction, MDGs etc. In international organisations, that bring staff together from many different management cultures, it is even more difficult to develop a value-based and result-oriented management culture and for this reason procedures and regulations play a very strong role. Even when the best of efforts are made, procedures and regulations are not always (perhaps only seldom) appropriate for the realities on the ground, which come in all kinds of strange and chaotic shapes while regulations usually deal with something that is square.

224. As a consequence, the task or portfolio manager may often face dilemmas where he/she has to choose between on one side the requirements of the regulations/procedures and on the other, what common sense and the needs of the reality suggest. As he/she often is alone with this responsibility, it is very human and natural to decide in favour of the regulations. An individual officer cannot make exemptions from organisational rules, and even if he/she could, it would be too risky to go against the rules as he/she may be criticised for favouritism or things that are worse. This problem could be addressed by having internal “rules and regulations management committees” or “waiver committees” that deal with these kinds of dilemmas and have the mandate and authority, on behalf of the organisation, to decide in favour of common sense and development results. In this way, decisions to deviate or make exemptions from the rules become an organisational decision and not a personal individual decision.

### **In Synthesis**

225. “Non project activities” such as partnership, policy dialogue and Knowledge Management (KM) in reality take place through projects. They had no specific resources until the introduction of an IFAD field office (2005)

226. Opening a field office has improved IFAD’s capacity to support implementation. - “KM” has performed below expectations, due to limited progress in conducting studies and surveys for projects (as per COSOP objectives). Some initiatives are under way in policy dialogue.

227. Some gaps have been observed in the project quality assurance process. Critiques to the formulation of ARTP have not been integrated in the project design

228. The experience with the World Bank suggests that a cooperating institution is more effective when supervisory activities are conducted by the country office and when cofinanciers are funding the same components rather than having dedicated quasi-separate components.

- As noted in the case of ARTP and RUFIP, when implementation and procurement decisions are heavily driven by procedures, without properly considering the implementation contexts and without a mechanism to decide on interpretation / waiver from procedures, there is a risk of wrong managerial choices that hinder the quality of the project delivery.

## H. Overall Rating

229. Table 8 shows the percentage of projects rated 4 or higher, according to several evaluation criteria. Details of project ratings are shown in Appendix 1. The table also shows percentages of ratings of 4 or higher from the ARRI 2007. Comparisons should be treated cautiously because the ARRI sample includes projects from all the IFAD regions and because the Ethiopia CPE sample is smaller. In the Ethiopia CPE case, the percentage of projects with portfolio performance rated 4 or higher is the same as the one reported in the ARRI 2007 (both 80%). Ratings for impact are also comparable, while Ethiopia CPE ratings perform better than ARRI 2007 in terms of sustainability and innovation, which are two areas of good performance of the Ethiopia programme. A more detailed analysis of individual ratings (Appendix 1) also reveals that recent projects (RUFIP and PCDP) were performing better than older ones and were assigned ratings of 4 or higher for all evaluation criteria.

**Table 8. Overall Rating**

<i>Evaluation Criteria</i>	<i>Projects rated 4, 5, or 6*</i>	
	<i>Present CPE**</i>	<i>ARRI 2007***</i>
<b>I. Portfolio performance</b>	<b>80%</b>	<b>80%</b>
– Relevance	100%	93%
– Effectiveness	80%	67%
– Efficiency	60%	73%
<b>II. Impact</b>	<b>75%</b>	<b>80%</b>
<b>III. Sustainability</b>	<b>80%</b>	<b>53%</b>
<b>IV. Innovation, replication and scaling up</b>	<b>80%</b>	<b>67%</b>
<b>VI. Performance of partners</b>		
– IFAD	60%	60%
– Cooperating institution	80%	67%
– Government	60%	67%

\* The rating scale adopted by the Office of Evaluation is as follows: 6 = highly satisfactory; 5 = satisfactory; 4 = moderately satisfactory; 3 = moderately unsatisfactory; 2 = unsatisfactory; 1 = highly Unsatisfactory.

\*\* Ratings considered here are those of SOCODEP, SCP II, ARTP, RUFIP, PCDP.

\*\*\* The ratings shown in the 2007 edition of the Annual Report on Results and Impact of IFAD Operations (ARRI) refer to the evaluations conducted by the Office of Evaluation in 2006.

## V. CONCLUSIONS AND RECOMMENDATIONS

### A. Conclusions

230. A Challenging Environment with Emerging Opportunities. Ethiopia represents a challenging environment for economic development and poverty alleviation. With a real GDP per capita at the level of 35 years ago, it ranks among the poorest countries in the world, and among the lowest ten in the Human Development Index. GDP growth performance has improved remarkably in the past 10 years although there are risk that this may not continue due to the country's vulnerability to weather shocks and environmental hazards, particularly related to soil fertility loss and erosion.

231. On the other hand, since the beginning of the new century, the GoE has consistently placed agricultural and rural development at the top of the agenda for poverty reduction. Also, more than 10% of the Government budget is spent in agriculture, above the NEPAD target. It has committed to

public sector reform and privatisations, although the public sector continues to play a prominent role in the production economy. IFAD funding represents around 0.5% of total ODA. Even if IFAD loan commitments double under the present PBAS, the Fund will remain a small player in quantitative terms but it can be a valuable partner for the Government if it scores well in terms of flexibility, quality of project design and performance, as well as promotion of innovations in rural development that can be replicated by the Government, other donors, the private sector or the rural poor themselves.

232. Clear COSOP Directions for Portfolio Development. This evaluation has considered both IFAD's strategy in Ethiopia, as articulated in its 1999 COSOP, and its operations, including lending and non-lending activities. The main value of the COSOP was to provide concise and yet clear directions to develop a portfolio of loans in the country. The COSOP has also set goals on a number of non-lending activities, in particular policy dialogue (reforms of land tenure system through small scale irrigation, reducing the Government's role in economic production, enhancing supervision of MFIs) and KM (baseline and follow-up surveys for projects and production system studies) that would be required to enhance project implementation performance.

233. But less detailed analysis of targeting and resource requirements. However, the COSOP did not match good initiatives and ambitions in non-lending activities with dedicated resources and implementation tools. It was implicitly assumed that policy dialogue and KM would be taken care of through projects, without accompanying dedicated activities and resources. Moreover, the COSOP did not offer a detailed targeting strategy, in part due to lack of precise data on poverty characteristics and distribution at that time, and did also not clarify how the different sub-sectoral specific projects could coordinate geographically (for example how to provide financial services, irrigation, marketing services to the same clients). The COSOP gave birth to a (valuable) portfolio of individual projects rather than a real comprehensive programme with visible synergies between the different projects.

234. Significant improvements in the investment portfolio quality. With all the necessary qualifications that have been already presented, it can be concluded that the quality of a significant portion of the portfolio has been satisfactory. IFAD's interventions have been performing well in areas such as small-scale irrigation, rural finance and pastoral community development. In all these areas, satisfactory impact has been achieved on rural poverty. Many households have experienced significant improvements in household income and food security. The magnitude and outreach of impact is highest for rural finance while the poverty depth is more pronounced for pastoral community development, because simple income-generating activities such as petty trading and small livestock husbandry are easily affordable by very poor clients, including women. Satisfactory institutional impacts have been achieved in these three areas, but in particular in rural finance and pastoral community development. The holistic and participatory support for pastoral community development has built social capital and human assets among the supported communities. Yet these results concern only a fraction of rural poor in Ethiopia and more efforts and investments are needed.

235. Progress has thus been made in the areas of production and rural income increase and diversification, but also in the critical area of local governance. Ethiopia has embarked on a decentralisation reform since the mid 1990s. As argued by an IFAD Thematic Evaluation (2005), decentralisation on its own is not a direct tool for poverty reduction unless opportunities for local partnerships between the public bodies, civil society and private entrepreneurs are seized. This is starting to take place in the context of the pastoral community interventions (PCDP) through the creation of community and district development committees.

236. Performance and results have been more limited so far in IFAD's support to cooperative development (mainly due to a complex design) and to agricultural research<sup>81</sup> where any large scale adoption by farmers of improved technologies only may emerge long time after project closure (2008) Important institutional results have been achieved in smaller components, such as an Agricultural Research Fund, FRGs, and Research-Extension Linkages but IFAD's major component (72% of the loan), financing six Agricultural Research Centres in drought-prone remote areas, has experienced considerable delays, cost-overruns and operational problems. Given the early implementation stage of

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<sup>81</sup> Due to time and resource constraints, this CPE only evaluates the IFAD supported components of ARTP.

the intervention in agricultural marketing (AMIP), only conjectures can be made. However, the CPE concern (not shared by GoE) is that some project design features may entail a risk of failing to promote private sector participation, in spite of the good intentions of both IFAD and GoE.

237. Key factors affecting performance (Ch. IV, p.41-45) include (although are not limited to) project design and implementation support. Design of projects belonging to the post-COSOP generation has been generally of good quality. Nonetheless, some flaws have been found in the quality assurance mechanism. In the case of agricultural research (ARTP) which belongs to the pre-COSOP period, serious concerns expressed by the Technical Advisory Division of IFAD over the design of ARTP (TRC April 1998) have been ignored while this CPE finds that these concerns are still relevant considering the implementation experience.

238. In the period reviewed, IFAD's old business model for implementation support and supervision has been applied and as a consequence IFAD has been a relatively flexible but distant partner in the implementation phase, delegating supervision and some degree of implementation support to the CI. Without a good grasp of the situation on the ground, project implementation support becomes cumbersome. This creates a risk of heavily procedural approaches to project management and procurement (as in some cases observed in the context of ARTP and RUFIP), eventually causing delays and poor performance. With the establishment of a field presence office in 2005, this is changing and IFAD's Field Support Manager is now participating regularly in supervision and implementation support missions. Another recent initiative was the launching (2007) of an IFAD country programme forum in which IFAD representatives (mainly through the field office), IFAD project staff (federal and regional level), Government institutions and other donors would be represented and help coordinate the activities.

239. Fairly innovative operations. Significant innovations have been introduced or promoted. The community driven approaches have fostered local partnerships between the public sector, private enterprises and the civil society. Even in the area of agricultural research, not one of the best performing according to the CPE, ARTP has introduced competitive funding facilities for researchers (ARF) as well as opportunities for participatory research with farmers (FRGs). Technological and approach innovations are also being introduced in small-scale irrigation, through participatory schemes planning and building on traditional irrigation knowledge and practices, and in rural finance, by promoting linkages between MFIs and banks as well as by introducing rural savings and credit associations (RUSACCO). The GoE and other donors (World Bank, JICA) are already starting to extend financial support to some of these innovations.

240. More opportunities for innovation. Still opportunities exist for further development and additions to the innovative practices introduced by the portfolio. For example, the CPE has noted that rural finance interventions are operated by MFIs and SACCOs almost only on a manual basis without real time management information system which hampers the development of services such as savings products. In the same area, the evaluation has noted that financial services, mainly loans, have been provided to micro and small entrepreneurs but no other capacity building services to improve entrepreneurial skills. There is a risk that the limited business capacity may ultimately undermine the profitability of several rural enterprises financed through small loans.

241. Grants not always well connected with loans. Moreover, there is evidence that IFAD may have not yet harnessed all the available resources for promoting innovations. For example, it is found that the grant programme is managed quasi-independently of the loan portfolio and tilted towards the funding of regional research programmes. The latter are conducted by international research centres which are already financed by the same donor governments that are financing IFAD. While these programmes are no doubt promising, they bear very tenuous linkages with the loan arm of IFAD. On the other hand, small grants tied to IFAD loans have been useful in funding preparatory studies to support the introduction of rural financial services in new areas. Being small and relatively flexible, grants can help minimise risks connected to innovation, for example they can fund pilot testing activities. The consequences of failing with a US\$50,000 grant are less serious than with a US\$20 million loan.



242. “Non-lending activities” can be critical for innovation promotion (Ch IV, p. 38-41). On the other hand, non-lending activities such as policy dialogue, partnerships and KM enhance the promotion of innovations and their replication and upscaling. Policy dialogue may be required to remove institutional obstacles to innovation promotion. Partnerships may foster collaboration with organisations endowed with analytical capacity (think tanks), political or financial leverage (GoE institutions, other donors) and less risk-averse attitude (for example NGOs). Knowledge management may contribute to identifying innovative experience within IFAD portfolio (in Ethiopia and in other countries) as well as those developed by others. As has been noted, non-lending activities have not received dedicated resources and have in fact been implemented if at all within loan contexts as project components.

243. While non-lending activities have to be linked to loans, they do not necessarily have to be financed with loans. First, the borrower may be reluctant to accept loan funds, which require the repayment of principal and interest, for activities that are not directly “productive”. Second, non-lending activities such as policy dialogue may pertain to issues of little popularity or relate to weak institutional capacity that can be addressed only in the long term. For this reason, non-lending activities may require special financing instruments, including grants, as well as supplementary activities (special studies, workshops, support to the legislator and so on).

## **B. Recommendations**

### **Where to Focus**

244. **Targeting and synergy between interventions.** According to the new COSOP guidelines and IFAD Targeting Policy, COSOPs need to present a targeting strategy. There should be scope for focusing on food deficit woredas, which are nowadays better mapped thanks to the available data, supporting dynamic economic changes in the rural economy with trickle-down effects, for example through microfinance and support for development of rural micro and small enterprises.

245. The evaluation has highlighted that the Ethiopia “programme” is in reality made of discrete sub-sector specific programmes. The new COSOP should identify measures to link different interventions (for example how to link rural finance with small-scale irrigation and agricultural marketing) and ensure better synergy between programmes.

246. **Sectoral focus.** For the next some 10 years, IFAD should prioritise areas where it has developed a lead position such as small-scale irrigation and rural finance where the achievements are satisfactory and highly promising. However, a second phase will depend on the results of a dedicated interim evaluation to be conducted in 2009 and in particular on progress with respect to addressing the current problem of very significant negative interest rates. While inflation depends on macroeconomic aggregates beyond IFAD control, IFAD needs to raise the issue. Moreover, it will be important to discuss the re-alignment of interest rates charged by MFIs so as to address the problem of negative returns on assets and equity. While initiated by the World Bank, support for pastoral community development has been a success for which continued IFAD involvement seems justified, perhaps promoting synergies with rural finance, subject to continued GoE commitment for involving NGOs, communities and civil society organizations in local development planning:

- Within small-scale irrigation it is matter of up-scaling, refining and consolidating participatory approaches to improve sustainability, and effectively addressing water use management, and soil and watershed conservation;
- Within rural finance, much remains to be done in automating the manual systems and introducing proper, real time, management information systems. Furthermore, support is needed for developing services in pastoral and other neglected areas. RUFIP has already today spent most of the budget. An important momentum could be lost if RUFIP had to scale down, waiting for a second phase in 2010; and

- As complementary support to rural finance, support should be considered to address the strong need for developing BDSs (BDS) that rural micro and small enterprises can access to improve their management. According to MFIs, this is one of the main constraints and challenges for expansion of rural finance.

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

### **Tools to Promote Innovations**

248. Using grants in a smart way for KM and pilot testing. Absence of preparatory studies or mini-projects, baseline surveys and impact studies constitutes a weakness in the IFAD Ethiopia programme (and elsewhere). Without reliable impact studies, it is difficult to convince anyone that IFAD has introduced an innovation that is worth replicating. Moreover, preparatory studies or mini-projects can facilitate design, particularly in less known sub-sectors or zones. IFAD could use the grant programme for preparatory studies or mini-projects, baseline surveys and impact studies, which could be contracted to independent third parties (agencies other than the implementing institutions). While GoE's executing agencies generally provide a satisfactory monitoring of the achievement of quantitative outputs, the monitoring of impact and qualitative aspects is usually inadequate. Such monitoring and assessments involve complex exercises that require substantial resources. Use of grants to contract "independent" organisations to work on the qualitative impact aspects could therefore be justified. This may be a better use of grant funds than the current allocation for international research institutions for projects that have no direct linkages with the country programme and no mechanisms for diffusing the research results to the rural poor.

249. **Policy dialogue.** IFAD should continue focusing on its project intervention areas. Project design and implementation offers IFAD the best opportunities of influencing systems and approaches. However, project financing alone may not be sufficient for policy dialogue. Supplementary activities such as specific studies, workshops or attendance of Government and donor thematic group meetings may be required and objectives, instruments and resources (staff time, particularly for the country office staff, and financial resources) have to be allocated. Finally, well targeted study tours, in particular to Asia and countries that have passed through similar challenges as Ethiopia is facing, should be considered as an effective tool of policy dialogue with the Government.

### **Working with Whom?**

250. **Partnership.** Has involved many different public institutions in Ethiopia at the Federal level (at least four Ministries: Finance and Economic Development, Agriculture and Rural Development, Federal Affairs, and Water Management and, in addition, the Ethiopian Agricultural Research Institute and EDB) as well as at the regional and sub-regional (woreda level). These partnerships should continue in the context of relevant future interventions. It is recommended to increase the focus on constructing partnerships between the public sector, civil society and the private sector at the regional and sub-regional level (as tested in pastoral community development). At both federal and local level, it is recommended to foster the dialogue between the different partners, with the view of improving the integration of interventions. The recently created IFAD country forum can be a starting point.

251. Positive experiences have been gained in working with NGOs and civil society organisations in supporting grassroots organisations in pastoral areas. These experiences should be considered when supporting capacity development of grassroots organisations, such as WUAs in irrigation schemes, in

other areas even though these areas initially may not have many NGOs or private providers offering such services.

252. Private sector is a relatively new partner of IFAD, with some successful initial experiences in pastoral community development and an ambitious programme, AMIP which is at its initial implementation stage. Successful experiences at the local level should be continued while an early review of AMIP implementation performance would be opportune.

253. The current active portfolio has no co-financing partnerships with bilateral donors. Even though aid modalities and priorities of bilateral donors have undergone major changes in the recent period, the CPE finds that IFAD should not stop seeking cooperation opportunities, as some bilaterals are active in sub-sectors supported by IFAD (for example CIDA for small-scale irrigation and JICA for farmer research groups).

254. The financing and supervision arrangements for the support to rural finance have involved two co-financiers or parallel-financiers (IFAD and AfDB) and one cooperating institution (the World Bank), all applying their specific regulations (par. 208-209). This type of complexity has not been conducive to smooth implementation and should be avoided unless one set of joint procedures and rules for implementation of pooled funds can be agreed.

### **Programme and Project Cycle Management**

255. **Planning period for the strategy.** The ideal planning period for the new COSOP would appear to be three years, synchronised with the PBAS allocation and the Medium Term Expenditure Framework (MTEF). However, given IFAD's limited resources for strategy work and COSOP formulation, a 6-year planning period (covering two PBAS periods) is recommended, with a review mid-term. With the current PBAS frame, the COSOP would be planning a resource envelope of some US\$150 million, an appropriate amount if a mid-term review is included. As prescribed by the current COSOP guidelines, the COSOP should have a clearly specified implementation period and be updated annually.

256. **Quality assurance.** IFAD has recently introduced changes to its internal quality assurance systems. The case reported for ARTP suggests that, inter alia, there is need of better tracking of TRC / OSC comments and their follow-up.

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

258. As in a few cases observed in ARTP and RUFIP, strict compliance with procedures, rules and regulations on procurement, without understanding the implementation context, can result in the choice of poor quality or not well adapted contractors, causing delays and economic loss for the recipient countries. Individual task and portfolio managers are unable to accommodate government requests for exemptions even though such are fully justified by common sense. As a measure to alleviate this problem and provide for more flexibility, establishing within international organisations (starting with IFAD) of "rules and regulations management committees" could be encouraged.



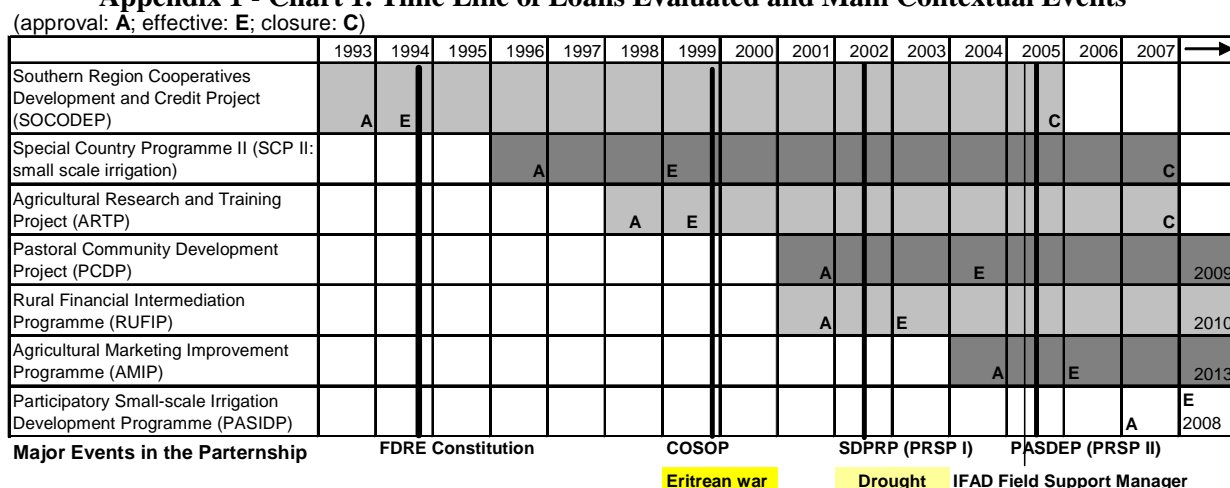
## Loan Portfolio Data

Appendix 1 - Table 1. IFAD Loan Portfolio in Ethiopia

Title	Cost (US\$ m)	IFAD loan (US\$ m)	Approval	Effective	Closing	Coop. Inst.
1. Second Agricultural Project	69.2	14.5	07-May-80	23-Apr-81	31-Dec-85	World Bank
2. Agricultural Credit Project	16.3	11	12-Sep-83	11-Apr-84	31-Mar-91	World Bank
3. Rehabil. Prog. Drought Area	19.1	12.2	02-Apr-85	21-Jun-85	31-Dec-90	UNOPS
4. Special Country Programme	27.9	5.2	03-Dec-86	13-Oct-87	31-Dec-96	World Bank
5. Fourth Livestock Development Project	57.1	5.7	09-Sep-87	09-Feb-88	31-Dec-92	World Bank
6. Southern Region Cooperative Project	25.5	17.5	02-Dec-93	17-Aug-94	31-Dec-05	UNOPS
7. Informal Seed Component Project	7.4	6.6	11-Sep-96	21-Mar-97	31-Dec-01	World Bank
8. Special Country Programme II (SCP II: small scale irrigation)	33.1	22.6	05-Dec-96	11-Feb-99	31-Dec-07	UNOPS
9. Agricultural and Research Training Project (ARTP)	90.6	18.2	10-Sep-98	30-Jun-99	30-Dec-07	World Bank
10. Rural Financial Intermediation Programme (RUFIP)	88.7	25.7	11-Sep-01	06-Jan-03	30-Sep-10	World Bank
11. Pastoral Community Development Project (PCDP)	60	20	06-Dec-01	05-Apr-04	31-Dec-09	World Bank
12. Agricultural Marketing Improvement Programme (AMIP)	35.1	27.2	02-Dec-04	20-Feb-06	30-Sep-13	UNOPS
13. Participatory Small-Scale Irrigation Development Programme (PASIDP)	57.7	20 (plus grant of 20)	17 Apr-07	10-Mar-08	30-Sep-15	To be directly supervised by IFAD
Total	588	206.3				

Source: PPMS, March 2007

Appendix 1 - Chart 1. Time Line of Loans Evaluated and Main Contextual Events



**Appendix 1 - Table 2. Ethiopia Country Programme Evaluation - Portfolio Rating Summary**

<i>Project Evaluation Criteria (Current Status)</i>	<i>SOCODEP* (closed)</i>	<i>SCP II* (closed)</i>	<i>ARTP (closed)</i>	<i>RUFIP (ongoing)</i>	<i>PCDP (ongoing)</i>	<i>AMIP (start-up)</i>	<i>PASIDP (approved)</i>
<i>I. PERFORMANCE</i>							
- <i>Relevance</i>	4	6	4	6	6	4	6
- <i>Effectiveness</i>	3	5	4	5	5	NR	NR
- <i>Efficiency</i>	3	4	3	5	4	NR	NR
<i>Performance Aggregated</i>	3	5	4	5	5	NR	NR
<i>II. IMPACT</i>							
- <i>HH income and assets</i>	4	5	NR	5	5	NR	NR
- <i>Food security</i>	3	5	NR	5	5	NR	NR
- <i>Social capital</i>	2	4	NR	5	6	NR	NR
- <i>Human Capital</i>	4	3	NR	5	5	NR	NR
- <i>Access to markets</i>	3	3	NR	4	NR	NR	NR
- <i>Institutional impact</i>	2	4	5	4	6	NR	NR
<i>Overall Impact</i>	3	5	NR	5	5	NR	NR
<i>III. SUSTAINABILITY</i>	3	4	4	5	5	NR	NR
<i>IV. INNOVATION &amp; REPLICATION</i>	3	5	5	5	5	NR	NR
<i>VI. PERFORMANCE OF PARTNERS</i>						NR	NR
- <i>IFAD</i>	3	4	3	5	4	NR	NR
- <i>Cooperating Institution</i>	4 (UNOPS)	4 (UNOPS)	2 (World Bank)	4 (World Bank)	5 (World Bank)	NR	NR
- <i>Cofinanciers (if different from CI)</i>	4 (BSF)	6 (Irish Aid)		2 (AfDB)		NR	NR
- <i>Government</i>	3	5	3	5	5	NR	NR
<i>Overall</i>	3	5	4	5	5	NR	NR

\* Rating of past evaluations

6 = highly satisfactory; 5 = satisfactory; 4 = moderately satisfactory; 3 = moderately unsatisfactory; 2 = unsatisfactory; 1 = highly unsatisfactory  
 NR: Not Rated – either because implementation has just started/is yet to start (AMIP and PASDIP), or because there is lack of information (ARTP).

**Appendix 1 - Table 3. Self-assessment Ratings Proposed by the Project Units**

<i>Evaluation Criteria</i>	<i>Project (Current Status)</i>	<i>ARTP (closed)</i>	<i>RUFIP (ongoing)</i>	<i>PCDP (ongoing)</i>	<i>Overall</i>
<i>I. PERFORMANCE</i>					
- <i>Relevance</i>		6	6	6	6
- <i>Effectiveness</i>		5	5	6	6
- <i>Efficiency</i>		6	5	5	5
<i>Performance Aggregated</i>					
<i>II. IMPACT</i>					
- <i>HH income and assets</i>		na	Na	Na	
- <i>Food security</i>		na	Na	Na	
- <i>Social capital</i>		na	Na	Na	
- <i>Human Capital</i>		na	Na	Na	
- <i>Access to markets</i>		na	Na	Na	
- <i>Institutional impact</i>		na	Na	Na	
<i>Overall Impact</i>					
		5	5	Na	5
<i>III. SUSTAINABILITY</i>					
		6	5	Na	5
<i>IV. INNOVATION &amp; REPLICATION</i>					
		na	Na	Na	na

6 = highly satisfactory; 5 = satisfactory; 4 = moderately satisfactory; 3 = moderately unsatisfactory; 2 = unsatisfactory; 1 = highly unsatisfactory

NA: Not available. No project unit provided ratings for innovation. Project units provided overall ratings for impact but not for individual impact domains. The PCDP team felt that no rating could be assigned to impact or sustainability.





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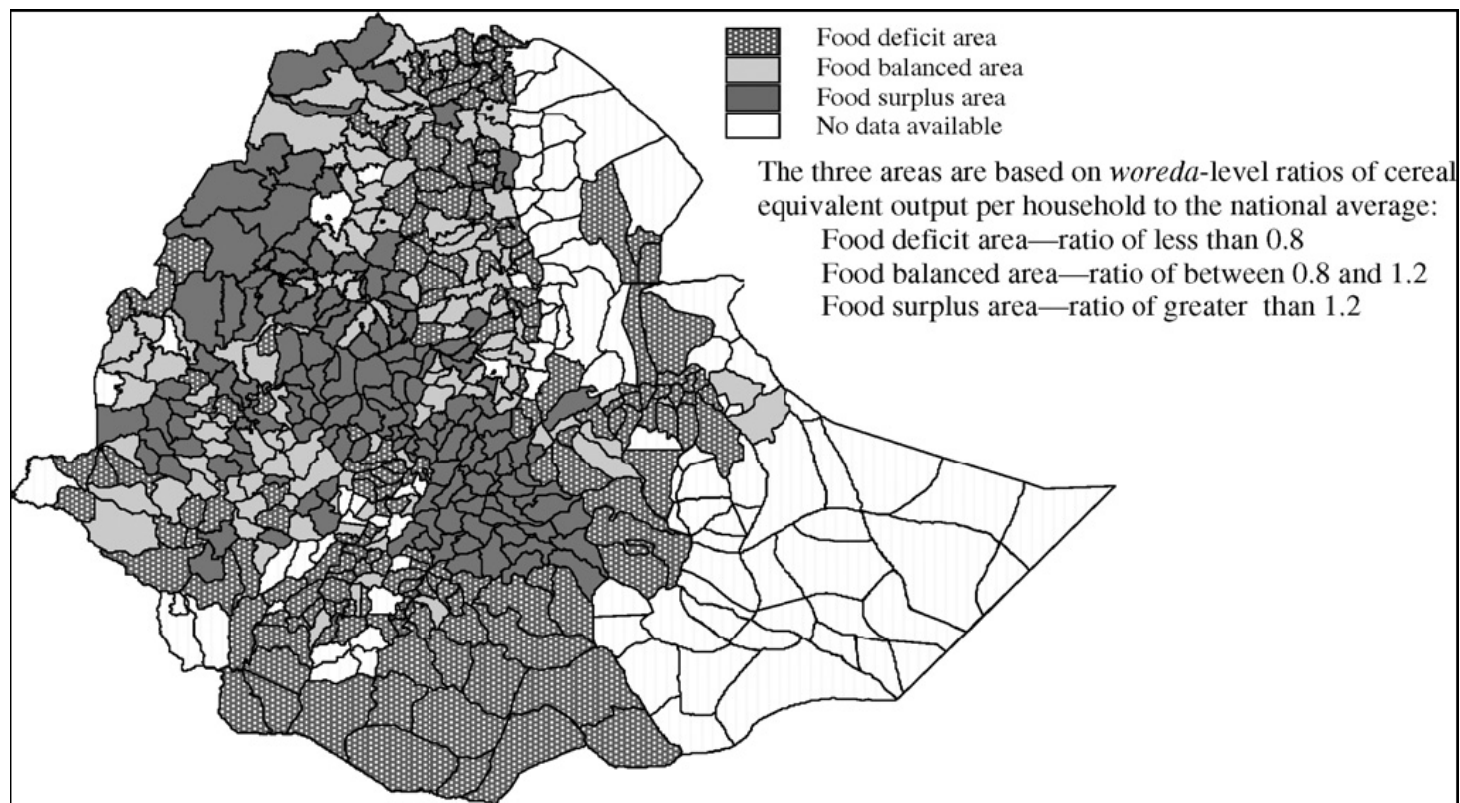
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## Woreda Food Balances

## Woredas with Food Deficit, Balance and Surplus



Source: IFPRI (2006), Xinshen Diao and Alejandro Nin Pratt: Growth Options and Poverty Reduction in Ethiopia.





## Summary of Rural Finance Impact Studies

Study - Source - Year	MFI	Region	Main Change Identified in Impact Indicators					Other Notes
			HH Income and Assets	Food Security	Social Capital	Human Capital	Access to Markets	
Meehan F. (2001)	DECSI	Tigray	Positive esp. for men	Positive			Positive esp. for women	Positive results dependent on continuous access to credit
Tsehay and Mengistu (2002)	General with focus on women	National	84% of women rural borrowers able to contribute substantially to HH income	46% of rural women borrowers controlled income from business	All women interviewed experienced greater self-esteem and satisfaction			Clients interviewed all women
Borchgrevink et al (2003)	DECSI	Tigray	Significantly +ve. 69% of female clients (generally poorer than males) and 54% of men reported improved living conditions	More food secure and less vulnerable to shocks	Women's overall social and cultural position improved	Change in mentality and organisational skills especially for women	New trade activities	Women comprised 39% of DECSI clients
Assefa et al (2005)	General	National	85% of respondents increased their income from non-farm activities, and 35% experienced "remarkable increase"					80% of respondents said that compulsory savings are important to repay loans
Wabekbon (2006)	Women clients	National	Incomes improved and assets increased		Women's dependence on husbands reduced, women more self reliant, higher self-esteem and confidence			Female empowerment similar for rural and urban women
Garber (2006)	ACSI	Amhara	Significantly positive changes in livelihoods	Remarkable" and positive changes in food security	Perceptions of life changed esp. for women clients who felt significantly empowered	Women able to make better business decisions		Experience had been "life changing" for most clients
MDTCS (2007)	PEACE (private MFI)	National	76% of existing, 58% of new borrowers experienced increased income	82% of new and 61% of existing clients gave priority to food purchase	Women clients gained new respect and self esteem, and stronger involvement in community affairs			70% of PEACE's clients are female. 97% of ex-clients benefited from their MFI experience



## Financial Sector and MFI Data

Appendix 5 - Table 1. Rural Finance: Selected Performance Indicators; 2001 – June 2007

Indicator	Dec. 2001 (appraisal)	June 2003 (prog. Start)	June 2004	June 2005	June 2006	June 2007 *
<b>MFIs:</b>						
Number of MFIs	19	22	22	26	27	28
Number of branches **			520	555	602	
<b>Loans</b>						
Active borrowers	461,326	720,684	905,605	1,211,305	1,456,747	1,723,832
% women borrowers		28%	27%	30%	34%	38%
Loan portfolio (Br'000)	308,588	519,298	808,950	1,477,679	1,958,973	2,712,253
<b>Savings</b>						
Number of savers		801,858	973,094	1,336,700	1,607,550	1,902,283
Net savings (Br'000)	243,291	317,579	374,514	500,645	706,655	890,472
Savings as % of loans	79%	61%	46%	34%	36%	33%
<b>Quality</b>						
Portfolio at Risk (%)		6%	6%	3.7%	2.6%	
Repayment rates (%)		96%	97%	95%	96%	96%
<b>Efficiency</b>						
Borrowers per Loan Officer		383	479	434		
Operating expense ratio		20%	16%	13%		
Cost per borrower (in Br)		129	113	110		
<b>Sustainability</b>						
Operating self sufficiency		104%	128%	123%		
Financial self sufficiency		77%	89%	92%		
Return on Assets		-5%	-3%	-2.4%		
Return on Equity		-8%	-8%	-5.5%		
<b>RUSACCOs:</b>						
Number of RUSACCOs			109	539	1,159	1,845
RUSACCO members			4,586	28,961	79,009	139,796
% women			31%	36%	21%	32%
Savings (Br'000)			510	2,887	11,090	19,401
Disbursements (Br'000)			0	1,046	8,827	16,796
Number of borrowers			-	758	9,555	17,405
<b>BANKING SECTOR</b>						
Number of banks	9	9	10	10	11	11
Number of bank branches	283	339	326	357	389	
Savings (Br'million)						49,260
Loan portfolio (Br'million)						41,825
Inter-bank rate	8.0	7.5	7.5	7.5	7.5	7.8
91-day T. Bill Rate (%)	3.1	2.0	0.2	0.0	0.0	0.2
Bank lending rates	10.5 – 15.0	8.0 – 10.5	8.0 – 10.5	7 – 14	7 – 14	7 – 14
Minimum rate on Savings	6	3	3	3	3	4
Exchange rate (Birr:US\$)	8.33	8.58	8.62	8.65	8.68	9.03
<b>OTHER INDICATORS</b>						
Annual Inflation (%)	-5.2	15.1	8.6	6.8	12.3	14.3
GDP Per capita growth rate	-5.3	12.5	8.6	6.8	12.3	
Real GDP per capita (Br)	985.3	909.5	989.4	1,064.2	1,134.8	
Real GDP per capita (US\$)	120.8	116.2	133.4	155.7	177.4	
% of Agriculture in GDP	48.9	43.4	45.5	46.6	47.3	
Population (million)	65.3	69.1	71.1	73.1	75.1	

\* For banks, however figures for 2007 are as at end December 2006 (i.e. Second Quarter of 2006/2007 financial year).

Source: AEMFI; RUFIP; National Bank of Ethiopia, 2006/2007.

**Appendix 5 - Table 2. Selected Program Performance Indicators**

Indicator	Program targets		Achievement by end of PY4 (June 2007)	Per cent achieved	
	PY4	PY7		PY4 Targets	PY7 targets
<b>1. MFIs</b>					
1.1 Clients: loans	1,332,236	1,500,000	1,723,832	129%	115%
1.2 Portfolio (ETB '000)	1,807,000	2,218,000	2,712,253	150%	122%
1.3 Savings (ETB'000)	-		950,640	-	-
<b>2. RUSACCOs</b>					
2.1 # of RUSACCOs	1,323	3,375	1,845	139%	55%
2.2 # Unions	15	78	16	107%	21%
2.3 Membership	198,450	506,250	139,796	70%	28%
2.4 Savings (ETB'000)	40,400	254,400	19,401	47%	8%
2.5 Loans (ETB'000)	61,400	775,100	16,796	27%	2%

Source: RUFIP Annual/Quarterly Reports; AEMFI Reports.

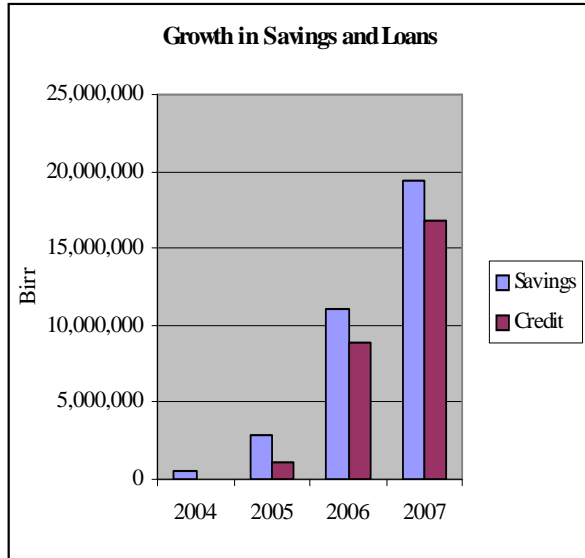
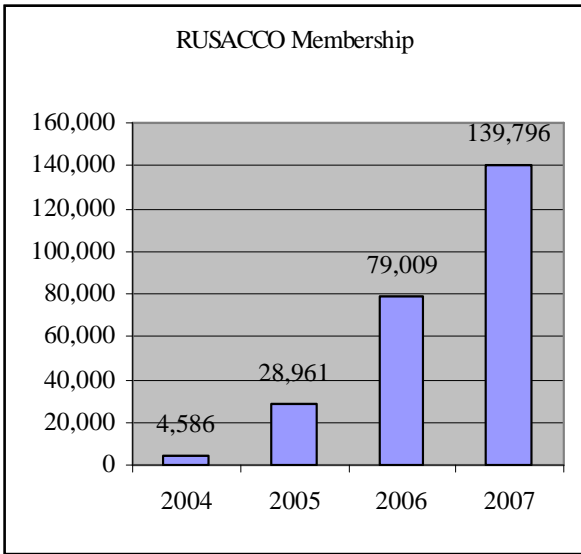
**Appendix 5 - Table 3. Sustainability and performance of MFIs in Ethiopia, 2002 – June 2007**

Indicator	June 2003	June 2004	June 2005	June 2006	June 2007
<b>Quality</b>					
Portfolio at Risk (%)	6%	6%	3.7%	2.6%	Na
Repayment rates (%)	96%	97%	95%	96%	96%
<b>Efficiency</b>					
Borrowers per Loan Officer	383	479	434	Na	Na
Operating expense ratio	20%	16%	13%	Na	Na
Cost per borrower (in Br)	129	113	110	Na	Na
<b>Sustainability</b>					
Operating self sufficiency	104%	128%	123%	Na	Na
Financial self sufficiency	77%	89%	92%	Na	Na
<b>Profitability</b>					
Return on Assets	-5%	-3%	-2.4%	Na	Na
Return on Equity	-8%	-8%	-5.5%	Na	Na

Na means information for the period was not available by the time of the CPE.

Source: AEMFI; RUFIP; National Bank of Ethiopia, 2006/2007.

**Appendix 5 - Chart 1. RUSACCO Outreach, 2004 - 2007**



Source: RUFIP Annual Reports



**Note on the Design of  
the Agricultural Marketing Improvement Programme**

1. The design of AMIP has undergone major changes before it was approved by the Executive Board in December 2004, and also after it was declared effective in February 2006. During the formulation phase it was agreed that AMIP would support the establishment of a warehouse receipt system, an agricultural marketing information system (AMIS) and a decentralised coffee liquoring system. The warehouse receipt system would be linked to a Commodity Exchange which government and other development partners were considering at the time. However, during appraisal, these components were taken out, at the request of GoE, reportedly because other funding was available. After effectiveness, they were re-introduced.

3. The IFAD loan (US\$27.2 million) approved by the Executive Board was limited to support two main components, apart from a small component on programme coordination and management (US\$218,000). The first component on Institutional Development (US\$2.4 m) focuses on training MoARD and regional officers in market analysis and information, regulation (e.g. grades and standards), marketing policies and market promotion. In addition, woreda officers, development agents and cooperative promotion assistants would be trained in agricultural marketing in order to develop their capacity to train farmers, cooperatives and traders in marketing, including grading and quality standards, and post-harvest management. Thus, the underlying rationale is that it is possible to develop the knowledge of government officers within trade and marketing to a level where they can assist the less informed and capable private sector actors in trade and marketing, in particular on grades and standards, post-harvest technologies, and market information.<sup>1</sup>

4. The second and major component on Market Infrastructure Development (US\$24.6 m) is comprised mainly of a line of credit for post-harvest investments; the line of credit would be managed by cooperative unions and MFIs, based on RUFIP experiences and applying the procedures and standards of the organisations and the financial sector. However, in this case it would be earmarked credit (medium-term loans, probably not micro or very small loans but larger loans for cooperatives) for investments in post-harvest processing, storage and handling facilities. Even though normal standards of the financial sector will be applied, it could be questioned if this approach is fully in line with IFAD's Rural Finance Policy (2000), which states (para. 42): "... administratively imposed targeting are to be rigorously avoided". Though earmarked, no thorough demand analysis was undertaken, and work is ongoing to develop financial products that are demanded. The UNOPS supervision mission noted in December 2006: "This activity has not made progress. However, there appears to be demand for some of the products from, for instance, cooperative unions."

4. After effectiveness in February 2006, a major design change was agreed during the UNOPS supervision mission in December 2006. The previously proposed support for a warehouse receipt system and the AMIS was included. In addition, the support for a decentralised system of coffee liquoring laboratories (construction and equipment, and training of testers for grading and quality control) was included to meet the shortfall in Swiss funding for the Coffee Quality Improvement Project, which had been supported by a Swiss grant since December 2003.

5. AMIP support to the warehouse receipt system constitutes only a small fraction of the total AMIP budget and is limited to the procurement of lab equipment, fumigation equipment and grain handling equipment and does not include the construction of warehouses. The support is initially

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<sup>1</sup> GoE does not share these concerns and argues: "...capable development agents (DAs) and cooperative promotion agents (CPAs) can make a difference by educating farmers and small traders alike on best post harvest technologies that would prevent production losses, market quality requirements and the available options for marketing. As our own recent experience also shows organizing farmers in to marketing groups and linking them directly with the final buyers, help them receive a better price for their produce."

limited to warehouses owned by the parastatal enterprise, the Ethiopian Grain Trading Enterprise (EGTE), which has been licensed as a warehouse receipt operator – so far the only licensed operator since no private enterprise has yet applied. The warehouse receipt facility was piloted already from 2005 with EGTE as a licensed warehouse operator and the public Commercial Bank of Ethiopia providing the credit to the depositors, but the UNOPS Aide Memoire (December, 2006) notes: “No depositors used the facility during 2005 for a variety of reasons and the situation is not expected to improve during the 2006 season”.

6. The warehouse receipt system has a number of potential benefits including improved access of farmers or their organisations to credit, less price volatility, reduced post-harvest losses and improved quality. However, IFPRI (2003) noted that the system in order to function well requires that three main issues<sup>2</sup> should be resolved: (i) a well-functioning institutional framework should be in place for grading and certification, market information, legal enforcement, and credible warehouse regulation; (ii) the transfer of risk from the most vulnerable, i.e. small farmers, to those who can better handle it, such as private traders and processors; and (iii) a well-functioning market that clears demand-supply imbalances through exports and domestic absorption in good years. IFPRI also noted in 2003 that an increasing number of traders are deciding to trade informally, without license, to avoid sales tax, profit tax, withholding tax etc. If this trend has continued, some of the above pre-requisites may not be fulfilled today.

7. Though the warehouse receipt system initially will be managed by government, i.e. EGTE, it is the declared intention to attract private investors to become licensed warehouse operators. However, once EGTE has established a dominant position, this may be problematic as private investors may doubt whether they will have a level playing field. Thus, the risk and worst case scenario is that the system will remain in the public sector based on linkages to cooperatives which will be strongly motivated to become depositors. Management may be inefficient, and parallel to this system, there will be an informal private sector system. Trade and the warehouse receipt systems have inherent features of speculation and risk assessment, usually not a comparative of government officers, which gives reason for concerns about its future efficiency. These risks may be somewhat mitigated by pursuing, from the very early stage, public-private partnerships, outsourcing of services, e.g. management services, to private providers, and partnerships between cooperatives and private enterprises.<sup>3</sup>

8. With respect to the re-introduced AMIS, one objective would be for MoARD to coordinate and streamline many different market information systems, already existing or under development, into an overall national system. To determine the likely design and content of AMIS, MoARD is currently undertaking a study with the participation of concerned stakeholders. The study is expected to show how the current market information systems run by different organizations and those that are under development could be organized under one national system so that there will be an interface and communication between the systems.

9. In the design, all programme partners are public institutions, with the possible exception of the cooperatives and a few private MFIs. There is therefore a risk that programme delivery becomes

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<sup>2</sup> GoE assumes that the Commodity Exchanges will handle these outstanding issues: “A well-functioning institutional framework, a risk transfer mechanism from small farmers to private traders and market clearing mechanisms are outstanding issues that the establishment of the Ethiopia Commodity Exchange is supposed to handle.”

<sup>3</sup> GoE does not agree that this future scenario is realistic. GoE states:” EGTE was made the sole warehouse operator owing to the absence of alternative competent private warehousing service providers” and “Dominance would be a barrier to entry only if it is accompanied by efficiency of operation. If there is no institutional barrier to entry and if private sector operators are presumed to be efficient in their operation then the likely dominance of the system by EGTE would not be a barrier to entry” and “EGTE will also charge a nominal price for its warehousing services, as the sole interest of the government is the proper functioning of the system rather than the revenue to be obtained from the service.”



supply-driven. Recognising this, the design (Appraisal Report) stated: “to promote increased synergy between the public and private sectors” and to ensure “that Programme activities reflect the concerns and needs of the intended beneficiaries...AMIP will support establishment of a Joint Sector Review Forum by MoARD at federal level and a Regional Agricultural Marketing Advisory Forum (RAMAF) by the regional state government to stimulate demand-side debate” (para 100 Appraisal Report). In addition, MoARD will establish an Agricultural Marketing Advisory Council (AMAC) of stakeholder representatives for programme coordination.

10. Though a demand-driven approach is applied and the views and feed-back of representatives of the private sector and farmers in this way will be solicited from time to time in “committee meetings”, the fact remains that the design anchors the programme in the public sector, with project activities driven by public sector planners and officers<sup>4</sup>. Unfortunately, however, markets do not function according to plans.

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<sup>4</sup> GoE does not agree with this view and highlights that implementation follows a purely demand-driven approach: “Demand driven and participatory approach to plan preparation was, is and will be the sole guiding principle for program intervention”.



## Data on Support Delivered for Pastoral Areas (PCDP)

Appendix 7 - Table 1. Number of micro-projects implemented, completed and functional by region (March 2007)

Sub-region	Total Approved	Total Completed		Total Operational		Total On going	
		No.	%	No.	%	No.	%
Somali	788	570	72%	377	48%	218	28%
Afar	342	185	54%	95	28%	157	46%
Oromia	681	376	55%	341	50%	305	45%
SNNP	314	296	94%	287	91%	18	6%
National	2,125	1,427	67%	1,100	52%	698	33%

Source: PCDP, 2007

Appendix 7 - Table 2. Number of projects by type and by region

Projects	Somali	Afar	Oromiya	SNNP	Total
Water	269	51	122	230	672
Income generating.	105	22	308	6	441
Education	105	63	79	19	266
Human Health	121	59	30	17	227
A/Health	76	62	26	2	166
Local Level Support	15	24	87	15	141
Irrigation	69	29	0	1	99
Community road	27	31	12	11	81
Natural resource	1	1	17	13	32
<b>Total</b>	<b>788</b>	<b>342</b>	<b>681</b>	<b>314</b>	<b>2,125</b>



### Assessment of Selected Technical Assistance Grants

Five regional/global grants and two small country grants were reviewed, viz.

#### Technical Assistance Grants Assessed by the CPE

Grant No.	Implementing Agency	Grant Amount (US\$)	Title & Target Countries	Approval	Closing Date
<b>Large Global/Regional</b>					
695	CYMMIT	1,300,000	Developing and Disseminating Stress-Tolerant Maize for Sustainable Food Security in East, West and Central Africa. Phase II. <b>Burundi, Ethiopia, Kenya, Madagascar, Rwanda, Tanzania, Uganda</b>	April 2004	31/12/2008
652	CIP	800,000	Programme for Integrating and Scaling-Up and Replicating Technologies for Resource-Poor Potato Growers. <b>Ethiopia, Uganda</b>	2003	30/09/2007
853	ILRI	1,600,000	Improve the Livelihoods of Poor Livestock Keepers in <b>Ethiopia, Syria and Vietnam</b> through increased Access to and Adoption of Fodder Innovations.	2006	31/12/2009
692	AFRACA	1,160,000	<b>Ethiopia, Kenya, Lesotho, South Africa, Tanzania, Uganda, Zimbabwe</b> - AFRACA development programme 2004-2007	18/12/2003	31/03/2009
284 A	ILRI	900,000	<b>Ethiopia, Kenya, Mozambique, Uganda, Zimbabwe</b> - Integrated approach to the assessment of trypanosomiasis control technologies & their impact in the Tse-Tse affected areas of Africa - Phase II	23/04/1998	
<b>Country Grants</b>					
197	AEMFI	75,000	<b>Ethiopia</b> - Support and deliver financial services to the rural poor	31/12/2000	30/09/2004
131	RUFIP PCMU	100,000	<b>Ethiopia</b> - support to RUFIP – start-up	27/12/2001	30/09/2003

**CIMMYT/maize:** The TAG for CIMMYT for development of stress tolerant maize varieties is relevant to the Ethiopian context and has achieved a number of results of potential benefit to Ethiopia, including: (i) four varieties have been released and two varieties are in the process of being released; (ii) new hybrids are being tested; (iii) 17 farmers and 23 researchers have been trained; and (iv) 12 articles have been published. While these are satisfactory achievements, the diffusion and adoption of the new varieties has been limited by insufficient seed production for which only one government centre is engaged.

**CIP/potatoes:** Potato production is relevant in the Ethiopian highlands where it has an unexploited potential. The Ethiopian share of the TAG for the CIP was small (US\$79,000) but has generated a number of results, including: (i) a number of farmers have been trained in Farmer Field Schools in effective management of Late Blight; (ii) new resistant varieties have been released. However, diffusion and scaling up was constrained by inadequate systems and resources for seed multiplication and extension.

**ILRI/tsetse:** The project is highly relevant to Ethiopia where vast areas are infested by the tsetse fly, the transmitter of trypanosomiasis. The presence of the fly and the disease has hampered animal husbandry activities and oxen-based crop husbandry. The project has attempted to formulate a strategy that integrates vector and parasite control. Recommendations were presented in a consultative workshop in March 2002. The Ministry of Agriculture was mandated by workshop participants to perform the role of coordinating and processing the information. Some of the technologies are being used in Kenya but have yet to be applied in Ethiopia. Since 2002, there has been no follow-up and reportedly, no activities have been carried out. Thus, the research results have not yet had any importance for Ethiopia's pastoralists, and therefore, at this stage, both effectiveness and impact is assessed as unsatisfactory, from an Ethiopian perspective.

**ILRI/fodder:** Activities are about to start and will focus on sheep and cattle fattening in the agro-pastoral and crop-livestock systems and on marketing which appears highly relevant. However, the

project has, at this early start-up stage, no linkages to Ethiopian institutions, which questions its relevance and potential benefits for Ethiopia. It would be obvious for IFAD to promote linkages to PCDP.

**AFRACA/rural finance:** In Ethiopia, the network of microfinance institutions (AEMFI) and a number of the large MFIs are members of the African Rural and Agricultural Credit Association (AFRACA). Since the early 1990s, AFRACA has been IFAD's partner institution in activities aimed at the development of the rural finance market in sub-Saharan Africa. The grant supports AFRACA's 2004-2007 Development Programme, contributing about 30% of the budget with the balance expected to come from AFRACA members (50%) and other AFRACA development partners (20%). The main programme activities of AFRACA in the period include: membership drive to increase the sustainability of the network; policy advocacy; studies and information sharing among members; as well as regional workshops and exchange visits. Periodic supervision missions made by IFAD as well as an independent evaluation conducted by IFAD in early 2007 have all indicated good performance of the supported programme. However, specific and concrete benefits for RUFIP and rural finance in Ethiopia have been modest.

**RUFIP start-up grant:** The grant was aimed at supporting the PCMU in all its initial activities to a level where actual programme activities including lending to MFIs could start immediately after the programme was declared effective. A review of activities, undertaken by the PCMU of DBE in the start-up period, shows that the grant was utilized well and played an important role in setting up a strong foundation for effective implementation of the programme. The grant was very supportive of the loan programme.

**AEMFI Studies:** At the design stage of RUFIP, there were no MFIs operating outside the four main regions of Ethiopia besides Addis Ababa (Amhara, Oromia, Tigray and SNNPR) and therefore RUFIP largely targeted its activities towards working with MFIs in these four regions. Due to harsh socio-economic and political conditions in the other regions (Somali, Afar, Benshangul-Gumuz, Gambella, and Harar) it was not clear to which extent sustainable rural financial services could be developed. The grant to AEMFI was therefore to support studies on the financial services environment in these regions with a view to identifying possible avenues for enhancing accessibility of financial services. AEMFI hired well qualified consultants to undertake the studies which were duly completed by September 2001. The grant was highly relevant to IFAD's target group and complementary to the loan programme. Two MFIs, affiliated to the regional governments, have been started in these access deficit regions. Reportedly, the AEMFI studies served as important inputs in guiding the regional governments towards establishment of these two MFIs.

## Selected Indicators

Appendix 9 - Table 1. Economic, Social and Agricultural Indicators - Country Comparisons

	Population Millions 2006	Gross National Income US\$ per capita 2006	Human Development Index Ranking (of 177 countries, 2006)	Adult literacy rate 2000-05	Child Mal-nutrition % of children under 5 (2000-06)	Arable and Permanent Cropland hectares per capita (agric. population)	Agricultural Value Added US\$ per agricultural worker 2003-05	Cereal Production Kgs per capita 2003-05	Cereal Yield kgs per ha 2003-05	Food Aid Kgs grain equivalent per capita 2003-05	Food Aid 1,000 tons grain equiv 2003-05
<b>Ethiopia</b>	<b>73</b>	<b>180</b>	<b>170</b>	<b>36</b>	<b>38</b>	<b>0.2</b>	<b>64</b>	<b>157</b>	<b>1,213</b>	<b>18</b>	<b>1,288</b>
Kenya	35	580	152	74	20	0.2	169	101	1,682	4	150
Uganda	30	300	145	67	23	0.3	101	87	1,559	8	245
Tanzania	39	350	162	69	22	0.2	167	126	1,403	3	120
Mozambique	20	340	168	....	24	0.3	83	99	925	9	172

Appendix 9-Table 2. Macroeconomic Balance Indicators

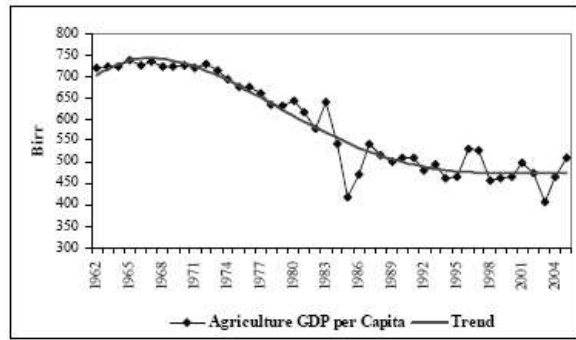
<i>percent of GDP</i>	2003/04	2004/05	2005/06
Gross Domestic Saving	5.4	2.6	5.2
government saving	2.4	2.4	3.7
private saving	3.0	0.2	1.5
Gross Domestic Investment	21.4	20.5	19.8
government investment	9.0	9.1	8.4
private investment	12.4	11.4	11.4
External Current Account Balance			
including official transfers	-4.2	-6.8	-10.4
excluding official transfers	-10.2	-13.4	-16.9
Government Revenue	17.0	15.8	16.9
Government Expenditure+net lending	25.1	25.2	25.4
Fiscal Balance including grants	-3.2	-4.7	-4.4

Source:IMF Information Notice on 2007 Article IV Consultation

Appendix 9 - Chart 1. Annual Percentage GDP Change (1999/2000 prices)



**Appendix 9-Chart 2. Real Agricultural GDP per capita  
1962 - 2005**



Source: MoFED 2006, 2005.



### List of Persons Met

#### **Ministry of Finance (Addis)**

Mekonnen Manyanzewal, State Minister  
Fissela Aberra, Director Multilateral Cooperation  
Dejene Demissie, Head of IFI Division

#### **Ministry of Agriculture and Rural Development/AMIP (Addis)**

Yaekob Yalla, State Minister  
Sitotaw Berhanu, AMIP Coordinator

#### **Ministry of Water Resources**

Asfaw Dingamo, Minister for Water Resources  
Ayalew Abate, SCPII Coordinator

#### **Ministry of Federal Affairs/PCDP**

Maeregu Attabte Marian, State Minister, Ministry of Federal Affairs  
Tibebu Kifle, Acting Project Coordinator, PCDP  
Belayhum Hailu, Policy and Research Advisere, PCDP  
Fekadu Abate, Monitoring and Evaluation Specialist, PCDP  
Mesfin Arega, Early Warning System Coordinator, PCDP  
Kenea Feyisa, PCDP Coordinator, Oromia Region  
Dereje Andualem, MST Team Leader, SNNPR  
Yeshitila Seifu, Project Coordinator, PADDC, SNNPR  
Haile Mariam Zara, Deputy Head, PADDC, SNNPR

#### Focus Group Discussions (FGD):

FGD - Dire Woreda, Dubuluk Kebele, Milk Collection Centre  
FGD - Dire Woreda, Dubuluk Kebele, Health Post  
FGD - Dire Woreda, Madacho Kebele, Grade 1-5 Primary School  
FGD - Dire Woreda, Romso Kabele, Grade 5-8 School  
FGD - Dire Woreda, Dida Mega Kabele, Mill, Petty Trade and Livestock Income Generating Projects  
FGD - Dire Woreda, Harallo Kabele, Water Point with Engine  
FGD - Dire Woreda, Harallo Kabele, Income Generating Women's Group  
FGD - Arero Woreda, Fuldwa Kabele, Grade 5-8 School  
FGD - Arero Woreda, Hafura Kabele, Grade 1-4 School  
FGD - Arero Woreda, Hafura Kabele, Women's Group for Goat Breeding  
FGD - Arero Woreda, Jirenga Goro Cooperative at M/Gerfersa, Supply of Donkeys and Gerry Cans for Destitute Women

#### **National Bank of Ethiopia (NBE) – the central bank (Addis)**

Yigrem Kassa, Principal Microfinance Inspector  
Frezer Ayalew, Microfinance Inspector

#### **Development Bank of Ethiopia - RUFIP (Addis)**

Yewondwossen Teshome, President, Development Bank of Ethiopia  
Bahiru Haile, Manager, Project Coordinating Office, RUFIP  
Yahannes Gulilat, Head, Finance Division, RUFIP  
Meza Kabede, Gender Specialist, RUFIP  
Gideon Mekonnen, Monitoring and Evaluation Officer

**AEMFI (Addis)**

Dr. Wolday Amha, Director  
Amdework Berhanu, Training Officer

**Oromia Credit and Savings Share Company, OCSSCO (Addis)**

Reshid Muhaba, Manager, Rural Loan Operations Department  
Didha Hunde, Division Head, Rural Loans

**OCSSCO - Mojo Branch**

Zeleka Motuma, Mojo Branch Manager  
Dechassa Fufa, Loan Officer, Mojo branch  
Semira Seman, Loan officer, Mojo branch

**OCSSCO - Adama Branch (Nazareth)**

Wossen Megra, Adama Zonal Operations Officer  
Abdo Edao, Adama Branch Manager  
Weyema Fayis, Adama Branch Accountant  
Sofia Abdulkadir, MSE Loan Officer

**OCSSCO - Shashamene Branch**

Efrem Melkamu, Planning and Research Officer, Shashamene  
Asfaw Hundu, Branch Manager, Shashamene  
Girma Odefo, Branch Accountant, Shashamene  
Girma Assefa, Zonal Administrator, Shashamene  
Abraham Muluyetu, Zonal Auditor, Shashamene  
Worktu Adugna, Loan Officer, Shashamene

FGD, Awash, Urban Centre/Group Loan  
FGD, Awash MSE Client  
FGD, Shashamene MSE Client

**Rural Financial Services Fund – RFSF (Awassa, SNNPR)**

Mesfen Nare, Accounts Section

**OMO MFI (Awassa, SNNPR)**

Worku Gebreyohannes, Manager, Planning and Business Development Department (Awassa)  
FGD, Rural Agricultural Centre/Group, Sodo

**OMO - Soddo Branch**

Paulus Moja, Branch Manager, Sodo  
Martha Toma, Operations Officer, Sodo  
Alonge Alkaso, Sub-branch Manager  
Lenise Abraham, Assistant Accountant

FGD, Rural Agricultural Centre/Group, Sodo

**Sidama MFI (Awassa, SNNPR)**

Alemayehu Gujo Loke, General Manager  
Asabu Handamo, Head of Project Study Planning Programming Department  
Birhanu Kankara, Head of Operations Department

FGD, Idlu Agricultural Group, Wara Village

**Cooperative Promotion Agency, SNNPR (Awassa)**  
Meskele Ayele, Head of Cooperative Promotion Agency  
Mohammed Yishak, RUFIP RUSACCOs Coordinator

**Ejersa Cooperative Union (Yiga Chefe town/Woreda, Geddo Zone)**  
Asmelash Reda, Manager, Ejersa Savings and Credit Cooperative Union  
Fekadu Feyissa, Accountant, Ejersa Savings and Credit Cooperative Union  
Endalkachew Aklilu, Zonal Focal Promoter for RUFIP

**Amhara Credit and Savings Institution (ACSI): Bahir Dar**  
Gashaw Workneh Zeleke, Deputy Managing Director  
Dessalgne Mekonnen Ayele, Rural Operations Manager

**ACSI - Anbesame sub-branch, South Gonda**

Birrara Beza, sub-branch Coordinator

FGD with sub-branch staff – nine members of staff – accountants (3); credit Officers (3); Auditor (1); Cashiers (2) plus coordinator and Mr. Dessalgne from head office

3 FGDs with Petty traders; and 2 agricultural groups – livestock and crop cultivation  
Quick visit also to Bahir Dar microfinance branch and Microbank

**Amhara National Regional State Cooperative Promotion Agency (Bahir Dar)**  
Ayenew Belay Engda, General Manager  
Biressaw Emiru, RUFIP Coordinator

**Gohe Cooperative Savings and Credit Union (Gore, Bure Woreda; West Gojam Zone)**  
Hailu Genefu, Manager  
Amsalu Tschay, Accountant  
Tilahun Kinde, Union Board Chairman

**Dedebit Credit and Savings Institution (DECSI) – Makele, Tigray**  
Atakilt Kiros, General Manager  
Yohannes Gabremeskel, Planning and Business Development Manager  
Temesgen Abraha, Head of Public Relations

**DECSI - Quiha sub-branch**

Tesfu Gabreselassie, Manager

- FGD with five staff members
- Interview with client; Mrs Aregash Amare – in dairy farming

Visit to Wukro sub-branch; interview with one client,

**PEACE MFI (Addis)**  
Tezera Kebele, General Manager

**Federal Cooperative Agency (Addis)**  
Bedru Dedgeba Ejabo, Deputy General Director  
Berhane Kidanu, RUFIP Programme Coordinator

**Ethiopia Institute of Agricultural Research (ARTP)**  
Solomon Assefa, Director General  
Asfaw Zelke, Coordinator, ARTP  
Amdesilassie Jember, Procurement Specialist, ARTP  
Alemu Lombabo, Project Engineer, ARTP  
Seifu Esmete, Monitoring and Evaluation, ARTP

Abaydar Ketema, Financial Specialist, ARTP  
Tigist Reda, Secretary, Agricultural Research Fund  
Dawit Alemu, Head of Socio-economics Research Department  
Yeshi Chiche, Head of Gender Focal Unit  
Hayat Udin, Planning Department  
Haile Getachew, Director, Yabello Pastoral and Dryland Agricultural Research Centre  
Million Eshete, Chickpea and Lentil Breeder, Debre Zeit Agricultural Research Centre  
Berhe Gebregzuabher, Director, National Veterinary Institute  
Dr Teklu Tesfaye, Head, Extension-Research-Farmers Linkage Department

#### **Haramaya (Alemaya) University**

Simelis Hawhriut, ARTP Coordinator  
L.M. Pant, Professor and Principal Investigator  
Tadele Tefera, Associate Professor and Director, Extension Division  
Abebe Fanta, Asst Professor, Agricultural Engineering

#### **Agricultural Research Institutes/Centres**

Lemma Dessalegne, Center Director  
Bedru Beshir, Head, Research & Extension Division  
Berhanu Shelima Jabessa, Center Director  
Taha Mume, Extension Research Expert  
Naga, Division Head, Animal Breeding  
Daniel Dauro, Director General, SARI  
Andrias Geza, Director, Socio-Economics & Extension Research  
Semagu Asredie, Center Director, Debre Birhan ARC  
Solomon Tjrunch Abebe, Socio-Economist  
Addisu Tesfaye Mengistu, Head, Socio-Economics & Research Extension Linkages  
Samsun Lekelle, Center Director, Sekota Dryland Agricultural Research Centre  
Mehdi Ejie, Deputy Director  
Habtamu Gecemew, Junior Researcher  
Hailemariam Teklekiold, Economist  
Abebe Atrilaw, Agronomist

#### **Woreda Office of Agriculture & Rural Development (WoARD)**

Fayeesa Assafa, Head, WoARD  
Lema Markos, Expert, Water Resources

#### **Regional Bureau of Water Resources (SCP-II Project, Tigray)**

Ayalew Abate, SCP II Coordinator, Ministry of Water Resources  
Fiksum Maros, Expert, Operation & Maintenance  
Michael Tsehege, Head, Dam Study and Design

#### **Bureau of Agricultural and Rural Development, Tigray**

Hailu Berhe Tesfay

#### **IFAD Country Office, Ethiopia**

John Gicharu, Country Program Manager  
Mr. Abebe Zerihun, Field Support Manager

#### **Embassy of the Kingdom of the Netherlands**

Pim de Keizer, First Secretary

#### **African Development Bank**

Hailemariam Hailemeskel, Agricultural Economist, African Development Bank

**The World Bank**

Ms Jeeva Perumalpillai-Essex, Lead Operations Officer

**International Food Policy Research Institute**

Kwadwo Asenso-Okyere, Director

David J. Spielman, Research Fellow

**ILRI**

Shirley Tarawali, Director, People, Livestock and the Environment

**CIMMYT**

Dennis K Friesen, Agronomist/ Liaison Officer

**National Veterinary Institute**

Berhe Gebreegziabher, General Manager

Ato Gebremariam Woldegiorgis, Coordinator, Root & Tuber Crops Research, CIP Project

**Somali Pastoral Community Development Project**

Reshid Project Coordinator

Shinile WDC Members

Shinile MOT members

**PFE**

Tezera Getahun, Director of PFE





Enabling poor rural people  
to overcome poverty

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