

COUNTRY STRATEGY AND
PROGRAMME EVALUATION

Federal Democratic Republic of

Ethiopia

Executive Summary



IOE

IFAD
Investing in rural people

Independent Office of Evaluation

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A. Background

1. The Independent Office of Evaluation (IOE) of the International Fund for Agricultural Development (IFAD) undertook a country strategy and programme evaluation (CSPE) in the Republic of Ethiopia, as approved by the IFAD Executive Board in 2021 during its 134th Session. The CSPE covered the period 2015-2022 and was in line with the IFAD Evaluation Policy (2021). The main objectives of the CSPE, in accordance with the IFAD Evaluation Manual (2022), were to: (i) assess the results and performance of the IFAD strategy and programme; and (ii) generate findings and recommendations for the future partnership between IFAD and the Government of Ethiopia (GoE) for enhanced development effectiveness and sustainable rural development. The findings, lessons, and recommendations were used in the preparation of the new Country Strategic Opportunities Programme (COSOP) for Ethiopia.
2. **Country Context.** Ethiopia is a landlocked country with a total land area of 1,104,300 km² and a population of approximately 117 million people. It is surrounded by Eritrea to the north, Djibouti to the northeast, Somalia to the east, Kenya to the south, and South Sudan and Sudan to the west. Ethiopia is categorized as a low-income country with a Gross Domestic Product (GDP) per capita of US\$936 in 2020. Food insecurity and malnutrition remain a major concern across the country, with an estimated 20.4 million people in need of assistance and more than 30 per cent of the households consuming below the minimum daily nutritional requirements. In 2022, the food insecurity situation was exacerbated by conflict and draught.
3. The country has a high youth population with approximately 41 per cent under the age of 15, and 71 per cent under 30. Almost 80 per cent of the Ethiopian population reside in rural areas, and are dependent on agricultural-based livelihoods. Women provide most of the agricultural labor, and the agricultural sector is dominated by small-scale farmers who produce 90 to 95 per cent of the country's agricultural outputs. Ethiopia has the largest livestock population in Africa, and therefore it is not surprising that pastoralism and agro-pastoralism provide livelihoods for more than 12 million Ethiopians.
4. Within the agricultural sector, unequal gender norms continue to limit Ethiopian women's ability to innovate, own land, control resources and income, access credit, and engage in leisure pursuits. The country is highly vulnerable to climate variability and climate change, due to high dependence on rain-fed agriculture and natural resources. Ethiopian smallholder farmers have limited access to agricultural credit, and Islamic financing is limited, in spite of the high demand.
5. **IFAD's strategy and operations for the reviewed period.** The 2016 COSOP's overall goal was to raise incomes, food security, and prosperity of rural households through two strategic objectives: (i) Enhanced resilience and productivity of ecosystems and livelihoods through improved management of natural resources, particularly water; and (ii) Enhanced linkages with the private sector to ensure increased and sustained access to markets, finance, and agricultural technology. Its main themes were natural resources, access to finance, and agricultural production and innovation. Nine loan-supported projects (five completed and four on-going, including one approved at the end of 2022) and three grant-financed projects were considered under the programme assessed by this evaluation.

B. Performance of IFAD's country strategy and programme

6. **Relevance** is rated as satisfactory. The IFAD country strategy was in good alignment with Ethiopia's development and agriculture strategies as outlined in the second Growth and Transformation Plan (GTP II). It addressed national priorities, including, investment in agricultural development in the highlands, natural resource management, rural finance, and agro pastoral livelihoods development. IFAD supported programme was also aligned with the National Financial Inclusion Strategy,

and sectoral policies, except of commercialization and agro-industry development policy. The designs of portfolio projects were consistent with IFAD strategies, the COSOP 2016 and the global IFAD strategies (2016-2025). The programme also responded to the needs of smallholder farmers, especially in regions prone to natural disasters and other shocks.

7. The geographic coverage and targeting approaches were relevant and aligned with the GoE's approach for identifying vulnerable groups. Projects applied approaches that were consistent with the fragility situation of targeted households, by applying participatory principles for interventions in both upland and lowland areas, namely the community-driven development (CDD) approach. Nevertheless, specific approaches for pastoralists, known for their frequent movements, were limited as supports targeted both agro-pastoralists and pastoralists simultaneously. The projects' implementation arrangements were appropriate, as their management units were well anchored within the government institutional framework, in line with mandates of relevant ministries. Changes made during projects' implementation were also relevant, and responded to recommendations from supervision missions and/or mid-term reviews.
8. **Coherence** is rated as moderately satisfactory. IFAD's comparative advantage was acknowledged explicitly by most stakeholders in relation to small scale irrigation development and inclusive rural finance. The COSOP 2016 design and implementation was in line with the United Nations Development Assistance Framework, 2016-2020. IFAD support was driven by the priorities of the GoE and its initiatives to improve livelihoods and alleviate poverty. Evidence suggests the existence of good synergy between the IFAD programme and the World Bank (WB) in promoting the CDD approach in lowland areas. Although there was thematic convergence between IFAD's support and other partners' programs in the rural sector, synergies and coordination of interventions remains weak. IFAD played an active role in the agriculture Sector Working Group, but this has not yet contributed to effective coordination of rural sector interventions by the Ministry of Agriculture (MoA). Although IFAD supported programme has shown consolidation of lessons learned from one phase to another phase of the same project, there are learning and synergy gaps between the three types of projects, leading to missed opportunities in consolidating programme achievements.
9. Regarding the sub-domains of the coherence criterion, **knowledge management** is rated moderately satisfactory, while **partnership and policy engagement** are rated satisfactory. Collaborative efforts were made to create knowledge through diagnostic studies, assessments, and action-oriented research. Furthermore, there was evidence of effective knowledge dissemination and information sharing between stakeholders of individual projects through various means. However, the programme lacks a structured and systematic approach for effective utilization of knowledge across projects and beyond, to reach other key players within the rural sector. The programme made significant contribution with the development of a Management Information System since 2019, yet to be fully utilized by the MoA. Effective strategic partnership with the GoE through several ministries, translated into strong government commitment and enabled the programme to leverage various financing and operational partnerships, which resulted in broadening the areas covered by interventions. However, partnerships developed with private actors were only effective in terms of financial inclusion, not to favour a better access to markets for smallholder farmers. In relation to policy engagement, there were evidence of policy change due to results of IFAD supported projects, as relevant governments' directorates used projects' results to prepare policy related directives. Examples are the proclamation of Irrigation Water Users Associations (IWUAs); the revised cooperatives directives; and enhanced regulation and supervision procedures by the National Bank of Ethiopia for microfinance institutions.
10. **Effectiveness** is rated satisfactory. The programme facilitated increased access to a range of financial services by poor rural households through microfinance institutions

and Rural Savings and Credit Cooperative (RuSACCOs). The microfinance institutions more than doubled their clients, from 4.7 million in 2012 to 11.9 million in 2019; and their cumulative gross loan portfolio increased from ETB 9.59 million in 2013 to ETB 46.8 billion. The credit line of the programme enabled microfinance institutions to adopt risk-based interest rates, and to diversify into agricultural loans, individual loans, salary-based loans for government employees, post-harvest loans, youth loans, housing loans among others. There were gaps in the development of management information system for microfinance institutions, and in capacity building of implementing partners' staff. Even though, financial consumer protection guidelines were developed and rolled out, they are yet to be effective, and Islamic banking is still at nascent stage. Overall, IFAD support contributed towards improvement of the governance framework of microfinance institutions.

11. There was a significant contribution from supported operations in improving access to social infrastructure by pastoral and agro-pastoral communities. Examples of social investments include: 1481 water supply units, 2236 schools, 897 health posts, and 1,394km rural roads. The portfolio of projects promoted the formation of various community-based groups and cooperatives (irrigation water-users associations, [IUWAS], committees for watershed management and/or managing social infrastructure), which play critical roles in resilience building strategies, but the functionality of these groups is at different levels, some better than others. The programme successfully promoted sustainable natural resources management practices, albeit on a limited scale. Also, small-scale irrigation schemes reached a total of 38,400 Ha and contributed to improving absorptive and adaptive capacities through increased farmers' production, leading to improved economic resilience. However, there were gaps in linking farmers to private sector actors for effective and sustained access to markets.
12. **Innovation** is rated as satisfactory. The programme promoted various social, technological and financial innovations. Social innovations – such as, the provision of incentives (in the form of rights to cut-and-carry fodder from communal land) for the restoration of degraded natural resources and the market access alliances – were meaningful to contribute addressing challenges related to the sustainable management of natural resources and enabling access to markets by smallholders. Technological innovations, such as biogas, improved cooking stoves, pressurized irrigation and sprinklers, contributed to enhancing the resilience of ecosystems and economic livelihoods. In the sub-sector of financial inclusion, there have been innovations such as: the risk-based supervision approach developed by the National Bank of Ethiopia and the new concept/approach for common core banking, which were useful addressing respectively oversight and affordability challenges.
13. **Efficiency** is rated moderately satisfactory. The timeliness (time between approval date and the effectiveness date) of portfolio projects was in line with the average of the IFAD-ESA region (6.6 months), and this was also in line with the sub-regional average (6.56 months). Secondly, the elapsed time from approval to first disbursement was 15.5 months on average, slightly lower than the sub-regional average of 17.33 months. However, delays affected the implementation of projects variably, and in some cases, these were significant due to implementation inefficiencies (e.g. setting up the management unit and/or the governance body, delay in launching activities). Overall, the disbursement rate was high, reaching about 100 per cent for all completed projects. With few exceptions, the procurement was a recurring challenge across the portfolio, and this hindered the smooth implementation of projects, but there has been notable improvement with the implementation of a web-based system since 2021. Management costs were maintained at an acceptable level, and unit costs of investments were in line with available benchmarks. Lastly, ex-post economic financial analysis was performed for only one completed project, which is insufficient for the appreciation of the economic performance of the overall country programme over the reviewed period.

14. **Impact** is rated as satisfactory. There is clear contribution of projects in increasing incomes of beneficiaries but there were limited evidence of contribution to the increase in assets. Irrigation schemes contributed to increased incomes mainly through increased production. There are indications of improved food security and nutrition, but robust evidence (from impact assessment) was limited. Regarding human and social capital empowerment, evidence showed positive contribution to human capital through investments in schools, and basic social services, such as water, sanitation, human health, and structured training across the rural finance sector. There was evidence showing that the CDD approach contributed to strengthen social cohesion and mechanisms, which enhanced the ownership of infrastructure in pastoral and agro-pastoral communities, and of irrigation schemes. Field evidence corroborated documented findings that improved social capital contributed to resilience strengthening of beneficiary communities.
15. Regarding rural institutions and policy, IFAD's support enabled positive institutional changes, for instance with local development planning where IWUAs, RuSACCOs and other cooperatives are becoming key institutional actors at kebele level (the lowest administrative unit in Ethiopia). Additionally, the programme contributed to several policy related changes, which led to improvement of: (i) governmental inter-agency coordination in the regions, (ii) the MFI supervision approach by the National Bank of Ethiopia; (iii) supervision and audit frameworks for cooperatives and RuSSACOs.
16. **Gender equality and women's empowerment** is rated moderately satisfactory. The programme has integrated gender mainstreaming strategies and guidelines, albeit relatively well. Most projects (5/8) incorporated gender targets at design, but not all programs have been consistent in collecting sex-disaggregated data. All projects achieved the planned targets for women's participation in activities. In spite of IFAD's support to the projects to adopt and cascade down gender approaches, almost all PMUs had few or no female staff. Regarding women economic empowerment, increased access to rural finance was a contributing factor to increased incomes for women, but women asset ownership is still limited. The programme facilitated increased women's participation in grassroots institutions, but their voice within these institutions appeared to be heard to a limited extent. Generally, in spite of achieving targets for women's participation, the contextual situation of women in intervention areas still makes it difficult to provoke deep change in social norms underpinning gender inequalities. Field evidence indicated that the programme had contributed to easing workload for women, and there were anecdotal cases of positive change in norms and attitudes.
17. **Sustainability** is rated as moderately satisfactory. Projects are well embedded within the government institutions, funded by the regular government budget. In addition, participatory approaches adopted by projects have enhanced the social organisation (ownership, community mobilization and mechanism) for managing the investments, but sustainable access to funding by grassroots organizations remains a challenge. The sustainability of technical support to foster CDD approach beyond the project period is dependent on government budgetary supports to these grassroots organisations, which has not been set aside so far. Irrigation water users' associations face challenges in ensuring technical maintenance of irrigation schemes. Lastly, sustaining the credit lines for Microfinance institutions and RuSSACOs for sustainable financial services provision also remains a challenge.
18. **Scale-up performance** is rated satisfactory. Effective linkages with governmental programs enabled scaling up by the government, from practice to policy, in small-scale irrigation, financial inclusion, and agro-pastoral systems management. Scaling up by private actors occurred for inclusive rural finance through Microfinance institutions and commercial banks. There are indications of scaling up by other development partners, but evidence was limited. For example, reports indicated that the RUFIP financing model has been used as a basis for developing new rural finance projects, by other development partners (including World Bank, GIZ, and AfDB).

19. **Natural Resources management and climate change adaptation (CCA)** is rated moderately satisfactory. Soil and water conservation measures were promoted to reduce natural resources degradation, and this resulted in the improvement of vegetation coverage. Securing, and sustaining access to and use of grazing resources was also promoted through community-based management of rangelands, which also included conflict management, and this resulted in improved governance framework. Promotion of climate-smart agriculture (CSA) practices yielded positive benefits, but an analysis of climate change risk has not been fully integrated into feasibility studies undertaken before construction of irrigation schemes. Due to the limited scale of interventions (watersheds and rangeland management), opportunities to improve CCA results were missed.
20. **Performance of partners.** IFAD performance is rated satisfactory while government performance is rated moderately satisfactory. The design of the country strategy and portfolio projects followed sound processes and IFAD has been commended by stakeholders for its inclusive approach to developing the COSOP and projects. The strategic niche of IFAD in relation to smallholder farming-systems development is well acknowledged by the GoE and other rural development partners. Support provided by IFAD to ensure projects' effectiveness was commended and credited for positive results, especially for small-scale irrigation and inclusive rural finance. In spite of the overall positive implementation support, the CSPE identified gaps, for instance in rural finance where recommendations made did not always address the identified challenges.
21. The GoE showed strong ownership and orientation in the setting of strategic choice for the IFAD program. The GoE established a framework for consultation with various organizations, through a sectoral working group, which contributed to mobilising external resources to support GoE efforts in rural development. Nevertheless, this has not yet enabled effective sharing of critical lessons and mutual learning among key players (national and international) of the rural sector. It appears that the good performance of public institutions with a critical role in implementing projects' activities was an important contributing factor of effectiveness. However, various reports (including mid-term reviews and completion reports) pointed out insufficient governmental support to RUFIP M&E activities.

C. Conclusions

22. Over the evaluated period (2015-2022), the country context was dominated by high rural poverty, exacerbated by high exposure and vulnerability of rural communities to natural shocks (especially droughts), and conflict. Aligned with the second Growth and Transformation Plan (GTP II, 2015-2020), the design of IFAD's country strategy and programme included strategic objectives and orientations that aimed at tackling main fragility causes in rural areas (e.g., food insecurity, lack of access to socioeconomic services and poverty) through four main themes – rural finance, community-driven social services, ecosystem resilience and economic resilience. IFAD's comparative advantage was well acknowledged in supporting smallholder farming in general, and specifically on inclusive rural finance and small-scale irrigation systems. Moreover, IFAD and the World Bank are acknowledged for supporting the community-driven development approach.
23. **The GoE demonstrated effective commitment and ownership of the IFAD supported programme**, which however weakened IFAD engagement with the private sector. Implementation arrangements were adequate, with PMUs fully integrated into the public institutional framework at all levels, resulting in effective ownership which is complemented by adequate institutional and budgetary governmental support. These arrangements were positive for sustainability of achievements.
24. **The programme achieved important policy results, "from practice to policy", including contribution to numerous institutional and policy changes**, due to the direct usage of projects' results and expertise by government actors. Important policy

related results were the: (i) institutionalization of Irrigation Water User Associations with the related Proclamation; (ii) revised Proclamation on banking supervision for enabling better inclusive finance, including the governance framework; and (iii) development of various cooperative directives for different types of cooperatives including savings and credit, production, marketing, consumer, and multipurpose cooperatives.

25. **IFAD-supported operations contributed to strengthening the economic resilience of smallholder farmers by building the ecosystem and economic resilience in fragile regions**, through increased agricultural productivity, increased access to financial services, and increased access to social and economic infrastructure in pastoral and agro-pastoral communities. Nonetheless, in spite of the positive results, there were effectiveness gaps in rural finance and agricultural production systems. Critical gaps were: skewed access to credit lines in favour of big regional (mostly governmental) Microfinance institutions than smaller ones and RuSACCOs; limited availability of Islamic friendly financial products; weak cooperatives that are not yet capacitated to perform primary aggregation services for access to markets; deficiencies that prevent optimal exploitation of irrigation schemes.
26. **IFAD's support contributed to enhancing knowledge and skills of participating microfinance institutions and actors**, which resulted in improved business processes, leadership and technical knowledge. The programme also contributed to strengthening a saving culture amongst the rural communities. In remote pastoral areas, investments in social infrastructure (co-financed by the WB) have contributed to improved access to education, potable water, health and sanitation. The CDD approach implemented contributed to strengthening social mechanisms, and community-based organizations are becoming key institutional players at local level, but their capability is still weak to mobilize financial resources and for effective maintenance of irrigation schemes.
27. IFAD's support complemented the GoE efforts to enhance gender equality and women empowerment, but there is still ample room for improvement. Overall, the programme contributed to: (i) income gains for women beneficiaries, (ii) better access to productive resources, (iii) easing and/or reduced workloads and (iv) positive changes in household responsibilities and relationships (especially between husband and wife). Nonetheless, all these positive changes are limited to a few communities and the implementation of the gender model family, a transformative approach, remained limited to one project.
28. Finally, the IFAD supported programme has performed well in the production, dissemination and usage of knowledge, and learning from one project phase to the next phase, but not between different types of projects. In fact, opportunities were missed to consolidate achievements of the entire programme, because there was none inter-projects mechanism for lessons learning. Additionally, wider functional lessons sharing is not yet effective within the entire rural sector, beyond the harmonization of supports from the donor community.

D. Recommendations

29. The CSPE made the following recommendations considering the need to consolidate achievements and to improve on areas that deserve further attention.
30. **Recommendation 1: Explicitly include in the next strategic objectives aspects of pro-poor value chain development**, especially when agricultural surplus (both crop and animal production) become significant. In line with this, greater support should be provided for: (i) Capacity building for farmers' cooperatives that have been promoted to perform main functions, such as providing access to inputs and primary aggregation; (ii) Establishing linkages between production cooperatives and financial cooperatives or microfinance institutions for effective access to credit; (iii) Developing win-win partnerships with private actors for effective and sustained access to markets. The promotion of multi-stakeholders' platforms would also be necessary to enable

smallholders to engage and effectively participate in key value-chain functions, while facilitating learning and engagement in policy discussion.

31. **Recommendation 2: Enhance resilience building, especially in remote fragile rural areas, by focusing on the development of absorptive and adaptive capacities.** This involves strengthening the agricultural systems to include effective coping mechanisms and alternative solutions for improved and sustained livelihoods. Areas that deserve greater support include: quality assurance in constructing irrigation schemes; better water efficiency and cropping techniques in irrigated plots; capacities (technical, managerial and financial) of community-based organizations; sustainable pastoral system; diversification of economic opportunities; and access to markets. Additionally, it is critical to leverage resources from the donor community to implement watershed and rangeland management at scale, aligned with sustainability and adaptation to climate change.
32. **Recommendation 3: Consolidate and sustain results achieved in relation to financial inclusion,** by enabling stronger engagement of key national players to identify innovative solutions, for instance digital finance, customer protection and micro insurance services. Other key tasks are: (i) the review and revision of criteria for accessing a credit line, so it is more accessible for small microfinance institutions and RuSACCOs; (ii) the implementation of effective M&E systems that are useful to capture outputs and outcomes, both quantitative and qualitative; and (iii) the sustainability of the credit line for lending to micro small and medium enterprises with special focus on rural and agriculture. Finally, it is critical to take action to remove bottlenecks to the expansion of Islamic finance.
33. **Recommendation 4: Upscale or replicate the implementation of the gender transformative approach to other projects,** either of the country programme or under the MoA, to address the root causes of gender-inequality at a significant scale. More efforts are required to improve: (i) the inclusion of women in RuSACCOs; and (ii) the effectiveness of women's role in the management committees of community-based organizations promoted, beyond trying to achieve quotas.
34. **Recommendation 5: Facilitate the sharing of lessons to enhancing the consolidation of results achieved within the programme and the national agriculture sector.** For that purpose, IFAD's support is required to ensure adequate mechanisms for cross-learning across the entire programme, for instance by organizing national learning activities and events on cross-cutting themes or on any relevant topic of interest for mutual learning. Additionally, IFAD's support is also needed to facilitate, in consultation with other key players, the implementation of periodic sector-wide learning events, for instance, the review of portfolio results and/or for thematic presentations/discussions (on topics of comparative advantage).