Investing in rural people in Ethiopia

Rural poverty in Ethiopia

Over the past two decades, the Government of the Federal Democratic Republic of Ethiopia has carried out far-reaching institutional and policy reforms to transform itself from a centrally planned, Marxist regime to the facilitator of a stable market economy. These reforms have underpinned efforts to reduce poverty and increase spending on agriculture, education, health, water, transport and telecommunications.

Since 2007, Ethiopia has achieved strong economic growth, making it one of the highest performing economies in sub-Saharan Africa. Yet it remains one of the world’s poorest countries. About 29 per cent of the population lives below the national poverty line. Ethiopia ranks 174th out of 187 countries on the United Nations Development Programme’s human development index, and average per capita incomes are less than half the current sub-Saharan average.

Ethiopia has enormous potential for agricultural development. At present only about 25 per cent of its arable land is cultivated, and agriculture is dominated by subsistence rainfed farming, using few inputs and characterized by low productivity.
The vast majority of farmers are smallholders. About 12.7 million smallholders produce 95 per cent of agricultural GDP. These farmers are extremely vulnerable to external shocks such as volatile global markets and drought and other natural disasters.

Smallholder farmers form the largest group of poor people in Ethiopia. More than half cultivate plots of 1 hectare or less and struggle to produce enough food to feed their households. A large number of poor households face a prolonged hunger season during the pre-harvest period. Herders, like farmers, are vulnerable to increasingly frequent drought, which can wipe out their livestock and assets and bring on severe poverty.

The persistent lack of rainfall is a major factor in rural poverty. Drought has become more frequent and severe throughout the country over the past decade, and the trend shows signs of worsening. The impact of drought is most severe for vulnerable households living in the pastoral areas of the lowlands and the high-density parts of the highlands.

In addition to their vulnerability to climatic conditions, poor rural people lack basic social and economic infrastructure such as health and education facilities, veterinary services and access to safe drinking water. Among the more specific causes of rural poverty in Ethiopia are:

- An ineffective and inefficient agricultural marketing system;
- Underdeveloped transport and communications networks;
- Underdeveloped production technologies;
- Limited access of rural households to support services;
- Environmental degradation;
- Lack of participation by poor rural people in decisions that affect their livelihoods.

The intensity of poverty varies at the household level in relation to the land’s size, quality and productivity, climate conditions and production technologies. Households headed by women are particularly vulnerable. Women are much less likely than men to receive an education or health benefits, or to have a voice in decisions affecting their lives. For women, poverty means more infant deaths, undernourished families, lack of education for children and other deprivations.

Ethiopia has an estimated 1.3 million people living with HIV/AIDS. Rural areas have low prevalence rates, but available data suggest that the incidence could increase in these areas. With the support of development partners, the government has embarked on major programmes to combat the spread of HIV/AIDS, and assist poor rural households in coping with the social and economic consequences of living with the disease.
Eradicating rural poverty in Ethiopia

The Government of Ethiopia has made – and continues to make – significant efforts to address poverty in rural areas. Its five-year Growth and Transformation Plan (GTP) for 2010/11 through 2014/15 carries forward the successful strategies of the previous Plan for Accelerated and Sustained Development to End Poverty. The GTP emphasizes the importance of promoting rapid and broad-based economic growth through seven strategic objectives:

- Sustaining equitable economic growth;
- Maintaining growth focused on agriculture and rural areas;
- Developing industry;
- Expanding infrastructure;
- Enhancing the expansion and quality of social development;
- Building capacity and promoting good governance;
- Promoting empowerment of women and young people.

In recent years, Ethiopia has made substantial economic progress, with sustained growth at an average rate of more than 11 per cent. This progress is complemented by the strong performance of the agricultural, industrial (construction and manufacturing) and service sectors, which have seen average growth rates of 10 per cent, 10 per cent and 13.2 per cent, respectively. The construction sector has been stimulated by public sector investment in infrastructure.

At the same time, health service coverage and school enrolment at all levels have improved remarkably across the country, and access to potable water increased, as human capital development has also received significant encouragement from the government.

As part of the country’s infrastructure expansion, high-quality asphalt roads and rural community roads have been constructed all over Ethiopia. This expansion has increased road density from 29 km per 1,000 km² in the fiscal year 2001/01 to 44.5 km in 2009/10 (according to official figures). As a result, the average time it takes to reach all-weather roads has been reduced from about 7 hours in 2000/01 to 3.7 hours in 2009/10. Meanwhile, hydroelectric power generation capacity has brought electricity access to 41 per cent of the population in fiscal year 2009/10, up from 16 per cent in 2004/05. And the proportion of the population with access to telecommunications services within a 5 km radius has reached 50 per cent.

By committing more than 60 per cent of its total expenditures over the last seven years to poverty-oriented sectors – such as agriculture, education, health, water and road development – the government has maximized its efforts to bring about pro-poor economic growth. Despite this impressive record, however, major challenges remain, including low levels of income, savings and productivity in the agricultural sector, limited implementation capacity, unemployment and a narrow modern industrial base.
Growth efforts have also been threatened by the twin challenges of inflation and pressure on the balance of payments. In addition, development finance had been a critical constraint on the implementation of programmes articulated in the country’s development plan. And while the macro-economic situation has been stabilizing, close monitoring and prudent management will be required to sustain that stability.

Ethiopia has been exposed to weather-induced challenges as well. Climate change is a key emerging factor, with adverse effects on the ecological, social and economic fabric of society. Therefore, addressing climate change has important implications for poverty reduction, equality and human rights. The various impacts of climate change may well have a dampening effect on Ethiopia’s economic growth rates, adversely affecting prospects for achieving its national development and Millennium Development Goal targets.

In response to the severity of chronic food insecurity in the country, the government, together with development partners, has launched a programme helping nearly 5 million people emerge from dependence on food aid. The programme aims to increase demand for domestic grain purchases, thus reducing the volume of imported food aid and contributing to the stabilization of domestic grain prices, and encouraging private-sector investment in agricultural marketing.
IFAD’s strategy in Ethiopia

Since 1980, IFAD has invested a total of US$473 million in 17 programmes and projects in Ethiopia that have an overall cost of more than US$1.2 billion. IFAD has also provided US$28 million in debt relief to the country under the Heavily Indebted Poor Countries Initiative.

IFAD’s strategy in Ethiopia is well aligned with the government’s GTP strategy. This approach focuses on supporting investment programmes with the greatest potential impact on sustainable household food security, and on the incomes of poor people. The IFAD strategy is to improve poor rural people’s access to natural resources such as land and water, improve agriculture and livestock production technologies and support services, and develop reliable financial services. IFAD-supported projects particularly target women, small-scale farmers and herders.

IFAD has taken the lead role, together with its partners, in the development and expansion of rural finance, small-scale irrigation and support systems for pastoral communities. To provide increased support to these interventions efficiently and effectively, IFAD signed a host country agreement with the Government of Ethiopia in July 2010, and appointed an outposted Country Director and Representative with a fully fledged country office in Addis Ababa. This country presence has enabled IFAD to strengthen engagement with the government, programmes, projects and development partners.
Rural Financial Intermediation Programme – Phase II

Building on the lessons and experiences of the Rural Financial Intermediation Programme (RUFIP), which enabled more than 3 million poor rural households to access financial services, this national programme aims to scale up delivery of financial services to reach almost 7 million of these households by 2019. RUFIP II targets poor rural households, making funds available for investment in agriculture and livelihood activities, with a focus on empowering women. Its primary goals include delivering:

- Institutional support to microfinance institutions (MFIs) and cooperatives;
- Investments to improve regulation and supervision of MFIs, and rural savings and credit cooperatives (RUSACCOs);
- A line of credit to bridge liquidity gaps for MFIs and RUSACCOs.

The overall objective of the programme is to provide poor rural people with sustainable access to a range of financial services through a nationwide network of some 30 MFIs and about 5,500 RUSACCOs (and 100 unions of RUSACCOs). It is supporting these rural financial institutions by helping to set up credit funds and to improve the policy environment through the introduction of new regulatory and supervisory parameters.

The programme aims to achieve the following specific objectives:

- A total of 6.9 million poor rural households accessing financial services (including 3.2 million households gaining access through MFIs and 400,000 through RUSACCOs);
- Increased savings of approximately 18.5 billion Ethiopian birr (US$1.1 billion equivalent) mobilized over the seven years of programme implementation;
- Increased operational effectiveness of MFIs and RUSACCOs through provision of support and training;
- Some 1,000 new RUSACCOs and 100 cooperative unions established, and at least 4,500 existing RUSACCOs strengthened.

| Total cost: US$248.0 million |
| IFAD loan: US$50.0 million |
| IFAD grant: US$50.0 million |
| Duration: 2012-2019 |
| Directly benefiting: 3.6 million households |
Community-based Integrated Natural Resources Management Project

The degradation of natural resources is a crucial issue in Ethiopia. The country loses some 2 billion tons of fertile soil annually as a result of land degradation. In particular, siltation of water bodies is a major threat to the development of irrigation. The project targets the Lake Tana watershed in north-western Ethiopia. Its objectives are to enhance the access of poor rural people to natural resources such as land and water, and to introduce improved technologies for agricultural production, mainly through sustainable land management.

The project also establishes and strengthens community-based organizations, and promotes off-farm employment opportunities with the aim of relieving pressure on marginal lands. It is part of the Strategic Investment Programme for Sustainable Land Management in sub-Saharan Africa, coordinated by the Global Environment Facility.

Using participatory approaches, the project involves communities in decision-making processes so as to empower them, and builds on indigenous knowledge and institutions to promote sustainable land management. By improving farmers’ land tenure security, it encourages them to invest in land improvement. Reduced siltation of water bodies creates opportunities for hydropower development. Conservation of biodiversity and improved ecosystem integrity are expected long-term benefits. Project activities are designed to:

• Support implementation of about 650 watershed management plans;
• Restore the productivity of a large area of degraded land;
• Increase the productivity of agriculture, including forests and fisheries;
• Improve food security and the incomes of people living within the Lake Tana watershed.

The project also aims to increase carbon sequestration, which should reduce greenhouse gas emissions and help mitigate climate change.
Pastoral Community Development Project – Phase II

Pastoralists and agropastoralists make up nearly 15 per cent of Ethiopia’s total population and are among the poorest and most vulnerable rural people in the country. This project is the second phase of a successful partnership between IFAD, Ethiopia’s pastoral communities, local and federal governments, and the International Development Association. It builds on the successes of the first phase to improve the livelihoods of about 600,000 pastoral and agropastoral households – about 25 per cent of Ethiopia’s pastoralists.

In this second phase, the project increases its reach from 32 to 57 districts in the Afar, Oromia, Somali and Southern regions, where communities have high illiteracy rates, comparatively low school enrolment rates and very limited access to basic social services in health, sanitation, safe drinking water, transport and communications.

The project has a people-centred, holistic approach and its aims include delivering basic social services, reducing rural poverty and enhancing economic growth. It also builds the institutional capacity of pastoral community organizations and local governments. The overall project design supports Ethiopia’s GTP and the government’s rural development, food security and pastoral development strategies and policies.

Total cost: US$138.7 million
IFAD loan: US$19.5 million
IFAD grant: US$19.5 million
Cofinancing: World Bank (US$80.0 million)
Duration: 2010-2016
Directly benefiting: 600,000 households
Pastoral Community Development Project – Phase III

PCDP III is a national project that covers all pastoral woredas (districts) in Ethiopia except those in Benishangul Gumuz and Gambella. The primary target population of the project is the pastoral and agropastoral population of Ethiopia living in the arid and semi-arid areas of the country and estimated at 12 million. PCDP reached a population of 600,000 in its first phase and an additional 1.3 million in its second phase, cumulatively benefiting 1.9 million people of whom 52 per cent are women and 48 percent men. PCDP III is expected to reach a further 2.8 million pastoralists and agropastoralists in about 107 pastoral and agropastoral woredas of Afar, Somali, Oromia and the Southern Nations, Nationalities and Peoples Regional State. This phase of the project became project became effective in April 2014 and implementation has started.

Over its 15-year implementation period, the project will have covered most pastoral and agropastoral woredas in the country, provided improved access to public services and supported the livelihoods of about 4.7 million pastoralists and agropastoralist. It will also have introduced community demand-driven models of service delivery that will benefit and be applied throughout the country in all pastoral and agropastoral communities.
Participatory Small-scale Irrigation Development Programme

The programme’s goal is to improve the food security, nutrition and incomes of poor rural households by developing irrigation schemes for small-scale farmers in four states of Ethiopia. The programme targets poor rural households in high-density, drought-prone and food-insecure districts of the highlands. Many of the households cultivate plots of less than 1 hectare. Specific targets include households headed by women, unemployed youth and landless people.

The programme represents an important opportunity to reform small-scale irrigation development approaches and practices in Ethiopia. The schemes it developed have provided a model that can be scaled up and replicated throughout the country. To ensure sustainability and the full participation of local community members, farmers own and manage the irrigation systems through their own water users’ associations. The programme also trains participants to take charge of the development process and encourages women to join the decision-making bodies of water users’ associations.

Other objectives are to improve access roads in areas where there are irrigation systems, and to raise agricultural productivity by improving farming practices, supporting the establishment of home vegetable gardens and strengthening agricultural support services.

Total cost: US$57.8 million
IFAD loan: US$20.0 million
IFAD grant: US$20.0 million
Duration: 2008-2015
Directly benefiting: 62,000 households
Completed operations

Agricultural Marketing Improvement Programme
Total cost: US$35.1 million
IFAD loan: US$27.2 million
Duration: 2006-2013
Directly benefiting: 500,000 households

Pastoral Community Development Project – Phase I
Total cost: US$60.0 million
IFAD loan: US$20.0 million
Duration: 2004-2009
Cofinancing: World Bank/IDA (US$30.0 million)
Directly benefiting: 450,000 households

Rural Financial Intermediation Programme – Phase I
Total cost: US$88.7 million
IFAD loan: US$25.7 million
Duration: 2003-2011
Cofinancing: African Development Bank (US$37.5 million)
Directly benefiting: 1.5 million households

Agricultural Research and Training Project
Total cost: US$90.6 million
IFAD loan: US$18.2 million
Duration: 1999-2007
Cofinancing: World Bank/IDA (US$60.1 million)
Directly benefiting: 1,200,000 households

Special Country Programme – Phase II
Total cost: US$33.1 million
IFAD loan: US$22.6 million
Duration: 1999-2007
Cofinancing: Development Cooperation Ireland (US$1.3 million)
Directly benefiting: 21,000 households

Informal Seed Component of the Seed Systems Development Project
Total cost: US$7.4 million
IFAD loan: US$6.6 million
Duration: 1997-2001
Directly benefiting: 27,000 households

Southern Region Cooperatives Development and Credit Project
Total cost: US$25.5 million
IFAD loan: US$17.5 million
Duration: 1994-2005
Cofinancing: Belgian Survival Fund (now Belgian Fund for Food Security) (US$3.3 million)
Directly benefiting: 300,000 households

Fourth Livestock Development Project
Total cost: US$57.2 million
IFAD loan: US$5.7 million
Duration: 1988-1992
Cofinancing: World Bank/IDA (US$39.0 million)
Directly benefiting: 770,000 households
Building a poverty-free world

IFAD invests in rural people, empowering them to reduce poverty, increase food security, improve nutrition and strengthen resilience. Since 1978, we have provided over US$16 billion in grants and low-interest loans to projects that have reached more than 430 million people. IFAD is an international financial institution and a specialized United Nations agency based in Rome – the UN’s food and agriculture hub.

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For further information on rural poverty in Ethiopia, visit the Rural Poverty Portal http://www.ruralpovertyportal.org.

Special Country Programme
Total cost: US$27.9 million
IFAD Special Programme for Africa loan: US$11.0 million
Duration: 1987-1996
Cofinancing: World Bank/IDA (US$7.0 million); OPEC Fund for International Development (US$4.0 million); World Food Programme (US$1.0 million)
Directly benefiting: 100,000 households

Rehabilitation Programme for Drought-Affected Areas
Total cost: US$19.4 million
IFAD loan: US$12.5 million
Duration: 1985-1990
Cofinancing: Belgian Survival Fund (now Belgian Fund for Food Security) (US$5.0 million)
Directly benefiting: 325,000 households

Agricultural Credit Project
Total cost: US$16.3 million
IFAD loan: US$11.0 million
Duration: 1984-1991
Directly benefiting: 75,000 households

Second Agricultural Minimum Package Project
Total cost: US$72.7 million
IFAD loan: US$18.0 million
Duration: 1981-1985
Cofinancing: Swedish International Development Authority (US$0.9 million); World Bank/IDA (US$40.0 million)
Directly benefiting: 430,000 households