

STRATEGIC OBJECTIVE GRANT AGREEMENT

ANNEX 1

AMPLIFIED DESCRIPTION

MARKET-LED ECONOMIC GROWTH AND RESILIENCY INCREASED

I. INTRODUCTION

This Annex 1 (Annex) describes the activities to be undertaken and the results to be achieved with the funds obligated under this Agreement. Nothing in this Annex 1 shall be construed as amending any of the definitions or terms of the Agreement.

This Annex elaborates the results to be achieved, provides the indicators that will measure achievement, provides an illustrative list of activities to be undertaken, and identifies the resources to be provided by the Grantee and USAID in order to achieve the Objective Market-led Economic Growth and Resiliency Increased. These results, activities, and resources reinforce and build upon those provided by the Parties under the previous Strategic Objective Agreement (663-007, Rural Household Production and Productivity Increased and 663-012, Improved Livelihoods for Pastoralists and Agro-Pastoralists in Southern Ethiopia Special Objective)

II. BACKGROUND

USAID developed a new Integrated Strategic Plan (ISP) approved in March 2004 for the period FY 2004 – FY 2008. This ISP sets a new five-year goal to reduce famine vulnerability, hunger and poverty in Ethiopia. Strategic Objective (SO) 16 - "Market-led Economic Growth and Resiliency Increased- is a key component of the ISP. It aims to accelerate agricultural-based economic growth as a critical pathway to achieving the ISP's five year goal. The decision to include this key strategic objective is based on a careful analysis of the challenges and opportunities present in Ethiopia that affect reduction of famine vulnerability, hunger and poverty. These are summarized below.

A. Development Challenge

The strategic objective (SO) to increase market-led economic growth and resiliency focuses on accelerated agricultural-based economic growth as a critical pathway to prevent famine in Ethiopia. The SO represents a significant shift in USG assistance to Ethiopia, in terms of issues being addressed, levels of development resources being provided, and the integration of development and relief efforts. By improving economic circumstances, Ethiopians will be better able to manage through shocks and effectively tackle the root causes of poverty, food insecurity and famine vulnerability.

Over the past two decades, through the various famines that have occurred in Ethiopia, one of the most significant constants has been the poor performance of the rural economy.

While Ethiopia is currently one of the poorest countries in the world, it has the potential to be an economic success story in Africa. Ethiopia is endowed with fertile land, abundant water, extensive and unique biodiversity, diverse agro-ecological zones, favorable climate, rich culture and heritage, entrepreneurial and hard working people, and proximity to major markets.

Ethiopia's economy has performed unevenly during the past decade, although there has been notable progress in recent years. Systems and capacities for trade, technology transfer, and financial services, as well as key market partners never developed in large numbers. In addition, a number of economic, climatic, health, and political shocks contributed to the economy's uneven performance (i.e., severe droughts, collapse of coffee prices, restrictions on livestock exports to the Mid-East, war with Eritrea, HIV/AIDS and malaria). Also, Ethiopia's rapid population growth, severe environmental degradation in the highlands where the majority of the population live, inadequate health and educational services, and poor infrastructure also have contributed to the country's growing poverty, food insecurity, and famine vulnerability.

From 1990 to 2000, per capita incomes decreased by almost 40% to an average income of \$100 per person per year. An estimated 44% of the population of approximately 70 million people falls below the poverty and hunger line of a dollar a day. This means that a huge share of the population does not produce enough food or have the income to buy sufficient food to meet minimum daily caloric needs.

Poor performance of the rural economy and agriculture in particular has resulted in structural deficits in food supplies—Ethiopia could neither grow nor pay for the importation of needed food, especially during periods of drought. Over the past decade, Ethiopia has been one of the few countries in Africa that has a growing share of its food needs met through food aid. Commercial systems to meet food needs are non-existent or not functional.

Over the past 20 years, with each successive drought or other shock, the number of chronically food insecure people has grown. An estimated 5 to 7 million Ethiopians (nearly three times more than in 1984) are now chronically food insecure, meaning that they require emergency assistance at some time during the year just to stay alive. Nearly all (87%) of the poor and destitute live in rural areas.

Billions of dollars of donor assistance have been brought to bear, saving lives but often not saving livelihoods.

The challenge that this strategic objective faces is the compelling need to induce and facilitate sustained rural based, market-led growth, necessary to break the cycle of food crises that has prevailed. Given the scale and scope of this challenge it can only be

effectively tackled by working closely with and through a multilateral coalition that includes the Government of Ethiopia, rural farmers, development agencies and private (for profit and not for profit) partners, committed to working together to improve the performance of the rural economy.

Ethiopia's economy is built on agriculture. Agriculture accounts for more than 50% of GDP, 80% of employment, and almost 90% of foreign exchange earnings. Clearly, the performance of Ethiopia's economy and the lives of the majority of Ethiopians, are closely tied to agriculture. Major barriers to increasing the performance of agriculture in Ethiopia include:

- weak market systems,
- lack of infrastructure,
- poor access to services and credit,
- severe degradation of natural resources, and
- lack of land tenure security.

A central concern is the need to grow the capacity, role and level of engagement of the private sector in pursuing and supporting development in Ethiopia. The private, trade and business sector has for a little over fifteen years, 1975 through 1991, been very dormant. The private sector and businesses have begun to become active in development efforts since the change of government in 1991-92. However, areas of engagement and involvement in development processes have not significantly shifted or improved until recently when the government at federal and regional levels has begun to engage in a dialogue with private sector representatives.

Creating enabling conditions, building capacity, and supporting partnerships for various private sector entities (small and micro enterprise, agro-industry, commercial farmers, cooperatives and traders) will be the key to augmenting their contribution to famine prevention and food security. The creation of small and medium enterprises in agriculture and rural areas in particular will open new opportunities for the rural poor.

To broaden private sector participation, incentives need to be created for them to invest. Transparency, good governance and enforcement of contracts need to be cultivated in the private and public sector. In addition, access to foreign and domestic finance needs to be more responsive to market interests.

The need to focus on improving the performance of the rural economy is well understood by political and technical leaders in Ethiopia. The Ethiopian Government has developed new partnerships with donors, the private sector and non-governmental organizations in order to embark on a path to move its people out of poverty at an accelerated pace. The government has also led the multi donor Poverty Reduction Strategy efforts, with a clearly stated intent to tackle key policy areas that have been barriers to rural economic development.

Given its existing resource endowments, Ethiopia does have the prospects to grow the rural economy. Recent analysis indicates that by targeting assistance aimed at accelerating growth in selected high potential zones, focusing on commodities with real growth potential, using tried and tested innovations that stimulate private investment, the performance of agriculture can be accelerated, potentially reaching 6.3 per cent growth per annum. At a growth rate of 6.3% it is estimated that by 2005, grain imports could be reduced by 175,000 tons and by 2010 net grain import savings could reach 786,000 tons per year.

The breadth and depth of destitution and poverty in Ethiopia is profound. If all efforts were focused on accelerated growth in high potential areas many of the poor, particularly those located in lower potential zones, would be left behind in the development process. The options to reverse the long-term trends of growing poverty are fewer in the lower potential areas. The need for relief and emergency assistance is typically greater in these areas. Critical to the success of USAID's support for economic resiliency and growth is the timely and appropriate provision of assistance to the food insecure to prevent a further decline in growth potential as a result of productive asset erosion. Agricultural investments and technologies specifically designed for these areas could play an important role in poverty reduction, by stabilizing current production and reducing vulnerability.

The realities of Ethiopia's economy dictate a dual approach to economic growth and economic resiliency to address the formidable challenges. To achieve change, the lives and livelihoods of the chronically food insecure must be protected and those with productive capacity must be provided with opportunities to diversify their livelihood/income base and participate in rural economic growth. Assisting and preparing the chronically food insecure to take advantage of labor opportunities, increased agriculture productivity, better natural resource management, and accelerated rural market development-- in regions where there is potential for such growth—are key elements in the development dynamic, or “rural transformation” of Ethiopia.

B. Program Rationale and Development Hypothesis

SO16 focuses on new ways to increase rural economic growth as a means to reduce vulnerability to hunger and famine and increasing the ability of households to survive shocks, such as drought; and create the economic resources that will enable households to be self reliant through:

- rapid economic growth in rural areas to increase food production and incomes;
- market development that allows farmers and pastoralists to sell their products, that gets affordable food from surplus to deficit areas, and that allows commercial markets (domestic, regional, international) to play a fuller role in meeting food needs;
- relief and development efforts (productive safety nets) that i) protect the productive assets of the food insecure by meeting their nutrition needs before they are forced to sell productive assets to survive; and ii) build their assets (social and economic) so

that they are self reliant and are not dependent on safety net assistance over the long run;

- accelerated implementation of land policy and land administration reforms; and
- diversification of farm and non-farm economic opportunities that will create more opportunities for work and enable poor Ethiopians to grow their asset base.

The hypothesis underlying the strategic approach is that if USAID contributes to protecting, expanding, and diversifying livelihood options, contributes to increased production and sustained increases in productivity; and strengthens selected product, input, and factor markets, then market-led economic growth and resiliency will be increased. If this is achieved, it will directly contribute toward the foundation for reducing famine vulnerability, hunger, and poverty.

USAID's dual approach to attack food insecurity and reduce famine vulnerability will provide targeted food and non-food resources under the Government's Productive safety net program to move one million of the chronically food insecure off emergency food assistance over the next three years, moving them to join the group of households trying to stabilize and increase their income and asset base, while also helping the transitory poor to increase their assets. USAID will also support the GFDRE to put in place the systems and investments needed to accelerate agricultural growth, build markets and raise agricultural productivity. This dual approach is based on the premise that both the transitory poor and stable poor can benefit in the near term from expanded production, increased productivity, market access and more diverse options to raise incomes.

To address the needs of the chronically food insecure, USAID will support and work through a multi-donor productive safety net program. USAID will target one million of the chronically food insecure in districts with historically high levels of chronically food insecure people. USAID resources, including Title II food assistance, will support ~~programs such as food for work or cash for work that are designed to protect very limited~~ assets, and more importantly, to provide resource transfers to allow people to build assets to move beyond the chronically food insecure category. Title II assistance complemented by other resources will be used to meet food needs in exchange for public works, or participation in productivity training activities designed to build assets. In addition, resources will be used to provide food insecure households with the means to invest in productive assets. These assets will enable the chronically food insecure to diversify and expand their livelihoods, which should increase their access to food, even during times of hardship.

For the rural economy to grow and address the needs of the transitory and stable poor, several things must be accomplished: credit must be more widely available; competitive markets need to provide inputs and to link the producers with the markets at all levels; new technology must be introduced and replicated; infrastructure such as telecommunications and roads must be enlarged; market towns close to farmers need to be expanded, quality standards must be met; and value needs to be added to the many agricultural products produced in Ethiopia.

In making choices about the allocation of resources to support this strategic objective and in accordance with Government priorities and other donor programs, USAID will focus on:

- A selected number of regions, including high potential regions (growth poles) and lower potential food insecure regions and work to build growth linkages between them;
- A selected number of food and agricultural commodity value chains. USAID will focus primarily on food grains (cereals, oilseeds, and pulses), horticulture, livestock, livestock products and coffee; and
- The highest payoff and most efficient policy, institutional, market, and technology interventions to increase the incomes, productivity, competitiveness and resiliency of rural small-holder farmers, pastoralists, agribusinesses and rural enterprises.

Programs will be designed to: leverage partnerships and alliances with the private sector and government; promote cross sector linkages with education, health, disaster early warning and emergency response systems and governance efforts to create synergy; facilitate the integration of relief and development resources to promote growth and enable the chronically food insecure to transition out of poverty; as well as address gender issues including the economic and social empowerment of women.

By focusing on selected high potential regions that can serve as growth poles, the strategy will contribute to accelerating the growth of farm and non-farm jobs for the rural poor.

By focusing on selected low potential regions that are especially vulnerable to drought and other shocks, the strategy will contribute to building the social and economic assets of the most vulnerable. This can assist the transition out of poverty. Building linkages between the various regions will be important to tackle the problem of food insecurity in a way that can be sustained over time.

III. RESULTS TO BE ACHIEVED, RESULTS FRAMEWORK AND INDICATORS

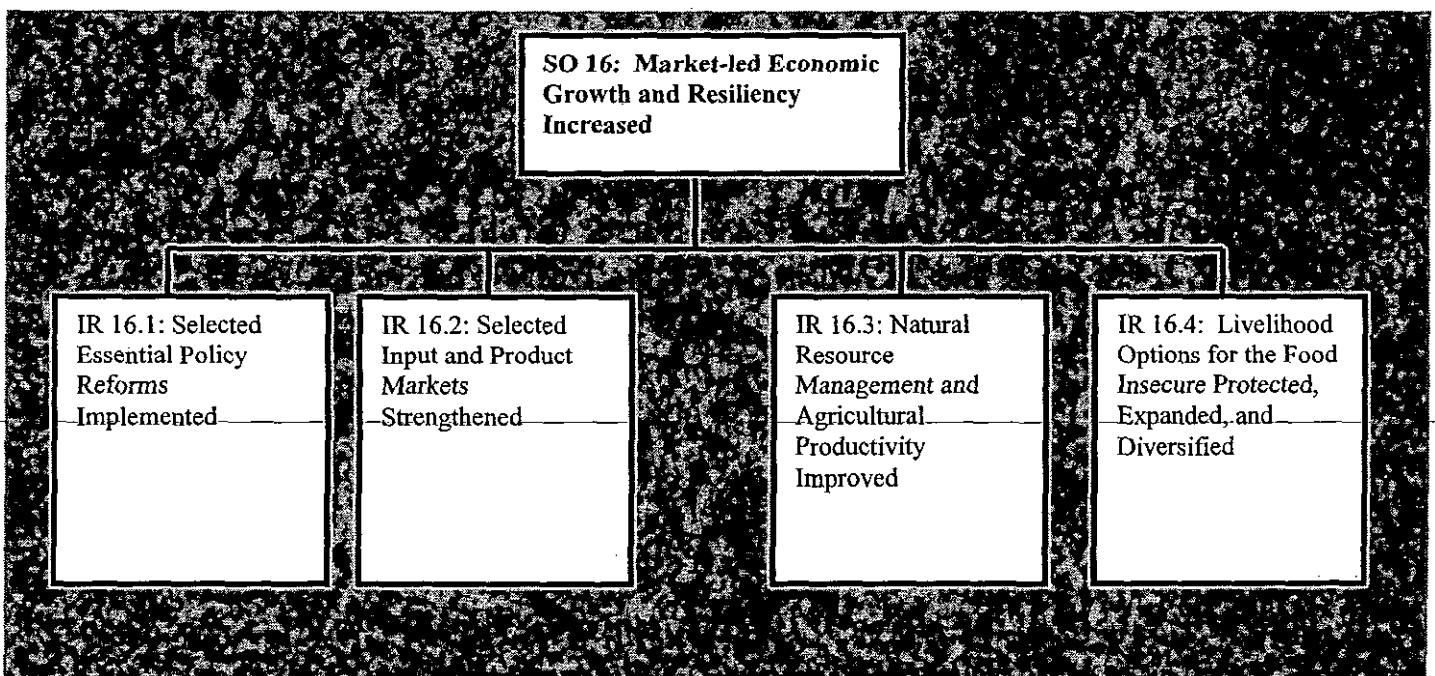
A. Definition of Terms

USAID is committed to working with its partners to achieve results. USAID defines a Result as a significant, intended, and measurable change in the condition of a customer, or a change in the host country, institutions, or other entities that will affect the customer directly or indirectly. Results are typically broader than USAID funded outputs and require support from other donors and partners not within USAID's control.

The **Strategic Objective** for a USAID supported program is the most ambitious result that USAID, along with its partners, can materially affect, and for which it is willing to be held accountable.

USAID uses the term **intermediate result (IR)** to refer to an important result that is seen as an essential step to achieving a Strategic Objective. IRs are measurable results that may capture a number of discrete and more specific results. Some IRs (sometimes called "sub-IRs") may also help to achieve other IRs. Achievement of IRs and sub-IRs is measured by performance indicators. A performance indicator is a particular characteristic or dimension used to observe progress and to measure actual results compared to expected results.

USAID uses a **Results Framework** as a planning, communications, and management tool. It includes the Strategic Objective and the Intermediate Results (IRs) and sub-IRs, whether funded by USAID or its partners, necessary to achieve it. The Framework also conveys the development hypothesis implicit in the strategy and the cause-and-effect linkages between the IRs and the objective. It includes any critical assumptions that must hold for the development hypothesis to lead to achieving the relevant objective. Typically, it is laid out in graphic form supplemented by narrative. The graphic for SO 16 "*Market-led Economic Growth and Resiliency Increased*" is shown in the figure below:



B. SO 16 Results and Indicators

As shown in the figure 1, the SO is:

SO 16: Market-led Economic Growth and Resiliency Increased

Illustrative indicators to measure performance of this SO are:

- Sales of selected products: a) exports and b) domestic sales of USAID supported agricultural cooperatives and other marketing groups
- Production of selected food grains (cereals, oilseeds, pulses) of USAID supported areas
- Proportion of the chronically food insecure in targeted districts (disaggregated male/female)
- Assets: a) household (disaggregated male/female head of household), and b) USAID supported communities

Four IRs will contribute to the achievement of the Strategic Objective:

Intermediate Result 1: Selected essential policy reforms implemented

USAID will provide technical and material assistance to strengthen national, regional and local institutions and capacity in Ethiopia to: 1) monitor climatic, environmental, agricultural and economic trends in order to quickly respond to potential shocks or crises; 2) undertake policy and investment analysis to offer policy and investment options to decision-makers; 3) advocate for change in an effective way, and 4) implement policies.

This IR targets the improvement of policies, institutional capacity and implementation of policies at various levels (federal, regional, local) that are required for economic growth and resiliency. Areas for potential support include those policies that:

- Enhance land tenure security and transferability of use rights;
- Improve access to credit for producer groups, cooperatives, small- and medium-entrepreneurs, agribusiness and traders;
- Increase the entry of new private sector providers into agricultural input markets;
- Support full participation in the Common Market for East and Southern Africa (COMESA) Free Trade Area;
- Establish food aid and crisis management procedures for relevant technical ministries at federal and regional level and regions;
- Increase private investment to increase trade competitiveness (i.e. transport, telecommunications); and
- Integrate water resources management, water services provision, land use and natural resources management.

Illustrative indicators to measure results of this IR are:

- Number of farmers with improved tenure security
- Number of regions with strengthened land administration units
- Progress toward Ethiopia's accession to World Trade Organization membership

Intermediate Result 2: Selected input and product markets strengthened

USAID will help to improve farmers' and pastoralists' access to input and product markets, reducing market transaction costs, promoting new market opportunities,

reducing volatility of select product markets, and forging business partnerships between producers and others in the supply chain. USAID will assist the establishment of a grain warehouse receipts system to counter the inevitable price crashes that have occurred in the past when bumper cereal crops have been produced. USAID will provide business development services and technical support to cooperatives, producer organizations, commercial farmers, agribusinesses and small entrepreneurs to improve production or manufacturing processes and practices, increase access to market information and market intelligence and improve the grades and standards of their product whether for domestic, regional or international markets. Development Credit Authority loan guarantees are envisioned to meet the short and medium-term credit needs of agricultural cooperatives and livestock marketing groups, agribusinesses, and small and micro enterprise. Strengthened cooperatives, business associations and chambers of commerce will help to ensure long-term sustainability. Expansion of rural marketing centers will help stimulate the demand and grow the size of the market.

Illustrative indicators to measure results of this IR are:

- Quantity of seed/fertilizer sold through USAID supported agricultural cooperatives and other private suppliers
- Number of new private seed/fertilizer suppliers
- Number of agricultural cooperatives, other marketing groups, small and micro enterprises and agribusinesses with improved access to: a) financial services and b) business development services
- Quantity of selected products marketed through agricultural cooperatives and other agricultural marketing groups

Intermediate Result 3: Natural resource management and agricultural productivity diversification improved

This IR integrates sound natural resource management with improved agricultural technologies and practices. Support for improved land use will strengthen land use policies and planning processes to address severe land degradation in targeted regions. USAID will support rural water development interventions to meet the requirements of households, communities, agricultural producers, and agro-enterprises. This will include micro, small and medium scale irrigation, water harvesting, water conservation, potable water and sanitation (in collaboration with SO 14 - Human Capacity and Social Resiliency Increased), rural water supply for agriculture, and community-based watershed management. Rural water interventions will enhance rural productivity and build resiliency to shocks. Collaboration between agricultural input providers, cooperatives, agro-processors, commercial farmers (who establish business relationships with small holders) and government institutions (research organizations, universities, extension services) will be strengthened to accelerate the identification, validation, demonstration and transfer of improved technologies. USAID envisions having a competitive grants program for technology transfer in targeted sub-sectors to encourage public/private partnerships, innovation and accelerate the pace of technology adoption. USAID will collaborate closely with the technology transfer programs of the

Government, other donors (i.e., WB, Canadian International Development Agency, German Technical Cooperation - GTZ, and SIDA) and select international agricultural research centers (i.e., International Center for Research in Agro-Forestry, International Livestock Research Institute, International Water Management Institute, and the International Center for Research in Semi-Arid Tropics). Technologies will include agricultural production, value-added product processing, product storage, and environmental management. Improved incentives (i.e., land tenure security, market price stability, and regional and international market access), strengthened market systems and enterprises, and access to finance supported under other IRs will help to create a demand for improved technologies and contribute to the systems needed for sustained rural productive increases.

Illustrative indicators to measure results of this IR are:

- Land area under improved land management practices
- Crop yield for selected food grains/unit of land

Intermediate Result 4: Livelihood options for the food insecure protected, expanded and diversified

USAID will provide support for the Government's productive safety nets program for a targeted one million chronically food insecure people.

USAID proposes three types of interventions for a selected number of Ethiopia's chronically food insecure, based on the premise that reducing food insecurity requires:

- Protecting Assets: The primary goal of the livelihoods transition programs is to protect assets by meeting the basic needs of the food insecure through multi-annual timely and targeted direct resource transfers that will prevent the sale or irreversible loss of productive assets.
- Building Assets: The resource transfers will be made in exchange for productive behavior that is explicitly connected to the larger development agenda.
- Livelihood Diversification and Expansion Activities: Transition programs will also be used to diversify and expand livelihood options in an environmentally sustainable manner. Building upon assets protected and expanded by timely resource transfers to the food insecure, diverse and expanded livelihood options will increase resiliency to shocks and will pull people further up the economic ladder.

Illustrative indicators to measure results of this IR are:

- Number of productive livelihood strategies employed by supported communities
- Number of chronically food insecure requiring resource transfers (disaggregated male/female)
- Number of months per year resource transfers are required
- Amount of household resource streams (disaggregated male/female households)

IV. FUNDING

A. Financial Plan

The financial plan for USAID's contribution to the Strategic Objective is set forth in Annex 1, Attachment A, Financial Plan.

V. ACTIVITIES

The following paragraphs describe how the resources presented in the Financial Table will be used to achieve the Strategic Objective and Intermediate Results presented in Section III. These activities are considered illustrative and may be modified and approved by mutual agreement of the Parties through issuance of Implementation Letters.

A. IR 1 Selected Essential Policy Reforms Implemented

The most powerful tools available to tackle Ethiopian hunger and poverty in the medium and long term are policies to encourage private sector investment, complimented by more effective government support in key areas (e.g. regulatory, infrastructure development, technology transfer, business/trade facilitation, health and education).

Food policy reforms will place greater emphasis on providing safety nets for the chronically food insecure, better integration of markets within Ethiopia (high potential to low potential), use cash for relief and local procurement of food for relief programs to the greatest extent possible, and explore the beneficial links between food aid, strategic food reserves and the cereals warehouse receipts system.

B. IR 2 Selected Input and Product Markets Strengthened

It is widely acknowledged that given the right inputs, technologies, and incentives, Ethiopia's farmers and businesses can produce high yields of food grains (cereals, oilseeds, and pulses), quality coffee, livestock and livestock products for export, and leather and textile products meeting global standards. But, factor, input and product markets in Ethiopia are poorly developed for many reasons: lack of basic infrastructure such as roads, warehouses, livestock and holding facilities, knowledge of grades and standards, etc. The factors of agricultural production systems, land, labor, and capital are not fully or effectively utilized in Ethiopia. The lack of secure tenure for men and women and transferability rights over land has negative implications for agricultural productivity, natural resource management and economic growth. Finally, the small number of market players, lack of transport and lack of secure on farm storage mean farmers must often sell when prices are lowest.

This IR will strengthen the value chain of targeted sub-sectors (food grains, coffee, horticulture, livestock/livestock products) for domestic, regional and international markets. Interventions may include: market intelligence and market information systems;

assistance to meet and certify product standards; market linkages and development of new markets; business development services and other support to build the capacity of cooperatives, agribusiness, and small and micro enterprise; promotion of business partnerships between small-scale producers and others within the agricultural value chain (i.e. commercial farmers, agro-processors, traders); support to chambers of commerce and industry/trade associations; and rural market town development.

This IR will also explore ways to increase access to financial services for producers, agribusiness, and small entrepreneurs and may use Development Credit Authority (DCA) loan guarantee programs to achieve this. Several private banks, including USAID's current partner the Bank of Abyssinia, expressed strong interest in collaboration with USAID. Private banks expressed a willingness to lengthen loan periods (increasing the range of lending instruments) and reduce collateral requirements of borrowers (a major constraint to rural financing) if USAID provided partial risk coverage. Opportunities may also exist to use the DCA mechanism to support agro-leasing companies, cereals warehouse receipts financing, and other areas (i.e. rural water services, telecommunication) but this would require further analysis.

Recognizing that fully liberalizing the fertilizer and seed industries will take time and that the World Bank is a major player in encouraging this, this IR proposes only to assist by establishing alternative private-based input supply systems. For instance, unions of cooperatives could be encouraged to become players in the full chain of input purchasing, distribution and repayment schemes. This IR will assist, to the extent practicable, in encouraging private sector importers, producers, and distributors of improved seeds and fertilizer. Community-based seed systems and use of innovative practices such as seed vouchers and seed fairs will be considered where appropriate.

C. IR 3 Natural Resource Management and Agricultural Productivity Improved

Ethiopia has diverse and tremendous natural resource endowments that are the foundation for building comparative advantage and offer real reasons to believe that Ethiopia can grow out of destitution, poverty and food insecurity. Managing these resources responsibly is and will be key to sustained growth in rural incomes and the economy as a whole. Technical options will need to be adapted to the various diverse development domains that exist in Ethiopia.

In all USAID-supported interventions, sound natural resource management will go hand in hand with productivity improvements. Intensifying land use requires good stewardship, such as soil and water conservation, fallowing and enclosures. Carefully designed natural resource management will contribute to household incomes, e.g. through restoration and protection of common grazing areas and community woodlots. Private sector enterprises must also be given market incentives to introduce sustainable approaches to economic growth in selected rural areas, including highly vulnerable food insecure areas as well as higher potential areas.

Rapid productivity increases are essential to USAID's strategy, but they must be sustainable. Tree crops, nitrogen fixing crops, water conservation and harvesting, and watershed management, must be supported, to stop soil mining, deforestation, and erosion. Measures that will be promoted include:

- the use of agricultural systems adapted to drought conditions including drought tolerant food crops, agro-forestry and tree crops;
- improved land, water and natural resource management; and
- rural water resource development for irrigation, livestock, and household/community needs.

Different measures will be adopted for those in areas with high growth potential areas in contrast to those in low potential areas where soils are eroded and hillsides deforested, or holding size so small and fragmented as to no longer support households.

USAID will work with the grantee to pursue an integrated approach with support for these program elements:

- water management and intensification of horticulture/agriculture;
- effective multi-use integrated water resource management/watershed systems; and
- cross-cutting areas (coordination, policy, information management).

Significant opportunities for collaboration with other donors, particularly the World Bank and the Canadian International Development Agency (CIDA), were also identified.

Water development for pastoral areas as well as irrigation for cropping areas will be supported. Principles of Integrated Water Resources Management (IWRM) will be used to maximize opportunities for effective multi-use water development, including household water supply. Activities will strengthen women's participation and decision making in water management, and support "small scale" irrigation and water harvesting for women's vegetable gardening.

To ensure the accelerated adoption of improved agricultural technologies and practices, innovative partnerships between the research and extension systems, cooperatives and producer organizations, input suppliers, agribusinesses, and non-governmental organizations will be explored. Soil and water conservation, agro-forestry, reforestation and community eco-system management will be promoted both for the livelihood insecure as well as for the more productive small holders to ensure the long-term viability of their efforts.

D. IR 4 Livelihood Options for the Food Insecure Protected, Expanded and Diversified

The provision of assistance to the chronically food insecure has until now been provided as part of the emergency appeal, reaching its intended beneficiaries only after they have depleted any productive assets that might allow for recovery in subsequent years. The

purpose of this IR is to meet people's basic needs in a predictable manner that will reach them before they lose crucial assets. It is also important to provide different options to allow people diverse livelihoods and to enable them to meet their food needs throughout the year. These actions will provide a foundation upon which they can begin to participate in activities aimed at economic growth.

This IR proposes three types of interventions for a selected number of Ethiopia's chronically vulnerable, based on the premise that reducing food insecurity requires:

Protecting Assets: The primary goal of the livelihoods transition programs is to protect assets by meeting the basic needs of the food insecure through timely and targeted direct resource transfers that will prevent the sale or irreversible loss of productive assets. This could mean, for example, the provision of nutrient supplements or livestock fodder in times of shock to help pastoralists preserve their herds. The provision of food, cash or inputs could encourage risk adverse farmers to experiment with new technologies.

Incentives could be provided to encourage the protection of natural resource assets such as soil and water from depletion or degradation. As women and men control different assets, it is important to be sure that resource transfers are provided to both. Title II food will provide the bulk of the resource transfers to meet basic needs and protect assets.

Building Assets: The resource transfers will be made in exchange for productive behavior that is explicitly connected to the larger development agenda. Direct resource transfer is provided in exchange for labor or actions that will build assets important to future economic and social resiliency. Work on infrastructure and public works (i.e. market places, roads, bridges, ponds, water source development and protection, pasture rotation, and environmental rehabilitation that will promote markets and economic growth) can all be considered. Resource transfers can also be used to encourage children, especially girls, to stay in school or seek health services such as vaccinations, both essential if these populations are to increase their economic resiliency. It is important that labor-poor households (often women headed) are also able to participate in asset creation activities in exchange for resource transfers.

Livelihood Diversification and Expansion Activities: Transition programs will also be used to diversify and expand livelihood options in an environmentally sustainable manner. Building upon assets protected and expanded by timely resource transfers to the food insecure, diverse and expanded livelihood options will increase resiliency to shocks and will pull people further up the economic ladder. A wide range of possible activities exist including agro-forestry, adoption of new drought-resistant crops, efficient irrigation technologies, seed nurseries, bee-keeping, improved livestock marketing or training in the range of new value-added businesses expected to emerge as a result of other activities under this SO. Livelihood diversification and expansion activities with direct links to SO 14 include adult literacy and community health worker training. The division of labor among men and women in securing livelihoods will be an important factor in choice of specific activities.

VI. ROLES AND RESPONSIBILITIES OF THE PARTIES

The achievement of the results identified in this Agreement will be possible only through the cooperation and support of the signatories to this Agreement, in accordance with the following division of roles and responsibilities:

A. GFDRE and Regional Partners

The GFDRE Ministry of Finance and Economic Development (MOFED) is the designated signatory under this SOAG. We anticipate that the programs will be implemented in collaboration with key ministries including Ministry of Agriculture and Rural Development, Ministry of Trade and Industry, Ministry of Water Resources, and Ministry of Federal Affairs.

Coordination and decision making regarding implementation of the SO 16 program activities will be assured through a consultative process that will involve frequent consultations between and among USAID, the key Federal ministries and Regional bureaus. These partners may decide to establish activity-specific committees or working groups at different levels (Federal, Regional, *Woreda*) as necessary, to accelerate implementation. This will further be elaborated through an Implementation Letter.

The SO16 team, in collaboration with Government counterparts, will convene an Annual Program Review of all partners to assess progress and resolve any problems that may arise.

B. USAID

USAID's Chief of the Office of Business, Environment, Agriculture and Trade (BEAT) will be responsible for monitoring progress toward achievement of the results and the overall objective. ~~The SO16 Team will collaborate with an "Extended Team" which will~~ include representatives from the participating host country partner institutions, contractors, recipients, and grantees. The Extended Team is a formal USAID structure that ensures Strategic Objective activities achieve results, and that funding is utilized for the achievement of the defined objective. The SO Team participates with USAID (both in *Ethiopia and Washington*) in defining problems, exploring ideas for new activities under the Strategic Objective, and in evaluating the impact of the activities once they are implemented.

As discussed in Section 3.1 (d.), based upon concurrence of the Parties USAID may enter into contracts, grants and/or cooperative agreements directly with private contractors, non-governmental organizations and public international organizations, using funds provided under this Agreement, in order to procure the technical assistance, goods and training necessary under this Agreement. The development of Scopes of Work and selection of implementing organizations to help achieve the objective will be a joint effort of USAID and the Grantee. USAID shall not require Grantee concurrence on the uses of funds obligated under "USAID management, monitoring, evaluation and audit" in the Financial Plan, Attachment A to this Annex 1.

VII. MONITORING & EVALUATION

Over the term of this Agreement, the indicators described in Section III of this Annex will be the basis for monitoring progress toward achievement of the results, and to assess activity effectiveness. All activities under this Agreement will be designed to include periodic reporting that will allow the Parties to monitor, on at least an annual basis, progress toward achieving specific results and targets.

Funds under this Agreement may be used for data collection efforts necessary to monitor progress toward achievement of the objective and the results. A performance management plan (PMP) will be used to measure progress of activities illustrated in Section V of this Annex, and will be constructed to maximize use of data from reliable, valid sources so as to minimize any additional burden on USAID or the GFDRE. Given the need for more qualitative data than are normally available through the current systems, contractor-implemented sample surveys will be required from time to time to ensure that program interventions are achieving desired qualitative results.

To complement data collected and reported by the participating partner institutions, USAID, using funds from this Agreement, may also collect annually information from customers through rapid appraisals, focus groups and other appropriate techniques, to determine that the activities are achieving intended results.

USAID, in close collaboration with the key ministries and others, will finance data gathering and analysis as needed to provide objective, valid, and reliable data on achievement of SO 16 indicators as well as provide invaluable data on trends at the Federal and Regional levels.

In order to inform management and enhance the PMP, the parties agree to perform evaluations, the timing and scope of which shall be determined jointly, of the activities undertaken to achieve the Objective and results. The evaluation will consider, *inter alia*, progress toward achieving SO 16; effectiveness of implementation mechanisms; effectiveness of program management (including participation by partners and beneficiaries); as well as responsiveness to a changing environment and GFDRE priorities for the targeted sectors. The evaluation team will identify weaknesses, strengths and opportunities as a basis for providing recommendations for the future. The evaluation team will also review the SO 16 results framework and the development hypotheses to provide suggestions on whether the approach selected to achieve the SO requires any reconsideration in the final years.