



**Ministry of Agriculture and Natural Resources**

# PRIVATE SECTOR ENGAGEMENT UNDER SLMP/RLLP

Ethiopian Experience and Proposed  
Model/Framework

## Abstract

This study details a model/framework for private sector engagement (PSE) under the Government of Ethiopia managed Resilient Landscapes and Livelihoods Project (RLLP). It specifies the experience and methodologies used, particularly in Ethiopia, to facilitate PSE, catalogues relevant successes and challenges and recommends specific methodologies/techniques and activities to be conducted toward PSE under RLLP, which will focus on linking diversified, environmentally sustainable livelihoods in project rehabilitated watersheds to value chains/markets.

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## List of Acronyms

AGP	Agricultural Growth Program
AMDe	USAID FtF AGP-Agricultural Marketing and Development Program
ATA	Agricultural Transformation Agency
CIGs	Common Interest Group
CRGE	Climate Resilient Green Economy Strategy
CSA	Climate Smart Agriculture
CSR	Corporate Social Responsibility
CSRPs	Community Storage Receipts Programs
CWRS	Community Warehouse Receipts System
DPs	Development Partners
ENR	Environment and Natural Resources
ETB	Ethiopian Birr
FEED	Feed Enhancement for Ethiopian Development
FtFE	Feed the Future Ethiopia
GCF	Green Climate Fund
GEF	Global Environment Fund
GIZ	German Development Agency
GTP-2	Growth and Transformational Plan-2
IB	Inclusive Business
IDA	International Development Association
INBAR	International Bamboo and Rattan Association
IFC	International Finance Corporation
IGAs	Income Generation Strategies
INDC	Intended Nationally Determined Contribution
MoANR	Ethiopia’s Federal Ministry of Agriculture and Natural Resources
MOU	Memorandum of Understanding
PES	Payment for Ecosystem Service
PS	Private Sector
PSE	Private Sector Engagement
PSU	SLMP Program Support Unit
REDD+	National Reduction of Emissions from Deforestation and Degradation
RLLP	Resilient Landscapes and Livelihoods Project
SHGs	Self Help Groups
SLMP-2	Second Sustainable Land Management Project
SNNP	Southern Nations and Nationalities Peoples’
VCs	Value Chains
VCA	USAID Feed the Future Ethiopia Value Chain Activity
USAID	United States Agency for International Development

WB	World Bank
WRSs	Warehouse Receipts Systems
WUAs	Water Users' Associations

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## Executive Summary

The World Bank (WB) has been financing Ethiopia's Federal Ministry of Agriculture and Natural Resources (MoANR) in six regional states to transform the way landscapes are managed by convening sectors, resources and partners to invest in a holistic and coordinated fashion. Through the financing of the Second Sustainable Land Management Project (SLMP-2), natural and economic wealth was built on over 1.3 million hectares of degraded communal and smallholder lands through an integrated package of activities throughout targeted watersheds that include management of natural resources, improved land rights and livelihoods support, including for Income Generation Activities (IGAs) and Climate Smart Agriculture (CSA).

SLMP-2 is tentatively planned to be closed in December 2018, and a WB mission, including the MoANR and development partners, took place July 10-21, 2017, in Addis Ababa, Ethiopia. The objectives of the mission were to advance preparation of the Resilient Landscapes and Livelihoods Project (RLLP) and take stock of SLMP-2 implementation to support RLLP preparation.

Among other things, the mission discussed the status and challenges of IGAs that have been operated by Self Help Groups (SHGs) and supported by the SLMP-2. In addition, options and opportunities for PSE in the RLLP through Value Chain (VC) or Inclusive Business (IB), Payment for Ecosystem Service (PES) and Corporate Social Responsibility (CSR) approaches were discussed during the mission. Therefore, the mission identified several PS-related preparatory studies required for RLLP preparation, including this one on private sector engagement (PSE) through diversified livelihood products being linked to value chains (VCs).

Since RLLP is primarily an environment and natural resources (ENR) project designed to rehabilitate watersheds and make them sustainable, it is important that any PSE be done based on clear principles that ensure the project meets its core ENR objectives. However, within this framework local communities as well as their specific households must benefit, benefits must include "immediately" obtainable, increased income for communities and particularly households within those communities, any activities must contribute to at least maintaining and ideally enhancing rehabilitated watersheds, activities should focus on linking diversified and environmentally-sustainable livelihood production/products generated by households in rehabilitated watersheds to value chains/markets. In addition, woredas with SLMP-1 or -2 and proposed RLLP rehabilitated watersheds have no shortage of PSE activities implemented by other development partners (DPs) and/or PS entities, so RLLP should not "reinvent the wheel" when so much has already/is being done in PSE in the same or neighboring geographic areas. By collaborating/ coordinating with existing PSE activities, there is potential to "jump start" PSE on RLLP to support the sustainability of rehabilitated watersheds, draw on expertise and experience of organizations who specialize in PSE, avoid wasting precious time and resources repeating errors and miscalculations by previous implementers, refrain from unnecessary duplication and better utilize available

funding, technical expertise and provide benefits to communities in rehabilitated watersheds through engagement of existing PSE activities. RLLP can then fill any gaps, not covered by other partners to fully engage/benefit watershed communities through PSE.

Among the most innovative activities that RLLP will pilot and then fully implement is the provision of simple processing equipment and establishment of Community Storage Receipts Programs (CSRPs). These activities will facilitate linking products from SLMP/RLLP rehabilitated community watersheds to value chains through development of product processing, bulking and storage capacity. This will ensure the sustainability of environmentally friendly community/household livelihoods and increased income through better access of the PS to at least partially processed, good-quality, bulked commodities throughout most of the year, encouraging the PS to go the “last mile” to SLMP watershed communities when lesser quality, unprocessed and unbulked commodities might be closer at hand.

There are many possible players/partners for PSE on RLLP, but they generally fall into three major categories. The first of these are the DP currently implemented, donor or foundation funded VC projects/activities. These are activities, as mentioned above, are currently in operation and actively engaging the PS, are “low-hanging fruit”, will prevent unnecessary duplication and allow RLLP to benefit from existing livelihoods and VC linkage expertise. The second category generally in the medium-term are businesses, including cooperative unions and their base cooperatives. These include any private enterprises who have the potential to buy RLLP watershed products, which are largely produced through the CSA and IGA initiatives or sell products that watershed households need. The final category of possible PSE partners for RLLP are foundations that can provide initial funding for PSE activities and provide incentives to PS partners to invest in rehabilitated watersheds.

Short-term PSE opportunities under RLLP would largely come from the partners/players in the first category above, since they are already active in the field near SLMP-2 watersheds and have already engaged or have made considerable effort to engage the usually local PS. RLLP can save considerable time and resources by simply being a facilitator in helping them target/extend their activities to rehabilitated watersheds and thus “piggybacking” on their efforts and successes. This means that RLLP PSE activities with these partners will focus on encouraging the PS to go the “last mile” to purchase those products from communities in rehabilitated watersheds and coordinating with them to link to their much more extensive VC support activities.

Medium-term PSE opportunities will take more effort, planning and incentives than those above and will require direct engagement with the PS rather than through a facilitator project. These activities should focus on PS businesses, cooperative unions, base cooperatives, or foundations that already have a base or plan to focus in the geographical areas of the rehabilitated watersheds as described under the second category above.

Long-term PSE opportunities are those that are generally not close at hand, will require strong engagement with the PS and provision of incentives to encourage and enable them to engage communities, begin to implement key activities in the watersheds and continue to stay engaged. Without clear incentives, private businesses are extremely unlikely to incur the costs of implementing activities in new areas that have unproven potential to create profits. These opportunities generally will only come to fruition if RLLP is able to illustrate to a potential PS investor that it will reap sufficient rewards within a reasonable period to more than cover the initial investment required for beginning operations in or near a watershed.

This study describes the full range of characteristics, requirements and opportunities for PSE partners and short-, medium- and long-term options for PSE under RLLP, but is particularly focused on short-term options that link rehabilitated watershed diversified livelihoods through CSA and IGAs to VCs and markets and have the potential for near immediate impact with little cost to the WB and its RLLP partners. These opportunities are described in detail, including initial action plans and probable partnership arrangements with clearly identified implementers/collaborators. The short-term opportunities described will provide the most immediate and richest benefits to the communities and its households in the greatest number of rehabilitated watersheds possible, at the same time ensuring that they recognize the advantages/benefits of maintaining and improving those watersheds.

## I. Background

The World Bank (WB) has been financing Ethiopia's Federal Ministry of Agriculture and Natural Resources (MoANR) in six regional states to transform the way landscapes are managed by convening sectors, resources and partners (International Development Association [IDA], Norway, Canada, Germany, Global Environment Fund [GEF], and Least Developed Country Fund [LDCF]) to invest in a holistic and coordinated fashion. Through the financing of the Second Sustainable Land Management Project (SLMP-2), natural and economic wealth was built on over 1.3 million hectares of degraded communal and smallholder lands through an integrated package of activities throughout targeted watersheds that include:

- Management of natural resources (soil and water conservation structures, agroforestry, participatory forest management, enclosures to reduce free grazing and allow assisted natural regeneration, small irrigation, water point development, climate-smart technologies on household farmland, and land use planning approaches);
- Improved land rights through issuance of legal landholding certificates to one million people, including landless youth; and
- Livelihoods support, including for Income Generation Activities (IGAs) and Climate Smart Agriculture (CSA).

Results from SLMP-2 financing are well documented in approximately 135 major watersheds in 135 woredas (districts) in the six highland regional states. Water availability and food security have increased. Approximately 9 million tons of additional CO<sub>2</sub>e will have been accumulated in restored productive lands – a proxy for system function as well as a contribution to climate change mitigation over four to five years. Degraded lands are brought back into production for local farmers. Dry season base flow of streams and depth to water table are improving. In addition, protective vegetation cover was either maintained or expanded, as verified by remote sensing.

This transformative approach contributes to key national strategies, including the Growth and Transformation Plan-2 (GTP-2), the Climate Resilient Green Economy (CRGE) Strategy, and accompanying 2015 Climate Resilience Strategy for Agriculture and Forest, Ethiopia's Intended Nationally Determined Contribution (INDC), the Ethiopia Sustainable Land Management Investment Framework, the emerging National Forest Sector Strategy and National Reduction of Emissions from Deforestation and Degradation (REDD+) Strategy, as well as sector strategies for energy, water, and agriculture.

A WB mission, including the MoANR and development partners, took place July 10-21, 2017, in Addis Ababa, Ethiopia. The objectives of the mission were to:

1. Advance preparation of the Resilient Landscapes and Livelihoods Project (RLLP); and
2. Take stock of SLMP-2 implementation to support RLLP preparation.

Among other things, the mission discussed the status and challenges of IGAs that have been operated by Self Help Groups (SHGs) and supported by the SLMP-2. In addition, options and

opportunities for PSE in the RLLP through Value Chain (VC) or Inclusive Business (IB), Payment for Ecosystem Service (PES) and Corporate Social Responsibility (CSR) approaches were discussed during the mission. IGA/SHG and PSE in the SLMP-2 and RLLP will make significant contributions in creating income streams for communities and sustaining rehabilitation of the natural resources/watersheds. Therefore, the mission identified several PS-related preparatory studies required for RLLP preparation, including this one on private sector engagement (PSE) through diversified livelihood products being linked to value chains (VCs).<sup>1</sup>

## **II. Principles for Private Sector Engagement**

Since RLLP is primarily an environment and natural resources (ENR) project designed to rehabilitate watersheds and make them sustainable, it is important that any PSE be done based on clear principles that ensure the project meets its core objectives. Therefore, the following are principles that should be used for PSE under RLLP:

- For rehabilitated watersheds to be sustainable, the local communities as well as their specific households must benefit;
- Benefits must include “immediately” obtainable, increased income for communities and particularly households within those communities;
- Any activities must contribute to at least maintaining and ideally enhancing rehabilitated watersheds;
- Activities should focus on linking diversified, environmentally-friendly livelihood production/products generated by households in rehabilitated watersheds to value chains/markets;
- Woredas with SLMP-1 or -2 and proposed RLLP rehabilitated watersheds have no shortage of PSE activities implemented by other development partners (DPs) and/or PS entities;
- RLLP should not “reinvent the wheel” when so much has already/is being done in PSE in the same or neighboring geographic areas by players who are far more expert and have a wealth of experience in PSE;
- By collaborating/coordinating with existing PSE activities, there is potential to:
  - “Jump start” PSE on RLLP to support the sustainability of rehabilitated watersheds;

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<sup>1</sup> However, this study does not cover the more traditional ENR relationships with the PS that involve PES and CSR payments.

- Draw on expertise and experience of organizations who specialize in PSE/have clear experience engaging PS partners to buttress the SLMP/RLLP lack of expertise and experience in this area;
  - Avoid wasting precious time and resources, repeating errors and miscalculations by previous implementers;
  - Refrain from unnecessary duplication and better utilize available funding;
  - Provide benefits to communities in rehabilitated watersheds through engagement of existing PSE activities; and
- RLLP can then fill any gaps, not covered by other partners to fully engage/benefit watershed communities through PSE.

### **III. Methodology**

The initial livelihoods and sustainability strategy adopted under SLMP-2 assumed that PS partners largely would come in the form of companies who needed the clean water supplied by rehabilitated watersheds, would provide PES to and perhaps do some CSR in the community. It also was designed to support the development of a range of IGAs and CSA, but anticipated that local markets would be sufficient to consume all the quantities of new products produced through these expanded livelihood strategies. However, initial analyses, particularly of IGAs, indicated that beyond organizational problems that limited the quantities and quality of production/products, that most local markets were too limited and non-integrated to consume all the IGA products.<sup>2</sup> As such the intended scaling up of CSA and IGAs under RLLP and the fact that that nearly all products of the same variety would be sold at roughly the same time, soon after harvest, is sure to cause a glut and low prices for CSA- and IGA-produced products on local/watershed markets. In addition, while it is hoped that at least half a dozen businesses, such as breweries, water bottling companies, etc., will have direct needs for clean water from RLLP watersheds and will agree to terms with the communities and RLLP, this will only cover a small number of the 153 major, planned RLLP watersheds and does not address livelihood sustainability issues for watershed households, so this alone is not a strategy that will support sustainability of the majority of RLLP rehabilitated watersheds and their populations.

Therefore, a further strategy is needed to ensure the success of CSA, IGAs and other livelihoods in rehabilitated watersheds that will protect and render them sustainable and will see that fully diversified livelihood strategies are successful and encouraged to expand. The most feasible strategy to accomplish this is to seek to connect products produced in

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<sup>2</sup> Sustainable Land Management Project (SLMP-2), “Effectiveness of Income Generation Strategies (IGAs) and Self-Help Groups (SHGs) under SLMP-2”, 2017.

rehabilitated watersheds to existing VCs and ensure that they, including their quality and level of processing, are sought by the larger PS and markets. Hence under this study a model/framework was developed and approved by the PSU Coordinator that provides the outline for doing this (see Annex). The most important first step to operationalize the model was to determine potential PSE partners for RLLP. The author initially identified potential actors and made a preliminary determination of the following:

- Geographic areas and value chains in which they may have the potential to participate/they operate; and
- Potential challenges, benefits to them and communities and costs/investments needed to secure their involvement.

Subsequently, the author arranged interviews with the identified actors to derive further information on the above. The interviews were also used to, when possible, to solicit information on the related activities of other PS or DP actors as well as to obtain oral commitments from the interviewees to partner with the WB and its partners on PSE activities for rehabilitated watersheds. Besides desk research and analysis and the results of interviews with possible actors, this study also benefited from RLLP missions in October 2017 and February 2018 at which the author provided presentations on the new PSE model and intended development, and comments were provided by SLMP-2 staff, contributors, and collaborators, the responses for which were incorporated in the model and implementation plans. During the two missions, the author also had extensive discussions with WB staff, the Program Support Unit (PSU) Coordinator as well as other SLMP-2 program staff, SLMP-2 and potential RLLP project partners and donor representatives. The information from the desk review and these interactions was subsequently combined and analyzed to produce the results described in this study.

## **IV. Secondary Source Review of Past and Current PSE Relevant to RLLP**

### **A. Value Chain Analyses**

To connect to VCs and foster development of diversified livelihoods in rehabilitated watersheds that produce products that supply them, it is critical to have and consult succinct, quantitative VC analyses for relevant products. As noted above, Ethiopia has a plethora of VC-related development activities and therefore there are a number of recent VC analyses of varying quality for key VCs produced by different DPs. Among the most recent and useful are six VC studies, one each for coffee, chickpeas, maize, dairy, meat and live animals and poultry, produced by the United States Agency for International Development (USAID) Feed the Future Ethiopia (FtFE) Value Chain Activity (VCA) to inform their VC selection and initial activities in Tigray, Amhara, Oromia and Southern Nations and

Nationalities Peoples' (SNNP) regions.<sup>3</sup> These VC analyses provide extensive and comprehensive data and analyses on the supply and demand figures, the major players involved, the challenges, successes and opportunities as well as the prospects and costs for development.

Norway, a current donor to SLMP-2 and expected donor to RLLP, commissioned a study concentrating on four VCs – bamboo, beef, vegetables and cereals (wheat and barley) – that are supported to varying degrees under SLMP-2 IGA and/or CSA activities<sup>4</sup>, and therefore it is the most applied VC analysis to SLMP-2/RLLP. This study indicates that none of the selected VCs are integrated and this implies poor communication of market preferences within the VC, and this limits quality standards and prices as well as results in increased transaction costs while added value is limited. Spot market transactions between the various actors are the dominant market transaction mechanisms. The study recommends strengthening along all the VCs, and that this can be done through strengthening of cooperatives and cooperative unions in their marketing functions. However, in the context of RLLP and its watersheds, it will be most effective to facilitate formation and strengthening of Common Interest Groups (CIGs), SHGs or WUAs to perform these functions at a level closer to watershed communities. This analysis covers many key aspects of the four VCs, including possible linkages and partnerships for SLMP, but lacks a strong quantitative demand analysis for each VC. This is a major shortcoming, especially since the study only covers two regions and a detailed demand analysis should have been possible, the supply analysis is strong. However, without a clear analysis of demand, including quantities, qualities/grades and timing specifics, the crucial demand and supply analysis is not possible, so overdevelopment of or dependence on these VCs may not lead to strong income gains for producers in RLLP watersheds.

There is also a VC analysis of bamboo by the International Bamboo and Rattan Association (INBAR), an SLMP-2 partner working on bamboo development<sup>5</sup>, but the actual VC analysis is largely qualitative and incomplete. The study discusses the enormous potential of bamboo in Ethiopia and its myriad of uses when the appropriate varieties, quantities and qualities are available, but fails to adequately describe and analyze the major challenges, key details in the VC, supply and demand figures or provide comprehensive and practical solutions to issues that will ensure that the bamboo IGA is successful. A complete VC analysis would have provided a thorough demand analysis that specifies quantities, qualities and timing of bamboo supplies needed by the PS for each bamboo product, and matched this with supplies that could potentially be provided by SLMP-2 suppliers/households. It is clear there

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<sup>3</sup> USAID FtFE VCA, Value Chain Analyses: Chickpea, Coffee, Maize, Dairy, Meat and Live Animals and Poultry, October 2017.

<sup>4</sup> van den Bos, Wim, Sutton, Alex & Wilson, Kirsty, "Study of Value Chain Development under the Sustainable Land Management Program (SLMP) II Ethiopia", LTS International, December 2016.

<sup>5</sup> International Bamboo and Rattan Association (INBAR), "Value Chain Analysis and Market Assessment of Bamboo Products in Ethiopia", February 2018.

are strong opportunities to enhance the bamboo VC and that bamboo can be an environmentally friendly VC that will enhance the sustainability of rehabilitated watersheds, but a succinct VC analysis in RLLP watersheds where the IGA has potential is needed facilitate this.

The International Finance Corporation (IFC) recently produced a more general, globalized study with some Ethiopia data in their VC analyses of maize, soy, barley and livestock feed.<sup>6</sup> While this study has some interesting national scale supply and demand figures that illustrate that all four of these VCs are viable in the Ethiopian context, its usefulness for the purposes of this study is limited because the scales of analysis are so large and the focus for RLLP is primarily for linkages from the community watershed to local PS level.

In general, all the above VC analyses stress the difficulties concerning consistent quantities, qualities, standards and market linkages in Ethiopia. However, they also describe some relative successes and a great many opportunities provided the right linkages are achieved.

## **B. Processing, Bulking and Storage**

To ensure that the PS will go the “last mile” to RLLP watersheds, products produced by watershed communities/households are likely to need to be better processed, bulked and stored than those of more easily reached producers. Therefore, RLLP is planning to pilot and scale up simple processing and a Community Storage Receipts Programs (CSRPs) to support watershed farmers and ensure that they can produce products that the wider PS will buy. The following is a review of the literature and experience with appropriate, relevant technologies and methodologies within the Ethiopian context.

One of the most relevant and applied studies of storage systems in Ethiopia is the USAID FtFE AGP-Agricultural Marketing and Development (AMDe) preliminary analysis of its pilot Community Warehouse Receipts System (CWRS).<sup>7</sup> Unfortunately, this study is rather short, was done at a time when the pilot was not complete and ATA indicates there is no further documentation on the CWRS and its impacts. The CWRS is also not really at community level; it is at base cooperative level. The CSRPs will be at a much lower level and operated largely by CIGs of no more than 20 members/producers. However, the study does provide key details of the CWRS, discusses its challenges, successes and opportunities and clearly states that the potential for future, major benefits to farmers are critical and substantial, and if warehouse receipts can be reasonably done and are beneficial at this level, true CSRPs at the CIG level have even greater potential. Several other studies, including a subsequent

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<sup>6</sup> International Finance Corporation (IFC), 2017

<sup>7</sup> USAID AGP-Agricultural Marketing and Development (AMDe), “Community Receipt system implementation status”, March 6, 2015.

AMDe publication make the case for expanding the warehouse receipts systems (WRSs) in general.<sup>8</sup>

In addition to these studies, there are several others on WRSs in Ethiopia<sup>9</sup>, but all reference higher level WRSs starting at the base cooperative and going to cooperative union level. All these studies conclude that WRSs are beneficial and should be expanded, but also detail challenges with practical legal and financial frameworks, even after passage of the 2014 WRS law and establishment of a nationwide system. An earlier study of WRSs by the WB describes how WRSs supported commodity trading and financing across a swath of developing countries and provided greatly needed structure and consistency.<sup>10</sup>

In terms of processing, multiple studies in Ethiopia show that farmers are missing out on considerable income because they are not doing value addition and processing, and that a major factor in their not performing it is the fact that they do not know the extent of the income they are losing and do not have access to appropriate processing equipment.<sup>11</sup> Therefore, provision of simple processing equipment under RLLP will greatly facilitate CIGs or other units adding value through processing to products from watersheds, thus increasing the likelihood of the products being purchased and farmers receiving additional income.

The studies above clearly describe the difficulties some warehouse receipts programs in Ethiopia have had, but also their importance and relevance in facilitating the sale of improved quantities and qualities of products at better prices for producers. However, many of the problems mentioned were with bank guarantees and legal requirements and are not relevant to the Community Storage Receipts Programs (CSRPs) proposed under RLLP because of the small scale and community nature of the program. Indications from all the above studies are that basic processing and the CSRPs are needed and will assist watershed producers to sell their products and receive better returns for them.

### **C. Marketing and Linkages**

To clearly understand the PSE opportunities available to RLLP, it was important to review marketing and linking techniques/methodologies that have proven effective, particularly within the Ethiopian context. All research points to the need to establish a strong unit for linking farmers to the VC and subsequently the market, but this same body of literature

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<sup>8</sup> USAID AGP-Agricultural Marketing and Development (AMDe) Program, “AGP-AMDe- Ethiopia Warehouse Receipt System and Regulation: A Case for Expansion”, 2016?

<sup>9</sup>

<sup>10</sup> Varangis, Panos and Larson, Donald, “How Warehouse Receipts Help Commodity Trading and Financing”, World Bank, 1998?

<sup>11</sup> Tamru, Seneshaw (LICOS - Center for Institutions and Economic Performance, University of Leuven, Leuven, Belgium) and Minten, Bart (IFPRI/Ethiopia), “Value Addition and Processing by Farmers in Developing Countries: Evidence from the Coffee Sector in Ethiopia”, April 2016.

identifies plenty of challenges with creating and maintaining these units, which in the current SLMP-2 context are SHGs and/or Water User's Associations (WUAs). The latter are sometimes too large, multi-purpose and slow-forming for VC purposes, and the former have had many challenges as described in a recent SLMP-2 study, including limited access to credit, absence of a standard guideline in some regions, poor skill enhancement training and weak institutional financial management capacity.<sup>12</sup> Therefore, RLLP should seek to use CIGs, a unit originally developed under AGP in 2003, that was evaluated in 2013<sup>13</sup>, subsequently revamped for optimal use and success in AGP-2 and for which a MoANR-endorsed guideline was issued in 2016.<sup>14</sup> CIGs have the following specific characteristics as detailed in the guideline:

- Focus on production (of crop or livestock), processing and/or marketing;
- Promote and support women and youth;
- No more than 20 members, only one per household and members generally come from resource poor households;
- Informal groups, not legally registered, but recognized by the GoE, with no juridical status and generally cannot obtain bank loans until they are transformed into primary cooperatives or enterprises;
- Clear written rules and regulations (bylaws);
- Clear structure, including a general assembly of members, which plays a leading role, and a managing board;
- Formation – Steps include organizing a community meeting, identifying and prioritizing problems/issues, selecting possible business(es)/VCs to be supported, preparing business, operational and financial plans (supported by cooperative development worker, DA, and woreda experts to play facilitation role), by-laws (advised by kebele cooperative experts, DA's) and training and engaging in business implementation;
- Institutional support – Supported by kebele-level cooperative development worker, development agents, woreda cooperative promotion office, woreda agriculture and natural resources office, woreda livestock development office, woreda AGP focal person, woreda women, children and youth affair, woreda trade and/transport office/marketing process, zonal and regional implementing institutions, regional AGP coordinating unit; and
- AGP-2 now covers 96 woredas and up to 4,375 functional CIGs, or an average of 45 CIGs per woreda, and SLMP-2 overlaps with AGP-2 in at least 17 woredas.

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<sup>12</sup> SLMP-2, "Discussion Note on Challenges and Needs of IGAs-SHG's RLLP-Preparator Workshop", 2017.

<sup>13</sup> Agricultural Growth Program Assessment of CIG/FIG Performance, Status & Challenges: The Case of Oromia Region, Federal Democratic Republic of Ethiopia, Ministry of Agriculture and Natural Resource, July 2013.

<sup>14</sup> Agricultural Growth Program, "Common interest group (CIG) Guideline", Federal Democratic Republic of Ethiopia, Ministry of Agriculture and Natural Resource, September 2016.

The CIGs link directly to PS buyers, primary cooperatives and/or cooperative unions to market their products. By using the same community-level unit for its diversified livelihoods and linking to value chains/markets, RLLP will facilitate coordination/collaboration with AGP-2 and help jump-start its activities in this area. They also can link directly to AGP-2 for further technical and financial support after older watersheds graduate from RLLP. In addition, CIGs can be linked to GIZ economic growth advisors who will be at the zonal level, so that these advisors later could provide technical support. RLLP could adopt and adapt the CIG concept to its needs, subsuming both active and especially non-performing SHGs and forming CIGs quicker than its possible to do the same with WUAs. CIGs would be strengthened by provision of simple processing equipment and development of CSRPs under Green Climate Fund (GCF) funding for RLLP.

## **V. Processing Equipment and Community Storage Receipts Programs**

These activities will be primarily funded under the GCF and will focus on linking products from SLMP/RLLP rehabilitated community watersheds to value chains through development of product processing, bulking and storage capacity. This will ensure the sustainability of environmentally friendly community/household livelihoods and increased income through better access of the PS to at least partially processed, good-quality, bulked commodities throughout most of the year. Without appropriate infrastructure and facilitated linkage of the PS, rehabilitated watersheds are unlikely to be maintained, as households revert to previous, destructive practices and newly developed, environmentally friendly livelihood interventions diminish and eventually fail. Therefore, it is vital that watershed communities produce quality, semi-processed products sought and purchased by the PS in bulk. This will encourage the PS to go the “last mile” to SLMP watershed communities when lesser quality, unprocessed and unbulked commodities might be closer at hand. This form of PSE will ensure watershed communities, and specifically their households, can maintain increased incomes and continue environmentally friendly practices in pursuing their livelihoods that sustain the rehabilitated watersheds. Therefore, the following activities to develop/provide processing equipment and community storage receipts programs are essential.

### **A. Processing Equipment and Training**

RLLP is proposing to jointly purchase with CIGs, SHGs or WUAs key agricultural processing equipment that when properly used will increase the value of crops produced through CSA and livestock products produced through intensive, environmentally friendly methods by watershed communities/households. The project would also provide necessary training on the equipment to group members, and ensure that they had the capability to operate and service the equipment. The equipment could include forage processing mills, grain

threshers, weighing scales, grain mills, processing sheds, dairy processing equipment, poultry and egg processing equipment, bamboo processing equipment and tools and vegetable storage/transport containers, and its proper use for value addition will ensure that watershed products have a comparative advantage over unprocessed products. This advantage alone could well be difference between whether the PS buys more easily accessible products or comes to the watershed to buy these semi-processed products.

## **B. Community Storage Receipts Programs**

To build on and reinforce the procurement and use of much of the processing equipment referred to in Sub-Section A above, the project will foster development of Community Storage Receipts Programs (CSRPs) in SLMP/RLLP rehabilitated watersheds by building warehouses/other types of storage facilities and training community organizations to develop and maintain CSRPs. These CSRPs will store commodities in demand by the private sector that will be weighed, graded, valued per expected market price at proposed time of sale and labeled accordingly. Upon transfer of the commodities to the storage facility, the producer will receive a receipt for the commodity and 50 percent of the expected purchase price in cash from the CSRP manager, and the commodities will be stored carefully and properly until the time of sale. After sale, the producer will receive the other portion of the proceeds based on the actual sales price and a small deduction for the cost of the service. For example, if the producer brings one quintal (100 kilograms) of commodity that is expected to sell for Ethiopian Birr (ETB) 1,000, s/he will receive ETB 500 on delivery of the commodity, the commodity will be stored, bulked and sold with commodities from other producers. If the commodity is sold for the expected ETB 1,000, the producer will receive the additional ETB 500 minus the small storage cost (e.g., 5-10 percent) after sale and payment.

The CSRPs will provide immediate cash to poor farmers, improving their food security and ability to pay for other necessities like school fees. It will also facilitate their improving their productivity if they invest in seeds, forage/livestock feed and other inputs through their CSRP pre-payment/income. CSRPs will ensure high-quality storage and that farmers realize higher sales prices for their commodities by allowing them to be sold in optimal condition, months after harvest, instead of immediately after when prices are at their lowest.

As noted in the desk review above, a form of CWRS has already been piloted and proven successful in Ethiopia in recent years under the USAID/AGP-AMDe Program<sup>15</sup>, and we will adapt appropriate aspects of their program to CSRPs, build upon their successes and improve where their program had challenges to ensure long-term sustainability in SLMP/RLLP rehabilitated watersheds.

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<sup>15</sup> Ibid, AMDe, March 6, 2015.

## VI. Possible Players/Partners

There are many possible players/partners for PSE on RLLP, but they generally fall into three major categories. The first of these are the DP currently implemented, donor or foundation funded value chain projects/activities. These are activities that are currently in operation and actively engaging the PS that as mentioned in the PSE principles section above, are “low-hanging fruit”, will prevent unnecessary duplication and allow RLLP to benefit from existing livelihoods and VC linkage expertise. Table 1 below shows projects/activities and related key contacts and other information identified that can immediately contribute to RLLP livelihoods and linking to VC efforts.

*Table 1. Examples of Possible Immediate PSE Partners for RLLP*

DP/Project	Contacts	Comments
<b>GoE/WB Agricultural Growth Program (AGP-2)</b>	Vikas Choudhary, TTL and Epi Katjiuongua, Senior Ag. Economist	Same client and main donor as RLLP, there are substantial areas for cooperation/collaboration and pressure from WB and MoANR for better coordination.
<b>International Finance Corporation (IFC)</b>	Panos Varangis, IFC/Washington, and Jotework Gudeta Ayele, IFC/Ethiopia	Has key studies and involved in all major agricultural finance issues, including global VC development and WRSs.
<b>U.S. Department of Agriculture (USDA) Feed Enhancement for Ethiopian Development (FEED) II/III Project</b>	Carl Birkelo, COP and Senbeto Funte, DCOP	Cutting edge development of manufactured animal feed and improved forage that can help RLLP intensify livestock, dairy and poultry production without damaging rehabilitated watersheds
<b>Agricultural Transformation Agency (ATA)</b>	Mirafe Marcos, Senior Director, Agribusiness & Markets	Key GoE agency tasked with agricultural marketing, which currently has 44 warehouses at base coop and coop union levels that could be used by RLLP or its partners.
<b>GIZ ENR-related economic development activities</b>	Michael Gleuck, Program Director	GIZ has substantial VC experience on natural resource projects in other countries (e.g., India), and will soon have advisors at the zonal level.

The second category of possible partners generally in the medium-term are businesses, including cooperative unions and their base cooperatives. These include any private enterprises who have the potential to buy RLLP watershed products, which are largely produced through the CSA and IGA initiatives or sell products that watershed households need. The following are some examples identified during this study:

- Cooperative unions and base cooperatives that can buy commodities/products from watershed groups usually add them to their own produce and further process and store them, before selling major quantities to millers and other businesses;
- Animal feed companies – e.g., Alemakaldis – who may sell manufactured animal feed and supplements to watershed households with livestock;
- Water companies – e.g., Nestle – who need the clean water produced by rehabilitated watersheds and will pay the communities a service fee for using it;
- Breweries – e.g., Raya – who need both the clean water and grains produced by rehabilitated watersheds;
- Other beverage/soft drink factories that need a regular clean water supply and will pay communities a service fee;
- Flour mills/factories that can buy grain produced under CSA activities; and
- Mining companies that need clean water, are willing to use extraction techniques that maintain, further rehabilitate watersheds or restore them and are willing to pay service fees to the communities.

The final category of possible PSE partners for RLLP are foundations that can provide initial funding for PSE activities and provide incentives to PS partners to invest in rehabilitated watersheds. Foundations currently active in Ethiopia that may be interested in partnering with RLLP include the:

- Bill and Melinda Gates Foundation, which already funds large, livestock and crop value chain activities across multiple regions;
- Howard Buffet Foundation, which funds smaller, community-level activities in Ethiopia; and
- Rockefeller Foundation, which is not currently active in Ethiopia, but showing interest in possible investments.

## **VII. Short-Term Engagement Possibilities – “Low-Hanging Fruit”/Immediate – Up to 1 Year**

Short-term PSE opportunities under RLLP would largely come from the partners/players in the first category described in Section VI above, since they are already active in the field near – in the same woreda for example – and have already engaged or have made considerable effort to engage the usually local PS. They are obligated by their donors to

ensure the sustainability of any of the PS activities they support, and RLLP can save considerable time and resources by simply being a facilitator in helping them target/extend their activities to rehabilitated watersheds and thus “piggybacking” on their efforts and successes. This means that RLLP PSE activities with these partners, after determining what the PS wants to buy, will focus on encouraging the PS to go the “last mile” to purchase those products from communities in rehabilitated watersheds and coordinating with them to link to their much more extensive VC support activities. To strongly encourage the PS and/or PS-related projects to engage with communities in RLLP watersheds, RLLP will pilot and scale up the processing and CSR activities as described in Section V. The VC diagram in Figure 1 below shows the progression and relationships between players in and supporting the expected RLLP diversified livelihoods linking to VCs/markets activities.

## **VIII. Medium-Term Engagement Options – 1-2 Years**

Medium-term PSE opportunities will take more work, planning and incentives than those in Section VII above and will require direct engagement with the PS rather than through a facilitator project. However, these should focus on PS businesses, cooperatives unions, base cooperatives, or foundations that already have a base or plan to focus in the geographical areas of the rehabilitated watersheds as described under the second category in Section VI above. A strong example of this type of opportunity is the planned MOU with Raya Breweries in Enda-Mohoni Woreda of South Tigray Zone. While this particular arrangement may come to fruition more quickly because Raya has already adopted some practical arrangements with households in the Burka-Abagabir watershed community, the MOU will be used to formalize current practice and add other mainly PSE/CSR-related conditions, there are not currently any other such relationships between SLMP watershed communities and the PS. Therefore, considerable work would need to be done to develop such arrangements in other geographic areas where SLMP/RLLP is active. SLMP is currently developing a list of other PS actors in or near woredas where there are SLMP and will be new RLLP watersheds, so that the program can target its attempts to engage them, have them invest in watershed VC products and explore possibilities for them to do PES or provide CSR investments.

## **IX. Long-Term Engagement Opportunities – 3-5 Years**

Long-term PSE opportunities are those that are generally not close at hand (e.g., with PS firms that do not currently have any activities in close geographic proximity to the watersheds), will require strong engagement with the PS and provision of incentives to encourage and enable them to engage communities, begin to implement key activities in the watersheds and continue to stay engaged. Without clear incentives, private businesses are extremely unlikely to incur the costs of implementing activities in new areas that have

unproven potential to create profits. These opportunities generally will only come to fruition if RLLP is able to illustrate to a potential PS investor that it will reap sufficient rewards within a reasonable period to more than cover the initial investment required for beginning operations in or near a watershed. These kinds of investments generally are only made when the PS actor is certain that it will make profits over an extended period that will ensure its initial and future investments are covered and the investment area/watershed has incomparable attributes that make it the place for that PS entity to be. For example, the watershed(s) may have a comparative advantage to grow crop varieties that are specifically required by the investor, or has certain minerals or gems that can be mined. Investors of this type will likely be willing to engage in PES and/or CSR activities.

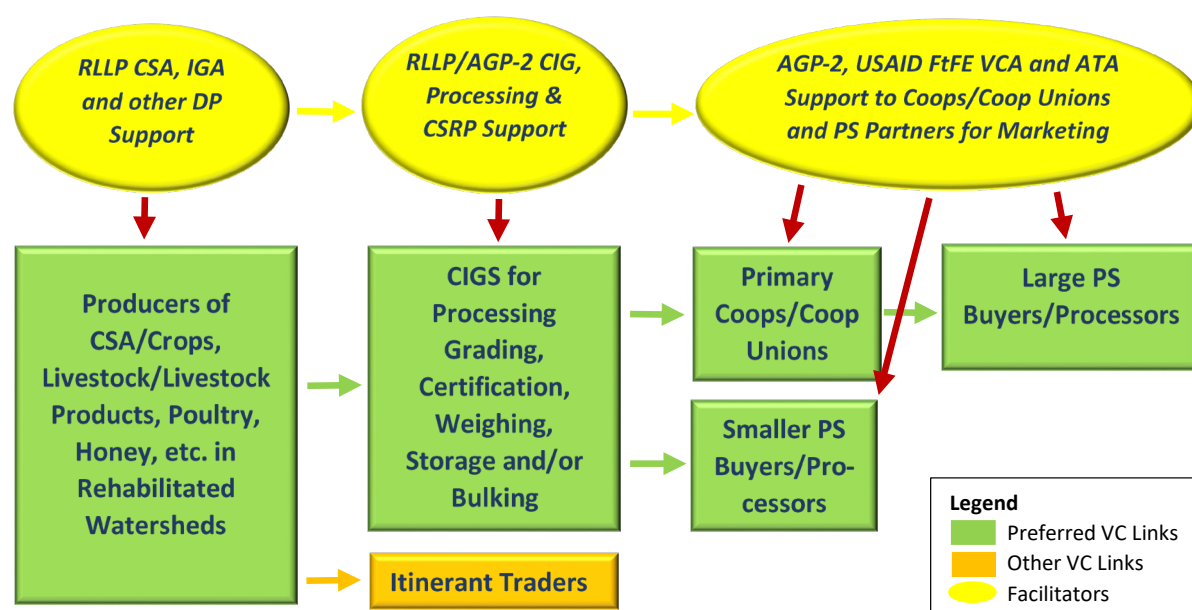


Figure 1. RLLP Linkages from Diversified Livelihoods to Value Chains/Markets

## X. Preliminary PSE Action Plans

The range of follow up and needs for action plans will increase exponentially as RLLP moves towards full implementation of diversified livelihoods and linking to VCs/markets activities. Under IDA funding, RLLP plans to initially pilot the latter activities in 16 woredas – four in each of the major regions – and will then scale up to about 40 woredas across the same regions if GCF funding is secured. These activities would then be adjusted based on experience and scaled up to cover all 153 RLLP woredas/major watersheds by the end of the project. The following are initial, general action plans for RLLP short-, medium- and long-term interventions related to PSE. The timeframes are in terms of the period it is likely to take for these options to begin, and do not refer to the length of the expected partnership, which apart from the development projects that have defined end dates, are expected to be long-term.

### **A. Short-Term Engagement Possibilities**

1. Identify key, current donor-funded PSE projects/activities that may overlap geographically and have activities that are consistent programmatically with sustaining livelihoods in rehabilitated watersheds;
2. Schedule and conduct initial meetings with above potential partners and further identify/clarify possible overlap and synergies;
3. Analyze data derived from meetings and related documents and provide feedback to consulted potential partners;
4. Present findings and suggested pilot collaborations/linkages at PS partner conference; and
5. Propose content of Memoranda of Understanding (MOUs) with individual partners.

### **B. Medium-Term Engagement Options**

1. Identify gaps in PSE not covered by other development and PS partners;
2. Identify other potential PS partners (beyond those under short-term engagement options) that could be linked to products and value chains from our watersheds;
3. Schedule and conduct initial meetings with above potential partners and identify and clarify possible interventions/linkages that would benefit and could be extended to RLLP watersheds;
4. Analyze data derived from meetings and related documents and provide feedback to consulted potential partners;
5. Present findings and suggested pilot collaborations/linkages at PS partner conference; and
6. Propose content of MOUs with individual PS partners.

### **C. Long-Term Engagement Opportunities**

1. Identify further gaps in PSE not covered by other development or local PS partners that can be covered by other PS partners (in addition to those under medium- and short-term engagement options) and linked to RLLP watersheds;

2. Schedule and conduct initial meetings with above potential partners and identify and clarify possible linkages;
3. Analyze data derived from meetings and related documents and provide feedback to consulted potential partners;
4. Present findings and suggested pilot collaborations/linkages at PS partner conference; and
5. Propose content of MOUs with individual PS partners.

## **XI. Concrete Examples of Possible PSE Synergies/Collaboration with DPs under RLLP**

As mentioned in Section VI above, there are several specific, short-term PSE opportunities that can be realized if RLLP partners with active development projects/partners who are currently working directly with the PS in the same woredas as SLMP/RLLP rehabilitated watersheds. The following is a list of those potential partners and the probable content that could be agreed to in partnership arrangements/MOUs.

### **A. GoE/WB Second Agricultural Growth Program**

AGP-2 currently operates in at least 17 woredas in four regions where there are SLMP-2 rehabilitated watersheds (7 in Amhara, 5 in Oromia, 3 in SNNP and 2 in Tigray). They have also “rehabilitated” watersheds, particularly to enable irrigation, but clearly not specifically for environment and natural resources objectives. AGP-2 is engaged in support to key livestock and crop VCs, and is supporting productivity improvement, processing, storage/warehousing, market development in these VCs. AGP-2 and RLLP are implemented by same major donor (WB) and GoE ministry (MoANR), and are expected to have additional geographic overlap in the four main regions. In terms of value chain development and PSE, RLLP will seek to harmonize as many methodologies and activities with AGP-2 as possible, including adopting their CIG and other guidelines. A possible MOU between the two projects could stipulate that:

- SLMP/RLLP conduct CSA and support IGAs to improve production for crops and products for which AGP-2 has determined there is a ready market.
- AGP-2 help link such products to the PS/markets.

- RLLP and AGP-2 agree to consult and collaborate on development of any new and refocusing of current techniques/technologies related to VCs.

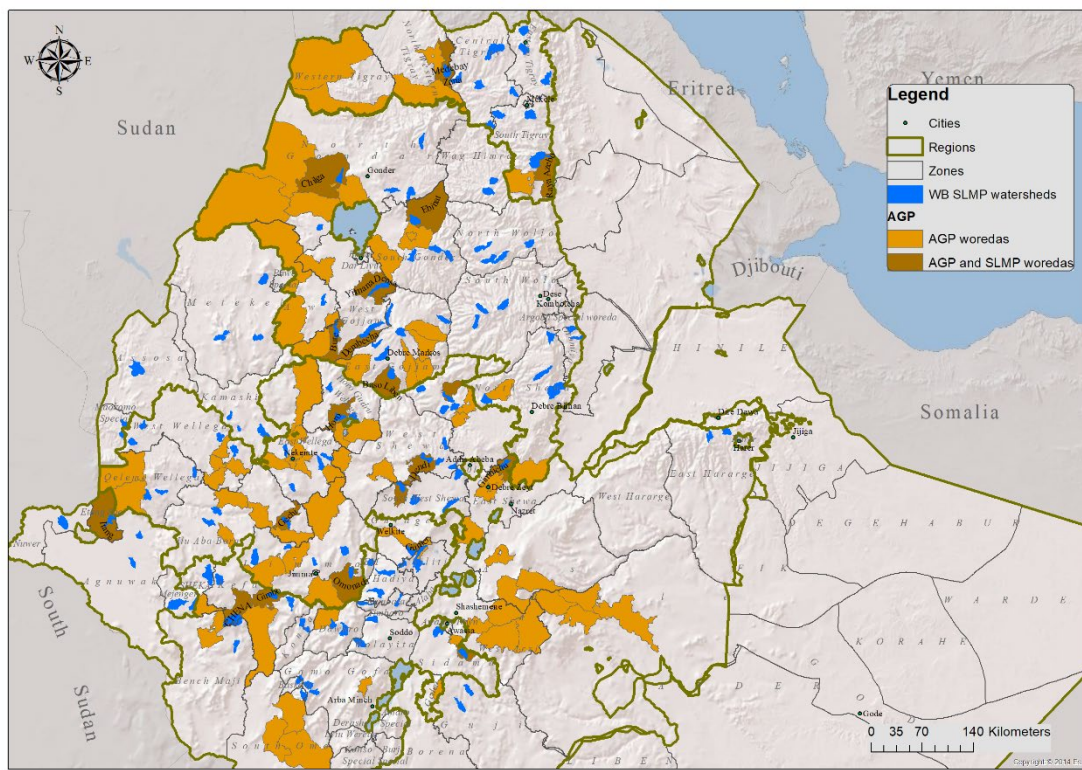


Figure 2. Woredas in which both SLMP and AGP Work

## B. USDA Feed Enhancement for Ethiopian Development (FEED) II/III Project

FEED II is improving incomes/food security through improved availability, access and utilization of livestock and poultry feed. FEED I began in 2009, and FEED II started in 2013 and is now working in 21 zones across the four main regions with 24 cooperative unions and a dozen or so private businesses in the livestock feed sector. FEED III has been approved, will begin soon and will be in operation until at least 2020. At least 22 of the current woredas in Tigray, Amhara, Oromia and SNNP regions in which FEED II operates include SLMP I/II rehabilitated watersheds, and there promises to be even more geographic overlap in RLLP/FEED III.

FEED II/III is seeking to exponentially expand their forage development and has the funds and technical personnel to do so, but they have been limited by the shortage of land in their geographic areas of operation and difficulty of completing agreements with the GoE for the land that is available in their project areas while SLMP/RLLP has land in all overlapping woredas for which agreements have been concluded and on which they are seeking to develop forage crops. FEED arguably has the best technical expertise in Ethiopia to develop/expand forage crops (i.e., the COP is a PhD animal nutritionist with 30 years of

experience, including 7 years in Ethiopia, who is supported by top Ethiopian animal nutritionists and livestock VC specialists) and has secured/imported improved forage crop seed (e.g., alfalfa) for this purpose. In addition, FEED II has fostered the development of at least 21 cooperative union-based, feed manufacturing mills in the four main regions, which can supply livestock feed/feed supplements to watershed community livestock and milk producers to intensify production and alleviate the need for extensive grazing that is prohibited in and would damage SLMP rehabilitated watersheds. They have indicated a willingness to actively collaborate and pilot linking and contributing to activities in at least some of the 22 overlapping woredas in four regions (eight in Tigray, three in Amhara, seven in Oromia and four in SNNPR). A possible MOU between the two projects could stipulate that:

- SLMP/RLLP secure required land agreements, provide lists of concerned livestock producers in the watershed and facilitate FEED II/III's training of livestock producers and establishment and management of improved forage crops in rehabilitated watersheds.
- FEED II/III provide initial seed and training on cultivation, processing, storage and consumption and/or marketing of improved forage crops. They would also facilitate linkages with coop union-based feed manufacturers and encourage them to provide incentives for watershed livestock and milk producers to buy/consume manufactured feeds and/or supplements, thus improving production and further lessening pressure to provide pasture for livestock in watersheds.

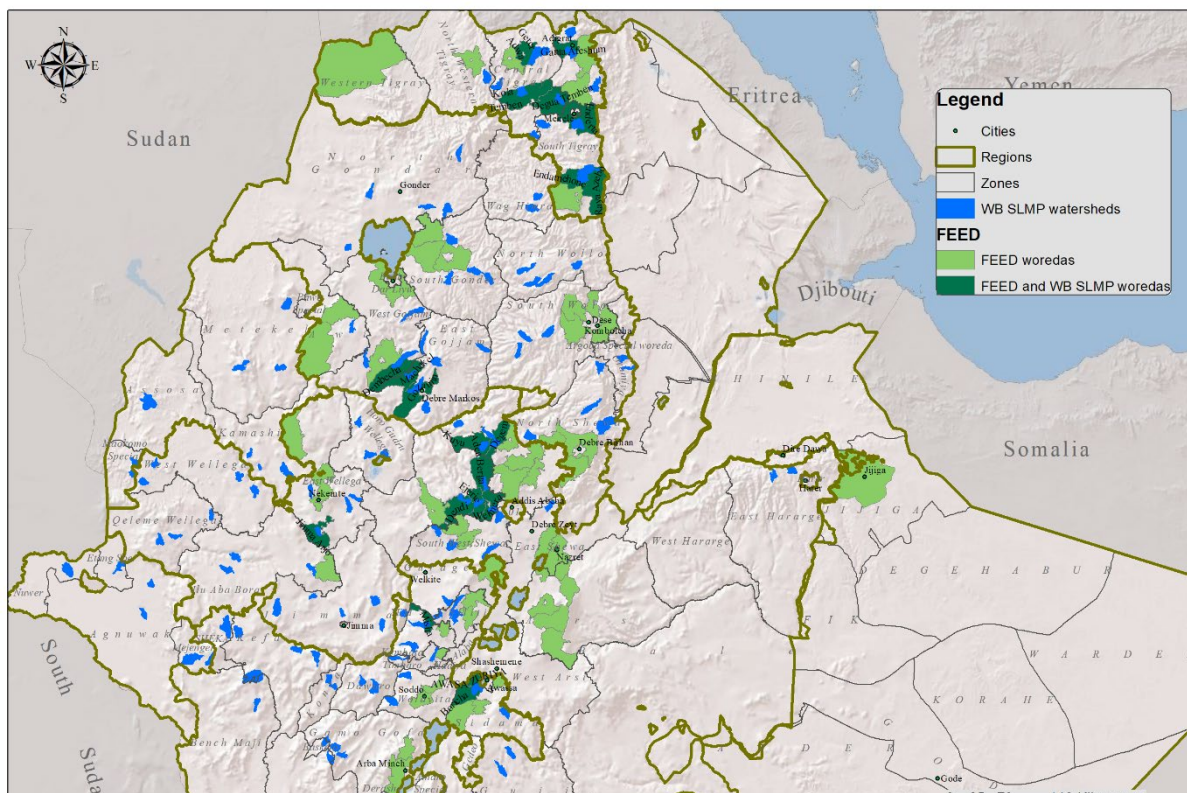


Figure 3. Woredas where both SLMP and FEED II Work

### **C. USAID FtFE Value Chain Activity**

VCA is part of the U.S. Government's FtF initiative and contribution to AGP-2. The overall project objective is to improve agricultural productivity and commercialization of smallholder agriculture in Tigray, Amhara, SNNP and Oromia regions. They support/facilitate development/strengthening of 6 major VCs – chickpeas, coffee, maize, dairy, meat and live animals and poultry – and completed comprehensive studies for all 6 VCs in October 2017. VCA is finalizing their selection of woredas to target, but they are expected to have significant geographical overlap with SLMP/RLLP. A possible MOU could stipulate that:

- VCA help intensify production in an environmentally friendly way in their 6 VCs in overlapping woredas with SLMP watersheds and link that production output to markets in any overlapping, contiguous or other nearby woredas.
- RLLP ensure that watershed CIGs produce products, quantities and quality that the market wants and VCA specifies.

### **D. Agricultural Transformation Agency (ATA)**

ATA has completed construction of 44 warehouses – 40 at the primary cooperative level and four at the cooperative union level – in Tigray, Amhara, Oromia and SNNP regions, and is eager to facilitate and ensure the best possible use of these warehouses. There is major overlap of the locations of these warehouses with woredas in which SLMP-2 currently has rehabilitated watersheds and with woredas with new RLLP watersheds. However, the warehouses are just constructions and not yet operational, with no management system or personnel in place. Potentially enterprising CIGs from SLMP-2 watersheds with RLLP support could assume management of selected warehouses, using them as further aggregation points to sell to larger markets at opportune times further connecting RLLP watersheds to VCs/markets.

## **XII. Required RLLP Support for PSE Activities**

To effectively facilitate PSE and specifically diversified livelihoods linking to VCs/markets activities under RLLP, it will be important that the project provide the following technical training and support to watershed producers on:

- CIG formation and strengthening;
- Business and financial plan development;
- Use of and maintenance for processing equipment;
- Development and operation of CSRPs; and
- Grading and value addition.

In addition, RLLP will need to provide the following financial support to watershed CIGs with 75 percent of the cost of:

- Processing equipment; and
- Construction of storage and the startup costs of CSRPs.

RLLP will also need to provide the following facilitation and technical staff:

- Secure cooperation/collaboration of DP-implemented VC activities to facilitate linkages with the PS and markets for watershed CIGs;
- At least initially assist CIGs/SHGs/WUAs to develop and finalize contracts with base cooperatives, cooperative unions or other PS entities/partners to purchase their produce; and
- Hire PSE & Livelihoods Specialists at both the federal and regional levels to support these activities.

### **XIII. Conclusions**

SLMP-rehabilitated watersheds across six regions risk degradation, unless rapid efforts in PSE are made, ensuring diversified livelihoods and increased income for watershed residents. PSE particularly that links watershed producers and products to existing VCs and markets will render watersheds sustainable as household incomes are diversified and increased, and as a result, watershed communities experience the added value of the watersheds.

This study describes the full range of characteristics, requirements and opportunities for PSE partners and short-, medium- and long-term options for PSE under RLLP. However, it is particularly focused on short-term options that link rehabilitated watershed diversified livelihoods through CSA and IGAs to VCs and markets and have the potential for near immediate impact with little cost to the WB and its RLLP partners. These opportunities are described in detail, including probable partnership arrangements with clearly identified implementers/collaborators. The short-term opportunities described will provide the most immediate and richest benefits to the communities and its households in the greatest number of rehabilitated watersheds possible, at the same time ensuring that they recognize the advantages/benefits of maintaining and improving those watersheds.

The study also describes possible PS partners and general action plans for medium- and long-term opportunities for PSE. These opportunities will take more time to establish because they are generally directly with the PS and the lack of an intermediary DP who has already established parameters and a working relationship with the PS means that more time will be spent scoping out the collaboration and establishing a repertoire with the PS partner. It also means that RLLP will have to consider supporting upstream VC partners that under the short-term options are generally supported and/or facilitated by other DPs like

AGP, FEED or VCA mentioned above. However, success of any of the potential PSE activities referred to in this study will breed further success because, particularly in smallholder producer environments in Ethiopia “seeing is believing” and households or CIGs/SHGs/WUAs will be far more willing to adjust, invest in and tweak these activities to work optimally when they have clear results in the form of increased disposable income.

As noted in Section XII above, to successfully implement the recommended PSE activities, RLLP will need to provide the required technical and financial support, facilitation and technical staff, but the initial phase which is focused on “quick wins” from collaboration with other DP-implemented VC activities will reduce costs and facilitate earlier, stronger success.

## Annex. Private Sector Engagement Model for SLMP/RLLP

### I. Background

The World Bank has been financing Ethiopia's Federal Ministry of Agriculture and Natural Resources (MOANR) in six regional states to transform the way landscapes are managed by convening sectors, resources and partners (IDA, Norway, Canada, Germany, GEF, LDCF) to invest in a holistic and coordinated fashion. Through the financing of the Second Sustainable Land Management Project (SLMP-2), natural and economic wealth is being built on over 1.3 million hectares of degraded communal and smallholder lands through an integrated package of activities throughout targeted watersheds that include:

- A. Management of natural resources (soil and water conservation structures, agroforestry, participatory forest management, enclosures to reduce free grazing and allow assisted natural regeneration, small irrigation, water point development, climate-smart technologies on household farmland, and land use planning approaches);
- B. Improved land rights through issuance of legal landholding certificates to one million people, including landless youth; and
- C. Livelihoods support, including for improved cook stove adoption that reduces women's labour, respiratory illnesses, and fuelwood demand.

Results from SLMP-2 financing are well documented in approximately 135 major watersheds in 135 woredas (districts) in the six highland regional states. Water availability and food security have increased. Approximately 9 million tons of additional CO<sub>2</sub>e will have been accumulated in restored productive lands – a proxy for system function as well as a contribution to climate change mitigation over 4-5 years. Degraded lands are brought back into production for local farmers. Dry season base flow of streams and depth to water table are improving. In addition, protective vegetation cover was either maintained or expanded, as verified by remote sensing.

This transformative approach contributes to key national strategies, including the Growth and Transformational Plan-2 (GTP-2), the Climate Resilient Green Economy (CRGE) Strategy, and accompanying 2015 Climate Resilience Strategy for Agriculture and Forest, Ethiopia's Intended Nationally Determined Contribution (INDC), the Ethiopia SLM Investment Framework, the emerging National Forest Sector Strategy and National REDD+ Strategy, as well as sector strategies for energy, water, and agriculture.

A World Bank (WB) mission, including the MoANR and development partners, took place July 10-21, 2017, in Addis Ababa, Ethiopia. The objectives of the mission were to:

- A. Advance preparation of the Resilient Landscapes and Livelihoods Project (RLLP); and
- B. Take stock of SLMP-2 implementation to support RLLP preparation.

Among other things, the mission discussed the status and challenges of the Income Generating Activities (IGAs) that have been operated by Self Help Groups (SHGs) and

supported by the SLMP-2. In addition, various options and opportunities for Private Sector (PS) engagement in the RLLP through Value Chain (VC) or Inclusive Business (IB), Payment for Ecosystem Service (PES) and Corporate Social Responsibility (CSR) approaches were discussed during the mission. IGA/SHG and PS engagement in the SLMP-2 and RLLP will make significant contributions in creating income streams for communities and sustaining rehabilitation of the natural resources/watersheds. Therefore, the mission identified several PS-related preparatory studies required for RLLP preparation, including one on international PS and foundation engagement.

## **II. Principles for Private Sector Development (PSD)**

The following are principles that will be used for PSD in SLMP/RLLP:

- A. In order for rehabilitated watersheds to be sustainable, the local communities as well as their specific households need to benefit;
- B. Benefits must include “immediately” obtainable, increased income for communities/households;
- C. Any PSD activities must contribute to at least maintaining and ideally enhancing rehabilitated watersheds;
- D. Woredas with SLMP-1 & 2 and potentially RLLP rehabilitated watersheds have no shortage of PSD activities implemented by other development partners and/or PS entities;
- E. We do not want to “reinvent the wheel” when so much has already/is being done in PSD, especially in the Ethiopian context;
- F. By collaborating/ coordinating with existing PSD activities, there is potential to:
  - 1. “Jump start” PSD on SLMP-2/RLLP to support sustainability of rehabilitated watersheds;
  - 2. Draw on expertise and experience of organizations who specialize in PSD/have clear experience engaging PS partners;
  - 3. Refrain from unnecessary duplication and better utilize available funding;
  - 4. Provide benefits to communities in rehabilitated watersheds through engagement of existing PSD activities; and
- G. SLMP-2/RLLP can then fill any gaps, not covered by other partners to fully engage/benefit watershed communities through PSD.

### **III. Methodology**

To engage potential PSD partners, the implementers of this study will initially identify through their own knowledge and desk study the potential actors/partners, the areas/value chains where they may have the potential to participate, the challenges, potential benefits to them and communities and costs/investments needed to secure their involvement and potential to ensure sustainability of the rehabilitated watersheds through their interventions. Subsequently, the implementers will set up interviews with these actors to derive further information on the above. The interviews will also be used to, if possible, obtain oral commitments from the interviewees to partner with the WB and its partners on PS activities in the rehabilitated watersheds.

### **IV. Possible Player/Partners**

- A. Currently implemented, donor or privately funded value chain projects/activities
  - 1. WB AGP – Vikas Choudhary, TTL
  - 2. USDA FEED II Project – Carl Birkelo, COP and Senbeto Funte, DCOP
  - 3. USAID AGP/Value Chain Project – Ian Chesterman, COP and Teshome Lemma, DCOP
  - 4. GIZ economic development activities – to begin soon in Ethiopia, but based on substantial experience in other countries (e.g., India)
  - 5. EU-funded projects
  - 6. Other donor- or foundation-funded projects
- B. Businesses, including Cooperative Unions and their Base Cooperatives
  - 1. Cooperative unions and base cooperatives
  - 2. Animal feed companies – e.g., Alemakaldis
  - 3. Water companies – e.g., Nestle
  - 4. Breweries – e.g., Raya
  - 5. Beverage and soft drink factories
  - 6. Commercial farmers – growing maize, barley, chickpeas and others
  - 7. Wheat flour mills/factories
  - 8. Mining companies
- C. Foundations – to fund initial PSD activities and provide incentives to PS partners to invest in rehabilitated watersheds
  - 1. Gates Foundation – funds key livestock and crop value chain activities
  - 2. Rockefeller Foundation
  - 3. Howard Buffet Foundation
  - 4. Other foundations

## **V. Short-Term Engagement Possibilities – “Low-Hanging Fruit”/Immediate – 1 year**

These opportunities would largely come from the players in Section A above, since they are already active in the field near – in the same zone for example – or sometimes even in rehabilitated watersheds themselves and have already engaged or have made considerable effort to engage the PS and/or foundations. They are obligated by their donors to ensure the sustainability of any of the PS activities they support, and WB can save considerable time and resources by simply being the facilitator in helping them target their activities to rehabilitated watersheds and thus “piggybacking” on their efforts and successes.

## **VI. Medium-Term Engagement Options – 1-2 years**

These opportunities will take more work, planning and incentives than those in Section IV above and will require direct engagement with the PS rather than a facilitator project. However, these should focus on PS businesses, cooperatives unions, base cooperatives, or foundations that already have a base or plan to focus in the geographical areas of the rehabilitated watersheds.

## **VII. Long-Term Engagement Opportunities – 3-4 years**

These opportunities will require strong engagement with the PS and foundations and provision of incentives to encourage and enable them to engage communities, begin to implement key activities in the watersheds and continue to stay engaged. Without clear incentives, private businesses in particular are very unlikely to incur the costs of implementing activities in new areas that have unproven potential to create profits.

## **VIII. Conclusions**

The study should describe the characteristics and requirements for all partners and short-, medium- and long-term options, but should initially/particularly focus on short-term PS engagement options that have the potential for near immediate impact with no or low costs to the WB and its partners. These options will provide the most immediate and richest benefits to the communities and its households in the rehabilitated watersheds, at the same time ensuring that they recognize the advantages/benefits of maintaining and improving the watersheds.

## **IX. Initial Action Plans**

### **A. Short-Term Engagement Possibilities**

1. Identify key, current donor-funded PSD projects/activities that may overlap geographically and have activities that are consistent programmatically with sustaining rehabilitated watersheds;
2. Schedule and conduct initial meetings with above potential partners and further identify/clarify possible overlap and synergies;

3. Analyze data derived from meetings and related documents and provide feedback to consulted potential partners;
4. Present findings and suggested pilot collaborations/ linkages at PS partner conference; and
5. Propose content of collaboration agreements with individual partners (MOUs or Letters of Agreement).

#### **B. Medium-Term Engagement Options**

1. Identify gaps in PSD not covered by other development and PS partners;
2. Identify other potential PS partners (beyond those under short-term engagement options) that could be linked to production and value chains active in our watersheds;
3. Schedule and conduct initial meetings with above potential partners and identify and clarify possible interventions/linkages that would benefit and could be extended to our watersheds;
4. Analyze data derived from meetings and related documents and provide feedback to consulted potential partners;
5. Present findings and suggested pilot collaborations/linkages at PS partner conference; and
6. Propose content of collaboration agreements with individual PS partners (contracts?).

#### **C. Long-Term Engagement Opportunities**

1. Identify gaps in PSD not covered by other development or local PS partners that can be covered by other PS partners (in addition to those under medium-term engagement options) and linked to our watersheds;
2. Schedule and conduct initial meetings with above potential partners and identify and clarify possible linkages;
3. Analyze data derived from meetings and related documents and provide feedback to consulted potential partners;
4. Present findings and suggested pilot collaborations/linkages at PS partner conference; and

5. Propose content of collaboration agreements with individual PS partners (contracts).