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ETHIOPIAN ECONOMICS  
ASSOCIATION

**Terms of Reference (TOR)**

**For the Study**

**on**

**Land Issues in Ethiopia: Trends, Constraints and Policy Options**

**April 2021**

## 1. Background

Rural land is an asset of the greatest importance in many parts of the world, both developing and developed. Land, as a strategic resource, is mainly characterized by its fixed supply, differentiated fertility, indestructibility, immobility, role as factor of production, applicability of effect of economic laws of returns, alternative uses, and heterogeneity. It is very important resource in terms of determining agricultural production and productivity, the mineral resources it contains, influencing economic growth, maintaining ecological balance, direct and indirect fulfillment of basic needs, and its influence on trade.

Land tenure is the bundle of rights<sup>1</sup> an individual, household, or community may have with respect to land, or water or other resource related to land. It includes property rights but also use rights of a permanent or a seasonal nature. Land tenure system is made up of rules, authorities, institutions and rights. Land administration itself (maps, deeds, registers, and so on) is only one part of a land tenure system. Land rights are not limited to private ownership in the strict sense, but can be a very diverse balance between individual rights and duties, and collective regulations, at different levels (different levels of family organization, communities, local governments or state), private or family ownership being one possible case. There exist several different forms of land rights that can be classified in six basic types: open access land, communal land, collective land, individual land rights under associative tenure, private land rights, or state land.

Land reform /Tenure policy is a policy that seeks to alter ownership distribution or conditions of access to land as a resource in farm production. Land tenure is defined broadly as the system of access to and control over land and related resources. Among the factors of production, land is the one with which agricultural production is more strongly dependent. Of the resources of a country, land is also the one whose quantity cannot be changed. While population growth and capital accumulation ensure that the total quantity of labor and capital increases over time, the amount of land in a country cannot grow. The only way in which the fixed availability of land can contribute to general economic growth of a country is through increased productivity. Productivity of land is directly linked to the land tenure system, and that is why the forms of tenure and the policies that can change them are studied.

Land reforms are large political and social processes that aim at changing the land tenure systems. They have political, social, economic and environmental objectives. The political objective refers to the attempt to change the structure of power in the country, and it can be the platform of liberal as well as of socialist political groups. The main social objective is usually social justice because an unequal distribution of the most important resource of a country is seen as unjust from all possible perspectives. The two most important economic objectives may be reduction of absolute poverty, and increase of agricultural productivity. Land reform can alleviate the problem of poverty. Many forms of old land tenancy were characterized by strong exploitation of labor on the part of landlords, which made them close to slavery. For these reasons, under feudal estates, large shares of the

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<sup>1</sup> A property right is an enforceable authority to undertake particular actions in a specific domain. Property rights define actions that individuals can take in relation to other individuals regarding some 'thing'. If one individual has a right, someone else has a commensurate duty to observe that right.

population remain under the poverty level and to endow them with land may be the first step to escape it. Therefore, the broad policy objectives of equity and efficiency of land use translate in operational objectives including provision of equitable access to land, security of the rights over land use, allowing for smoothly functioning of land markets and other allocative mechanisms, granting farmers access to investment capital, and prevention of over exploitation.

Land tenure is at the heart of a number of rural and agricultural development issues. Land policy is widely linked to many other policy areas including food security and poverty reduction; citizenship, human rights and social justice; gender equality; agricultural development; conflicts and post-conflict recovery; land administration and governance; local government and decentralization; taxation; environment; and land use planning, to mention a few. Access to land can be achieved through land settlement, land redistribution, and tenancy reform (to change the rules concerning legal and illegal types of contracts between landowner and tenants). Access to land does not necessarily require the property right over land, provided efficient land markets are operational. Nevertheless, for a market to function, the rights have to be clearly determined and protected by institutions such as laws and regulation.

Farm structures and land tenure patterns in developing countries are expected to be adapted to the dual objectives of increasing food production and promoting wider distribution of benefits of agrarian progress. Highly unequal structure of land ownership is the single most important determinant of highly inequitable distribution of rural income and wealth. Land reform may take different forms: (a) transfer of ownership to tenants who already work the land to create family farms; (b) transfer of lands from large estates to small farms, rural cooperatives or state farms; or (c) appropriation of large estates for new settlement. In these days, land reform is most urgent for various reasons. (a) worsened income inequalities and unemployment in rural areas; (b) worsened existing inequalities threatened by rapid population growth; and (c) the need to exploit recent and potential technological breakthroughs in agriculture primarily by large and powerful rural landholders and the result in an increase in power, wealth and capacity to resist future reform in some countries.

Land policy generally aims to achieve certain objectives relating to the security and distribution of land rights, land use and land management, and access to land, including the forms of tenure under which it is held. It defines the principles and rules governing property rights over land and the natural resources it bears as well as the legal methods of access and use, and validation and transfer of these rights. It details the conditions under which land use and development can take place, its administration (i.e. how the rules and procedures are defined and put into practice), the means by which these rights are ratified and administered, and how information about land holdings is managed. It also specifies the structures in charge of implementing legislation, land management and arbitration of conflicts.

## **2. The Context of Land Issues and Policies in Ethiopia**

The problems related to land issues in Ethiopia are multiple and controversial. Sustainable agricultural development cannot be achieved without addressing issues

related to land policy and land fragmentation/consolidation across agro-ecology and livelihoods.

The federal land proclamation of Ethiopia states that land is a common property of the Nations, Nationalities and Peoples of Ethiopia and shall not be subject to sale or to other means of exchange (FDRE, 1997)<sup>2</sup>. While the current Ethiopian government has implemented a land policy that is based on state ownership of land, where only usufruct rights are given to land holders, many agricultural economists and international donor agencies have propagated some form of privatized land ownership.

Land use refers to the purpose the land serves (e.g. recreation, wildlife habitat or agriculture). It is commonly defined as a series of operations on land, carried out by humans, with the intention to obtain products and/or benefits through using land resources. Rural land use is the process whereby rural land is conserved and sustainably used in a manner that gives 'better output' (FDRE, 2005b)<sup>3</sup>.

Sustainable and productive use of land requires policies and programs which can be implemented by all actors of the sector. Agricultural land in Ethiopia covers about 36% of the cultivable area, and 5% of the total land area (World Bank, 2016). Though agricultural land in the highlands of the country is over cultivated, there is surplus agricultural land in less populated areas of the country.

Payment of the compensation for land holdings in Ethiopia gives to woredas or urban administration the power to expropriate rural or urban landholdings for public purpose where it believes that it should be used for a better development project to be carried out by different actors (FDRE, 2005)<sup>4</sup>. Even if there are national debates on the existence of different ownership and tenure regimes for land in Ethiopia, the Government of Ethiopia is not prepared to legalize private property rights in land (ARD, 2004)<sup>5</sup>.

However, the importance of relevant land policy is paramount and lies at the heart of economic and social life and environmental issues in Ethiopia and elsewhere. The distribution of property rights between people has a tremendous impact on both equity and productivity. Inequitable land distribution, land tenure problems and weak land administration can lead to severe injustice and conflict. Changes to legislation, the distribution of property rights, and administrative structures are likely to have long-term consequences, positive or negative, for political, economic and social development. Similarly, land policy is also crucial for environmental sustainability as it can create incentives for sustainable land-use and environmental management.

The ecology of land use rights protection is expected to comprise at least seven interrelated functions: (1) identification of a piece of land, (2) creation of rights, (3)

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<sup>2</sup> FDRE (Federal Democratic Republic of Ethiopia) (1997), Federal Rural Land Administration Proclamation No. 89/1997, Federal Negarit Gazetta, Addis Ababa, Ethiopia.

<sup>3</sup> FDRE (Federal Democratic Republic of Ethiopia) (FDRE, 2005b), Rural Land Administration and Land Use Proclamation No. 456/2005, Federal Negairt Gazetta, Addis Ababa, Ethiopia.

<sup>4</sup> FDRE (Federal Democratic Republic of Ethiopia) (FDRE, 2005a), Expropriation of Landholdings for Public Purposes and Payment of Compensation, Proclamation No. 455/2005 Federal Negarit Gazetta, Addis Ababa, Ethiopia.

<sup>5</sup> ARD (2004), Ethiopia Land Policy and Administration Assessment.

transformation of rights, (4) preservation of evidence of the original rights and the transformations, (5) registration of the title, (6) assurance for reliance on system errors, and (7) protection of land rights (Witten, 2007)<sup>6</sup>. However, protection of land rights in Ethiopia takes place within a complex interconnected environment of constantly changing domestic institutions at all levels of the government and the society. These institutions function imperfectly, are the subject of a variety of ongoing reforms, and are poorly understood by those who seek to change them.

In this regard, implementations of the current land policy, land use and administration are criticized for various shortcomings. Some of the critics are related to the need to compromise complete exclusion of private ownership of land and prolonged leasing, differentiated and inconsistent land administration policies and structures across regions at all levels, absence of institutions responsible to administer land, less applicable land use policies, low compensation for land expropriation, and corrupt local land administration practices and user rights.

### **3. Objectives and Research Questions**

This study is expected to generate country-representative and latest empirical evidence on land issues, policy options, and interventions in Ethiopia. It particularly aims to:

- a. Identify overriding land issues in Ethiopia;
- b. Characterize households by their perception on land policy;
- c. Investigate land tenure policy options and their likely consequences and suggest feasible interventions for relevant rural and urban land policy in Ethiopia;
- d. Investigate the land expropriation and compensation laws and their implementation in rural and urban areas;
- e. Identify and profile opportunities, challenges, and constraints arising from land tenure policy; and
- f. Suggest short- and long-term policy interventions for land consolidation and specialization, expropriation and compensation, and efficiency of real estate markets.

This study is, therefore, designed to undertake research on land issues for addressing the following research questions:

- What are the overriding land issues expected as a bottleneck for agricultural production, productivity, commercialization and transformation in Ethiopia?
- How farmers and urban dwellers perceive the existing rural and urban land policies?
- Do farmers understand the economic consequences of land fragmentation and consolidation?
- Are land issues different across regions, areas of residence (rural-urban), land and house ownership (with and without land and/or house), ownership status (private and public), gender, livelihoods (farm and nonfarm)?

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<sup>6</sup> Witten, M.W. (2007), The protection of land rights in Ethiopia, *Afrika focus*, vol. 20, nr. 1-2, 2007, pp. 153-184

- Which policy interventions related to land are relevant to different socioeconomic settings?
- How land issues be linked to livelihoods of populations?
- How land expropriation and compensation laws and rules are exercised in rural and urban areas?
- What are the major challenges and opportunities for designing and implementing relevant land policy in Ethiopia?
- How land will be consolidated for specialization and commercialization of agriculture and efficiency of real estate markets?

#### **4. Data and Methods**

The proposed study uses country-representative primary data collected from households in selected sample regions of the country. Secondary data will also be used for investigation of available trends and profiles of households operating in different settings. Depending on the nature and scope of the study, the data will be analyzed by using standard and econometric/statistical software packages.

The primary data will be collected from representative sample households selected using a standard sampling technique with appropriate sampling weight. Multistage stratified random sampling techniques will be employed in order to select households from areas where land is a major issue in Ethiopia. Land issues are serious in rural areas where mixed sedentary farming is widely practiced and overpopulation observed. Similarly, land issues are more serious in urban areas where land for housing and investment is scarce. Central Ethiopia is the ideal part of Ethiopia where these problems are more overriding and widely observed. Regions around the central part of Ethiopia are supposed to represent greatest proportion of the country's area.

Accordingly, Oromia, Amhara, SNNPR, and Addis Ababa are considered for the survey. The sample size to be selected from each region is based on the proportion used in the Living Standards Measurement Study (LSMS) for Ethiopia in 2018/19. The samples of the LSMS-2018/19 in these regions<sup>7</sup> cover about 42.6% of the total sample households in the LSMS (7527). The rural-urban distribution of sample households in each region is also based on the proportion used in the LSMS. The sample size determined for this study is 300 which is proportionately distributed to each region (Table 1).

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<sup>7</sup> The percentage of households in the LSMS data is 11.2% for Oromia, 10.6% for Amhara, 10.3% for SNNPR, and 10.4% for Addis Ababa. Accordingly, the regional distribution of the 300 sample households will be 26.2% for Oromia, 25.0% for Amhara, 24.1% for SNNP, and 24.8% for Addis Ababa.

**Table 1: Distribution of sample households across regions**

Region <sup>8</sup>	Rural to urban proportion (%)	Samples		
		Rural	Urban	Total
Oromia	64	51	28	79
Amhara	64	48	27	75
SNNPR	65	47	25	72
Addis Ababa	0	-	74	74
<b>Total</b>		<b>146</b>	<b>154</b>	<b>300</b>

Note: SNNPR denotes Southern Nations, Nationalities and Peoples Region.

## 5. Scope of the Study

The researcher will undertake the following tasks within five months after signing of the contract.

1. Desk review of previous and existing assessments, policy and strategy documents related to land laws and policies;
2. Preparation of a standard research proposal document as per this TOR and submit to EEA for validation and approval;
3. Collection of all relevant primary and secondary data from appropriate sources;
4. Organizing, editing, manipulating, and managing data for analysis;
5. Analyzing the data using appropriate methods and statistical/econometric software packages and tools;
6. Producing a comprehensive draft research report and submission to EEA for feedbacks;
7. Incorporation of comments and preparation of a revised research report for re-submission to EEA;
8. Presentation of findings on policy forms to be organized by EEA and incorporating comments for resubmission to EEA. EEA will send the revised version to reviewers;
9. Incorporation of reviewers' comments, producing final research report, and submitting to EEA; and
10. Preparation of policy working papers and policy briefs.

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<sup>8</sup> Enumeration areas (zones, districts, and kebeles) in the selected regions will be identified by the researcher in the full proposal document. These areas are expected to be in central Ethiopia (North Shewa zone for Amhara; West Shewa, East Shewa and North Shewa zones for Oromia; Gurage zone for SNNPR; and Addis Ketema, Yeka and Nefas-Silk Lafto sub-cities for Addis Ababa).

## 6. Expected Outputs

The main expected outputs of the study will be:

1. A standard research proposal prepared as per this TOR;
2. Data sets used in the study;
3. Research reports at different levels;
4. Presentation of findings on policy forums; and
5. Policy working papers, policy briefs and journal manuscripts;

## 7. Eligibility and Selection Criteria

The researcher shall have direct and relevant background on research related to land policy and the economics of land, as well as the required knowledge and skill on application of advanced and updated statistical/econometric software packages. Applicants should fulfil the following eligibility criteria:

- PhD degree in agricultural economics and related disciplines;
- A minimum of five publications related to the topic;
- Demonstrated experience in using Stata, SPSS, and other statistical software packages;
- Demonstrated experience in undertaking and finalizing similar research projects.

The following criteria with the respective weights shall be employed to select resource persons for offering the training:

The following criteria with the respective weights shall be employed to select resource persons for offering the training:

- *Field of study (30%);*
- *Research publications (30%);*
- *Research and professional experience (40%); and*
- *Women empowerment (5%).*

## 8. Deliverables and Timeline

The expected duration of this study (after signing the contract) is five months as depicted in Table 2 below.

**Table 2: Major deliverables and timeline**

S/N	Deliverables/Activities	Month 1			Month 2			Month 3			Month 4			Month 5				
1.	Desk review of available resources	■	■															
2.	Preparation and submission of proposal		■	■	■													
3.	Preparation of data collection tools					■	■											
4.	Data collection, edition, and manipulation						■	■	■	■								
5.	Data analysis									■	■	■						
6.	Research report writing and submission of draft report												■	■	■			
7.	Incorporation of comments from EEA and submission of revised version to EEA															■	■	
8.	Presentation of findings on policy forum																	■
9.	Submission of a validated report to EEA																	■
10.	Preparation of publishable manuscripts																	■



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**Terms of Reference (TOR)**

**For the Study**

**on**

**Agricultural Finance and Insurance in Ethiopia: Challenges and Policy  
Options**

**April 2021**

## 1. Background

In the last two decades there have been numerous initiatives to improve the provision of agricultural finance for smallholder farmers. Many of these innovations show great promise in strengthening agricultural and rural livelihoods applicable to specific conditions of countries. Great progress was recently made in reaching out to smallholder farmers through a variety of financial services. What is new is agricultural financing in new situations and for farmer types that were unbankable before, not the innovations themselves. Such innovations tend to combine several financing concepts, and are nearly always embedded in value chain development. These innovations tackle specific constraints in agricultural finance and reduce lending risks. Eleven major financial innovations with the targeted financial constraints and their suggested applicability are described by Jessop, et al (2012)<sup>1</sup>.

These major financial innovations include member-owned localized finance, agricultural leasing, value chain finance (VCF), agricultural factoring, warehouse receipt finance, processors, credit guarantees, insurance (index) to support credit, price smoothing, technology (mobile banking using cell phone, mobile van); and extension services and financial literacy.

Risk is an important aspect of the farming business. The uncertainties inherent in weather, yields, prices, government policies, global markets, and other factors that impact farming can cause wide swings in farm income. Agricultural Risk Management (ARM) is an innovative approach for improving the resilience of vulnerable rural households, and leveraging finance and investment. ARM allows farmers and businesses to be pro-active and increases their capacity to assess, prepare for, absorb and adapt to risks. Risk management involves choosing among alternatives that reduce financial effects that can result from such uncertainties. Smallholder farmers in Ethiopia are confronted with many exogenous risks. There are five general types of exogenous risks in agriculture: production risk, price or market risk, financial risk, institutional risk, and human or personal risk.

Agricultural risks can be at farm level and/or in the agricultural supply chain. Risks faced by farmers are numerous and varied, and are specific to the country, climate, and local agricultural production systems. The key risks faced by farmers are weather risks, biological risks (e.g. pests), price risks, labor and health risks, policy and political risks. On the other hand, the major risks in agricultural supply chains include weather, natural disaster, biology and environment, market, logistics and infrastructure, management and operations, policy and policy institutions.

Agricultural insurance has existed for decades in the world, though it is a new phenomenon in Ethiopia. Both crops and livestock can be insured against production risks. However, such insurance is likely to be very expensive because it essentially covers

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<sup>1</sup> Jessop, R., B. Diallo, M. Duursma, A. Mallek, J. Harms, and B. van Manen (2012), *Creating Access to Agricultural Finance Based on a Horizontal Study of Cambodia, Mali, Senegal, Tanzania, Thailand and Tunisia*. Agence Française de Développement (AFD), France.

all business risks, and is rarely sold. The same is true for single-risk insurance when the risk is very high. Such coverage is extremely expensive and simply not sellable. This also explains why agricultural insurance in developing countries like Ethiopia has failed to take off. Furthermore, agricultural insurance entails relatively more risk of moral hazard and adverse selection. Individualized insurance is also poorly suited to smallholders in developing countries because of the high closing costs for individual risk policies, claim assessment and monitoring. Financially illiterate farmers may not understand the concept of insurance (and may try to reclaim their insurance premium if the insurer has not made any payouts, a risk event has not occurred).

## **2. The Context of Agricultural Finance and Insurance in Ethiopia**

### **2.1. Agricultural finance**

Financial cooperatives and microfinance institutions (MFIs) are the two major sources of rural finance in Ethiopia. There are 33 micro financial institutions (MFIs) with a total of about ETB 6.6 billion serving around 3 million clients in Ethiopia (CIMMYT, 2015)<sup>2</sup>. These financial services provided by MFIs include savings, group and individual loans, micro-leasing activities, micro insurance, and domestic remittance. The micro financial industry is mainly dominated by the top five MFIs (ACSI, DECSI, OCSSCO, ADSCI and OMO) operating in the major four regions and in Addis Ababa city. These MFIs have a market share of about 80%. Most of the MFIs are directly owned or indirectly backed up by regional states where private operation is mainly nonexistent.

Rural households and micro, small and medium enterprises in Ethiopia are significantly underserved with a range of financial services including loans, saving, insurance, and remittance. About 80% of the potential rural demand for loans is still unmet (CIMMYT, 2015). The demand by rural households and enterprises is estimated to be ETB 2.6 billion for 4.2 million rural households and ETB 3.4 billion for 35 thousand enterprises, respectively. Lending rates of Ethiopian MFIs range between 9% year-declining rate to 24% flat rate, which is seriously criticized for it is higher compared to the rate in commercial banks (CIMMYT, 2015).

The impacts of these two financial service providers on agricultural technology adoption was found to have significant positive impact on adoption and extent of technology use, with significant variation by farm size and input type (Gashaw et al, 2015)<sup>3</sup>.

Regardless of its role in the Ethiopian economy in terms of GDP share, employment opportunity, and export earnings, agriculture is less attractive sector where financial institutions have little appetite to finance and insure it. These low financial services in agriculture are mainly attributable to less profitability of smallholder farmers operating

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<sup>2</sup> CIMMYT (2015), Financial products for farmers and service providers report Ethiopia

<sup>3</sup> Gashaw Tadesse, S. Rashid, C. Borzaga, K. Getnet (2015), Rural Finance and Agricultural Technology Adoption in Ethiopia: Does Institutional Design Matter? International Food Policy Research Institute (IFPRI) Discussion Paper Series 01422.

below optimal size of land (lack of economies of scale in land use), use of outdated farm practices, and the multiple risks involved (including production, market, institutional and financial risks).

Provision of financial services to agriculture is proven to have high transaction costs arising from the salient features of the sector in Ethiopia: (a) small transaction size, about ETB 1250; (b) lumpy or seasonal cash flows which is difficult to prepare feasible repayment schedule; (c) illiquid and perishable collateral; (d) high covariance across borrowers; (e) geographical dispersion of borrowers and difficulty to reach and monitor them; and (f) heterogeneity and distinct dynamics of businesses and farm households.

About four financing models with movable collateral supposed to be relevant to farmers in the Ethiopian context were suggested by CIMMYT (2015): (a) direct smallholder lending with collateral of equipment finance and tight market value chain finance (VCF); (b) indirect lending through cooperative with leasing collateral and loose VCF with output buyer; (c) emerging farmers finance with collateral of infrastructure finance and VCF with input supplier; and (d) saving account linked input finance with collateral management and factoring.

## **2.2. Agricultural insurance**

Traditional risk-coping mechanisms for farmers include savings (cash or in-kind such as grain or cattle, building materials, household items), agricultural diversification, relying on traditional solidarity such as family, seeking part-time employment to supplement farm incomes, leaving the land for an urban center, or hoping for government handouts. Mostly, these strategies are economically inefficient as they disperse the farmers' efforts, and make farmers less likely to adopt new technologies and to instead focus on subsistence (World Bank, 2011)<sup>4</sup>.

Evidence shows that specialized farms score higher on indicators of business development and social well-being than mixed farms with a subsistence orientation. Moreover, traditional risk management fails in case of catastrophic events that affect the entire community or country. Farmers with access to better risk-management tools can afford more efficient, but riskier, production decisions, and can better overcome low-frequency/ high impact risk events. Effective risk management techniques would also turn farmers into more acceptable clients for finance providers. Agricultural insurance is one of such risk-management methodologies.

Risk management strategies available to households can be grouped into three categories: household and communities, markets, and governments. Crop insurance products can broadly be classified into two major groups: indemnity-based insurance and index insurance. Indemnity-based crop insurance comprises two indemnity products, damage-based indemnity insurance (or named peril crop insurance) and yield-based crop

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<sup>4</sup> World Bank (2011), Weather Index Insurance for Agriculture: Guidance for Development Practitioners. The World Bank, Washington, D.C.

insurance (or multiple peril crop insurance, MPCl). Index-based crop insurance also has two types of products, area yield index insurance and weather index insurance (WII):

Index insurance is an important recent innovation which may address the shortcomings of traditional insurance. It is a “derivative” instrument in that the pay-out to farmers is triggered when the threshold value for an underlying risk indicator (the “index”) is reached, this without actually having to observe the damage done to the farmers’ fields or livestock (World Bank, 2011). This greatly reduces the transaction costs, the risk of moral hazard and adverse selection. In many index insurance policies, multiple thresholds are defined, with increasing pay-outs as the risk event increases in severity. The index can be based on the amount of rainfall (lack of or excess), humidity levels, arrival of locusts, water levels in a river, occurrence and strength of a hurricane, sea-surface temperature, frost, hailstones, etc. This requires highly capable and independent measurement tools, such as weather stations. Remote-sensing techniques with satellites are being used as well (e.g. Canada, USA). In some insurance systems, an estimate is made, *via* sampling, of the average crop yield in an agricultural region. Farm losses are modeled with actuarial methods (given detailed and long-term data). Successful index insurance is characterized by a high level of transparency and rapid payment after the index has been triggered (both are a problem in traditional harvest insurance, which requires assessment of actual losses by an expert).

To be effective, the index used must be highly (and spatially) correlated with the damage that farmers actually incur (in order to avoid basis risk). Thus, evidence shows examples whereby the index consists of several risk variables. Furthermore, to counter basis risk, the places where the index is being monitored (*i.e.* weather stations) must be sufficiently close to the farmers. This can be a problem in regions with many different sub-climates. Also, such weather stations must be of high quality, make very frequent measurements, and preferably transmit these real-time to a base station for analysis. To facilitate acceptance by farmers, the index must be easily and objectively observable, and understood by all. An objective and easily verifiable index, with measurement conducted by an independent body, also facilitates re-insurance in the international market. This is crucial because the systematic nature of a natural disaster can easily overwhelm local insurers. Re-insurance policies can also be securitized and sold on the international capital markets.

The importance of index insurance is that it can be combined with credit products provided by banks, MFIs or input traders. The mere presence of natural disaster risk deters banks from financing agriculture, as banks cannot absorb the covariate losses that could be incurred by many of its clients simultaneously. Index insurance mitigates some of the exogenous risks that farmers are faced with, thus making farmers more bankable. Evidence provides some examples of finance providers teaming up with an insurance company, thus covering part of the loan risk through index insurance. When the index is triggered, indicating that an agricultural risk event has occurred, the insurance pays a predetermined sum in favor of the financial institution.

In WII, the weather variable that can form an index must satisfy some properties. It must be observable and easily measurable, objective, transparent, independently verifiable, reported in a timely manner, consistent over time and experienced over a wide area.

Index insurance is not without limitations. The major problems are related to basis risk, relatively high cost (about 10%), limited insurance coverage (usually rainfall, leaving other risks uncovered), unsuitable regulatory environment to micro and index insurance, and the challenge in the distribution of index insurance (World Bank, 2011). The key innovation in combining index insurance with credit is the standardization of the approach, making reinsurance possible, and thus reducing lending risk. Index insurance can be part of a value chain finance approach, which solves the problem of how to distribute the insurance. Index insurance incorporated into value chain financing is distributed by the same entities that provide the credit such as traders, technical operators, farmers' associations, or (micro) finance institutions.

The key factors ensuring a successful combination of index insurance with credit include (a) Viability of the index insurance, including strong and transparent risk modeling, sufficient and capable weather stations, efficient product distribution and swift claim processing; (b) Insurance is embedded in a total package of production-enhancing assistance to farmers; (c) Index insurance is most effective and most likely to be sustainable when it facilitates access to other services (markets, technology, credit) that substantially increase farm productivity and expected income, thus helping farmers to recover the cost of insurance; and (d) Sustainability also requires scale and standardization.

### **3. Objectives and Research Questions**

This study is expected to generate country-representative and latest empirical evidence on the demand for and supply of agricultural finance, risk management and insurance and intervention options for addressing constraints of agricultural finance and insurance in Ethiopia. It particularly aims to:

- a. Characterize farm households by their perception on formal and informal financial institutions and their services;
- b. Measure the level of demand (stated preferences) for agricultural financial services (including credit, saving, insurance, and remittance);
- c. Investigate the level of supply of agricultural finance in the country;
- d. Assess feasible models of financing Ethiopia's smallholder agriculture;
- e. Identify the major agricultural risks in Ethiopia and profile their impact and prevalence by subsectors (crop and livestock);
- f. Examine the possible options of agricultural insurance products suitable to the major agro-ecologies and livelihoods in the country; and
- g. Identify sectors, subsectors, and activities, and outputs/inputs for extending agricultural credit and insurance.

This study is, therefore, designed to undertake research on agricultural and rural finance and insurance for addressing the following research questions:

- How financial services are provided in agriculture and rural areas?
- What is the level of demand for financial services to farm households and businesses?

- What is the current supply of micro financial services in agriculture?
- Which rural and agricultural activities are bankable and non-bankable?
- Which financing models are suitable to farmers operating at different scales and settings?
- What is the level of risk involved in agricultural activities?
- Which traditional risk management practices are adopted by farmers?
- Which agricultural risks are insurable and non-insurable?
- Which insurance products are relevant to smallholder farmers and businesses operating at different scales and settings?
- Which insurance products are suitable to farmers and businesses in different settings?
- Which weather variables for WII are suitable to activities in different settings?

#### **4. Data and Methods**

The proposed study uses country-representative primary data collected from households in selected regions of the country. Secondary data will also be used for investigation of available trends and profiles of agricultural and rural financial services. The Global Financial Inclusion (Global Findex) database 2017 on Ethiopia collected by the World bank will be particularly utilized as the major secondary source of data in the study.

The primary data will be collected from representative sample households selected using a standard sampling technique with appropriate sampling weight. Depending on the nature and scope of the study, the data will be analyzed by using standard and econometric/statistical software packages.

The primary data will be collected from representative sample households selected using a standard sampling technique with appropriate sampling weight. Multistage stratified random sampling techniques will be employed in order to select households from areas where both crop and livestock production are widely practiced

Crop and livestock production and marketing risks are the primary sources of income loss for farmers. These areas include sedentary mixed farming systems in central Ethiopia and pastoral areas involved in livestock production. For ease of access to data collection, regions and enumeration areas around the central Ethiopia are selected. Accordingly, Oromia, Amhara, SNNPR, and Afar are considered for the survey. The sample size to be selected from each region is based on the proportion used in the Living Standards Measurement Study (LSMS) for Ethiopia in 2018/19. The samples of the LSMS-2018/19 in these regions<sup>5</sup> cover about 49.6% of the total rural households in the LSMS (3792). The sample size determined for this study is 300 which is proportionately distributed to each region (Table 1).

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<sup>5</sup> The percentage of rural households in the LSMS data is 14.2% for Oromia, 13.6% for Amhara, 13.3% for SNNPR, and 8.5% for Afar region.

**Table 1: Distribution of sample rural households across regions**

Region <sup>6</sup>	Proportion in LSMS (%)	Samples
Oromia	14.2	86
Amhara	13.6	82
SNNPR	13.3	81
Afar	8.5	51
<b>Total</b>	<b>49.6</b>	<b>300</b>

Note: SNNPR denotes Southern Nations, Nationalities and Peoples Region.

## 5. Scope of the Study

The researcher will undertake the following tasks within five months after signing of the contract.

1. Desk review of previous and existing studies, policy and strategy documents related to agricultural finance and insurance;
2. Preparation of a standard research proposal document as per this TOR and submit to EEA for validation and approval;
3. Collection of all relevant primary and secondary data from appropriate sources;
4. Organizing, editing, manipulating, and managing data for analysis;
5. Analyzing the data using appropriate methods and statistical/econometric software packages and tools;
6. Producing a comprehensive draft research report and submission to EEA for feedbacks;
7. Incorporation of comments and preparation of a revised research report for re-submission to EEA;
8. Presentation of findings on policy forms to be organized by EEA and incorporating comments for resubmission to EEA. EEA will send the revised version to reviewers;
9. Incorporation of reviewers' comments, producing final research report, and submitting to EEA; and
10. Preparation of policy working papers and policy briefs;

## 6. Expected Outputs

The main expected outputs of the study will be:

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<sup>6</sup> Enumeration areas (zones, districts, and kebeles) in the selected regions will be identified by the researcher in the full proposal document. These areas are expected to be in or near to central Ethiopia (North Shewa zone for Amhara; West Shewa, East Shewa or North Shewa zones for Oromia; Gurage zone for SNNPR; and Zone 3 for Afar region).

1. A standard research proposal prepared as per this TOR;
2. Data sets used in the study;
3. Research reports at different levels;
4. Presentation of findings on policy forums; and
5. Policy working papers, policy briefs and journal manuscripts;

## **7. Eligibility and Selection Criteria**

The researcher shall have direct and relevant background on research related to the agricultural finance and insurance and household modeling and analysis, as well as the required knowledge and skill on application of advanced and updated statistical/econometric software packages. Applicants should fulfil the following eligibility criteria:

- PhD degree in economics and related disciplines;
- A minimum of five publications related to the topic;
- Demonstrated experience in using Stata, SPSS, and other statistical software packages;
- Demonstrated experience in undertaking and finalizing similar research projects.

The following criteria with the respective weights shall be employed to select resource persons for offering the training:

- *Field of study (30%);*
- *Research publications (30%);*
- *Research and professional experience (40%); and*
- *Women empowerment (5%).*

## **8. Deliverables and Timeline**

The expected duration of this study (after signing the contract) is five months as depicted in Table 2 below.

**Table 2: Major deliverables and timeline**

S/N	Deliverables/Activities	Month 1			Month 2			Month 3			Month 4			Month 5				
1.	Desk review of available resources	■	■															
2.	Preparation and submission of proposal		■	■	■													
3.	Preparation of data collection tools					■	■											
4.	Data collection, edition, and manipulation						■	■	■	■								
5.	Data analysis									■	■	■						
6.	Research report writing and submission of draft report												■	■	■			
7.	Incorporation of comments from EEA and submission of revised version to EEA															■	■	
8.	Presentation of findings on policy forum																	■
9.	Submission of a validated report to EEA																	■
10.	Preparation of publishable manuscripts																	■



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ETHIOPIAN ECONOMICS  
ASSOCIATION

**Terms of Reference (TOR)**

**For**

**the Study on**

**Liberalizing Financial Sector in Ethiopia: Constraints,  
Consequences and Policy Issues**

**April 2021**

## 1. Background

Financial markets and banking services in Ethiopia are closed to global operators. Due to their recent emergence (since the early 1990s), private banks in Ethiopia have been protected from global competition. However, it is argued that opening the financial market or foreign ownership, is a condition for competitiveness and innovation in the banking industry.

Liberalization of the financial market is expected to create multiple opportunities for accessing competitive and differentiated financial services including saving, credit, insurance, and remittance. Liberalization of the financial sector may allow for the introduction of new financial products related to secondary capital markets and agent banking suitable for ensuring financial inclusion and competitiveness of the financial market. Currently, the Ethiopian financial market lacks introduction of many financial services expected to ensure financial inclusion and competitiveness.

One of such markets is secondary capital market. The introduction of secondary capital markets is generally expected to promote safety and security in transactions since exchanges have an incentive to attract investors by limiting disreputable behavior under their watch. When capital markets are allocated more efficiently and safely, the entire economy benefits. While the primary capital market assists in capital formation by raising funds, the secondary market will promote liquidity and disinvestment and reinvestment and thereby ensure diversion of funds to the most productive sectors of the economy. The primary market is dependent on the secondary market in such a way that the latter provides the necessary liquidity for the issued securities. This liquidity helps issuers attract more demand for their security offerings in the primary markets, which leads to higher initial sale prices and thus a lower cost of capital. By providing safety and regulation in the secondary market, stock market attracts investors in primary market.

Agent banking is the other financial product which enables to access the underserved population and to ensure financial inclusion. The conventional packaged banking services offered by banks have been found to be inappropriate to meet the huge demand for financial services in the Ethiopian context. Agent banking is provision of limited scale banking and financial services to the underserved population through engaged agents under a valid agency agreement.

Evidence shows that liberalization of the financial sector has both benefits and costs. Development of financial sector in Ethiopia is constrained by two basic factors. The primary factor is the closed financial market characterized by a non-competitive market structure where no foreign banks participate. The second is the dominant role of state-owned banks where competition and innovation in the sector is substantially stifled. The Ethiopian economy is generally expected to benefit from financial sector liberalization related to the entry of foreign banks with innovative financial products and international banking expertise. On the other hand, there is also an argument that liberalization of the financial market would adversely affect the domestic banks due to the fierce competition expected to prevail. These controversies require scientific evidence for liberalizing the financial sector and to measure the expected benefits and costs of the policy measure.

## 2. Context of the Financial Sector in Ethiopia

Both the demand and supply side of the money market in Ethiopia is constrained by multiple factors adversely affecting the realization of financial inclusion. In the recent years, the geographic reach and penetration of banks among the population has shown improvement. The number of branch banks have significantly increased from 970 in 2010/11 to more than 6,511 in 2019/20. The branch per capita and branch density for Ethiopia in 2015 were 5.5 and 3.19, respectively (Andualem and Rao)<sup>1</sup>. As a result, bank branch to population ratio dropped from 1:82,000 during 2010/11 to 1:15,702 during 2019/20 (NBE,2011; 2020)<sup>2</sup>. Though Ethiopia's financial sector growth was following output growth in the first two phases, government has started to play a key role in accelerating the sector's growth through active interventions for improving financial access (Yohannes, 2019)<sup>3</sup>. Lack of money, distance, fixed cost, and documentations are important obstacles to financial inclusion in Ethiopia.

Ethiopia's strong economic growth over the past 15 years was driven by large-scale public infrastructure investment contributing to strong growth in agriculture and services. According to official data, GDP growth averaged 10.4 percent in 2004-2018, making Ethiopia one of the world's fastest-growing economies. This has resulted in a dramatic increase in Gross National Income (GNI) per capita, from US\$140 in 2004 to US\$790 in 2018 (World Bank, 2019<sup>4</sup>).

However, this remarkable recent economic growth performance supported by robust investment was not matched by similarly high savings rates. The growth rates of saving as percentage of GDP did not match the growth in investment over the same period. According to the 2018/19 report by National Bank of Ethiopia (NBE), the growth in investment as a percentage of GDP was 35.2% during 2018/19 while the growth in domestic saving rate was only 22.3% (NBE, 2018/19)<sup>5</sup>. Due to the huge investment-saving gap, public investment has been financed by tapping external financing, keeping government consumption low, and deploying heterodox mechanisms such as controlled interest rates and financial repression (World Bank, 2019).

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<sup>1</sup> Andualem Ufo & K. Sambasiva Rao (2017), Financial Inclusion in Ethiopia, *Int. Journal of Economics and Finance*; 9 (4).

<sup>2</sup> National Bank of Ethiopia (NBE), 2010/11. Annual Report of NBE

<sup>3</sup> Yohannes Ayalew (2019), Ethiopian Financial Sector Development, In: Fantu Cheru, Christopher Cramer, and Arkebe Oqubay (eds), *The Oxford Handbook of the Ethiopian Economy*, pp 159-174, Oxford University Press, UK.

<sup>4</sup> World Bank, 2019. Ethiopia Financial Sector Development: The Path to an Efficient Stable and Inclusive Financial Sector

<sup>5</sup> National Bank of Ethiopia (NBE), 2018/19. Annual Report of NBE.

Though the country has shown some progress in terms of financial inclusion in recent years, financial inclusion in Ethiopia has a long way to go (Efina 2016)<sup>6</sup>. According to the World Bank's Findex report, in 2017, the percentage of adults with an account rose to 35%, up from 22% in 2014. Account usage has improved as well with about 26% of adults save at financial institutions (as compared to 14% in 2014) and 11% borrow from financial institutions (as compared to 7% in 2014). However, Ethiopia still lags behind other Sub-Saharan African countries. In Kenya, for example, 82% of adults have an account, while in Rwanda, account ownership stands at 50%. This shows that the financial inclusion in Ethiopia is far below its peers and the average SSA countries, 43% of adults have an account (Findex, 2017)<sup>7</sup>. The performance of Ethiopia's financial sector on other financial metrics, including the number of banking branches and ATMs per 100,000 adults and depositors and creditors for 1,000 adults, Ethiopia was substantially behind other Sub-Saharan African countries (IMF, 2014). Besides the reach of the financial industries, bureaucratic and financial challenges often prevent individuals and companies from accessing and using Ethiopian financial services.

On the other hand, majority of Ethiopians, mainly the rural community and households with little access to financial services and small saving, rely more on informal institutions for their financial needs. For example, according to Findex (2017), although 62% of Ethiopians reported saving money, only 26% of them saved formally at financial institutions, while 38% saved with a person outside of a family or at an informal saving club (for example, Iqub). During the same period, 41% of Ethiopians said they borrowed money, but only 11% borrowed from financial institutions. The rest borrowed from family or friends (31 percent) and 8% borrowed from a saving club (8%). This indicates that there is a demand for using financial services though majority of the people are depending on informal financial institutions either because of lack of physical access to the formal financial institutions or lack of awareness to use the formal financial institution. Studies also show that lack of physical access to financial service is one of the major problems in enhancing financial inclusion (Zewdu, 2014)<sup>8</sup>.

The assertion that Ethiopia prefers informal saving clubs rather than formal financial organs is justified by its less successful financial inclusion strategy compared to other East African countries (Tekeste and Hossein)<sup>9</sup>. This preference of the country, combined with unemployment and poverty, is the barrier to the success of financial inclusion strategy of the country.

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<sup>6</sup> Efina. 2016. Financial Inclusion. Available online: <http://www.efina.org.ng/about-us/financialinclusion/>

<sup>7</sup> World Bank. 2017. *The Global Findex Database*. Washington, DC: World Bank, Available online: <http://documents.worldbank.org/curated/en/332881525873182837/The-Global-FindexDatabase-2017-Measuring-FinancialInclusion-and-the-Fintech-Revolution>.

<sup>8</sup> Zvedu, G. A. (2014). Financial inclusion, regulation and inclusive growth in Ethiopia.

<sup>9</sup> Tekeste Berhanu and Hossein Azadi (2020), Financial Inclusion in Ethiopia: Is It on the Right Track? Int. Journal of Financial Studies, 8(28): 1-13.

### **3. Objectives and Research Questions**

This study generally intends to assess the expected outcomes of liberalizing the financial sector in Ethiopia to global operators. It specifically aims to:

- a. Assess the competitiveness of financial institutions (banks, MFIs, insurance companies, etc.) in Ethiopia;
- b. Identify the underlying factors determining performance of financial institutions in Ethiopia;
- c. Investigate the relative position of domestic financial institutions to the expected international financial operations;
- d. Identify banking innovations and financial products in the Ethiopia's financial sector; and
- e. Assess the costs and benefits of liberalization of the financial sector in Ethiopia.

This study is, therefore, designed to undertake research on liberalization of the financial sector in Ethiopia for addressing the following research questions:

- Which financial institutions are serving the population in Ethiopia?
- How competitive are these financial institutions domestically?
- Which are the underlying factors affecting the performance of financial institutions in Ethiopia?
- How financial operators in Ethiopia perceive the existing financial market and policy?
- What is the relative competitive position of financial institutions if the sector is liberalized?
- What are the gains and losses of opening the financial sector to foreign operators?
- Do financial operators in Ethiopia understand the consequences of liberalization of the financial market?
- What are the overriding issues expected as a bottleneck for financial inclusion in Ethiopia?

### **4. Data and Methods**

The proposed study uses primary data collected from financial institutions and government organizations operating in the financial sector, including selected banks and insurance companies, MFIs, and NBE. Secondary data will also be used for investigation of available trends in the financial market. The primary data will be collected from representative sample financial institutions selected using a standard sampling technique with appropriate sampling weight. Depending on the nature and scope of the study, the data will be analyzed by using standard and econometric/statistical software packages. Stratified random sampling techniques will be employed in order to select financial institutions and their branches in Addis Ababa.

## **5. Scope of the Study**

The researcher will undertake the following tasks within five months after signing of the contract.

1. Desk review of previous and existing assessments, policy and strategy documents, financial laws and policies;
2. Preparation of a standard research proposal document as per this TOR and submit to EEA for validation and approval;
3. Collection of all relevant primary and secondary data from appropriate sources;
4. Organizing, editing, manipulating, and managing data for analysis;
5. Analyzing the data using appropriate methods and statistical/econometric software packages and tools;
6. Producing a comprehensive draft research report and submission to EEA for feedbacks;
7. Incorporation of comments and preparation of a revised research report for re-submission to EEA;
8. Presentation of findings on policy forms to be organized by EEA and incorporating comments for resubmission to EEA. EEA will send the revised version to reviewers;
9. Incorporation of reviewers' comments, producing final research report, and submitting to EEA; and
10. Preparation of policy working papers and policy briefs;

## **6. Expected Outputs**

The main expected outputs of the study will be:

1. A standard research proposal prepared as per this TOR;
2. Data sets used in the study;
3. Research reports at different levels;
4. Presentation of findings on policy forums; and
5. Policy working papers, policy briefs and journal manuscripts.

## **7. Eligibility and Selection Criteria**

The researcher shall have direct and relevant background on research related to financial economics and financial policy analysis, as well as the required knowledge and skill on application of advanced and updated statistical/econometric software packages. Applicants should fulfil the following eligibility criteria:

- PhD degree in financial economics, monetary economics, macroeconomics and related disciplines;
- A minimum of five publications related to the topic;
- Demonstrated experience in using GAMS, Stata, EViews, SPSS, and other statistical software packages; and
- Demonstrated experience in undertaking and finalizing similar research projects.

The following criteria with the respective weights shall be employed to select resource persons for offering the training:

- *Field of study (30%);*
- *Research publications (30%);*
- *Research and professional experience (40%); and*
- *Women empowerment (5%).*

## **8. Deliverables and Timeline**

The expected duration of this study (after signing the contract) is five months as depicted in the following table.

**Table 1: Major deliverables and timeline**

S/N	Deliverables/Activities	Month 1			Month 2			Month 3			Month 4			Month 5				
1.	Desk review of available resources	■	■															
2.	Preparation and submission of proposal		■	■	■													
3.	Preparation of data collection tools					■	■											
4.	Data collection, edition, and manipulation						■	■	■	■								
5.	Data analysis									■	■	■						
6.	Research report writing and submission of draft report												■	■	■			
7.	Incorporation of comments from EEA and submission of revised version to EEA															■	■	
8.	Presentation of findings on policy forum																	■
9.	Submission of a validated report to EEA																	■
10.	Preparation of publishable manuscripts																	■



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ETHIOPIAN ECONOMICS  
ASSOCIATION

**Terms of References (TOR)**

**For the Study**

**On**

**Green Legacy Initiative for Sustainable Economic Development in  
Ethiopia**

**April 2021**

## 1. Introduction

Forests and trees play crucial roles in hydrological processes in watersheds. Forested mountain and upland watersheds supply an estimated 70 percent of the world's accessible freshwater resources for domestic, agricultural, industrial and ecological needs<sup>1</sup>. However, watershed services and functions may be threatened by deforestation, uncontrolled timber harvesting, changes in farming systems, overgrazing, roads and road construction, pollution, and the invasion of alien plants. They may also be affected by natural disturbances such as wildfires, windstorms and disease.

The deterioration of watershed functions has significant negative impacts, potentially leading to erosion and the depletion of soil productivity; the sedimentation of watercourses, reservoirs and coasts; increased runoff and flash flooding; reduced infiltration to groundwater; reduced water quality; and the loss of aquatic habitat and biodiversity. Ultimately, these all will have adverse effects on a country's economic development.

Most people agree that natural resources are under increasing pressure. Rising demand for agricultural land to produce more food in order to feed the growing population competes with an increasing need for land and water for urban expansion, industrial development and tourism. At the same time, recognition is growing that a substantial proportion of cultivated lands is already highly or moderately degraded due to unsustainable agricultural practices leading to soil erosion, nutrient depletion and the loss of productivity.

Natural resources degradation is prevalent in Ethiopia as well. Be it directly or indirectly, the degradation problem in the country is related to the land cover change prevailed over time. The country experienced land cover change, its manifestations being in terms of deforestation and land use change to intensification of agricultural lands. The forest cover of the country, for instance, which was about 40 percent of the highlands by the turn of 20th century is now tremendously reduced. In addition, land use changes in terms of short fallow periods, cultivation of marginal and steeply areas, conversion of farm lands to urban settlements, conversion of forest land to pasture and crop farms are also prevalent. Furthermore, shortage of land due to increased population, poor land use, insecure land tenure, inappropriate land management practices and poverty are among the major causes of land degradation problems in the country.

Watershed management is considered, by scholars as well as practitioners across the world, as the most appropriate approach to ensure the preservation,

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<sup>1</sup> <http://www.fao.org/sustainable-forest-management/toolbox/modules/watershed-management/basic-knowledge/en/>

conservation and sustainability of all land-based resources and for improving the living conditions of the people. In the recent period, forest conservation for ecological protection has increasingly become a primary practice of many countries based on globally designed conservation tools, i.e., REDD+ (reducing emissions from deforestation and forest degradation).

Ethiopia's Green Legacy Initiative promoted by the Ethiopian Prime Minister is an initiative of tackling desertification, climate change and global warming which is a critical threat of the world at this time. It is aimed at reaching national green environmental goals and facing the effects of deforestation and climate change in the country. Ethiopia's Green Legacy campaign, which was started in 2019 and aims to plant about 20 billion seedlings in five years, is expected to change not only the forest coverage of Ethiopia, but also contributes to the success of Africa's battle against desertification<sup>2</sup>. More than nine million tree seedlings have been planted within the last two years with a success rate (assessed during the first year) of about 84%<sup>3</sup>.

Generally, working on conservation, use and sustainable management of forests, land and water at the watershed scale is necessary in addressing the root causes and drivers of environmental degradation (instead of treating the symptoms) as well as attaining sustainable economic development (what is often called green growth).

The degree of success of watershed management interventions primarily depends on the will of the people and the scale of activities involved in it. Recently, participation of people has become a core component of watershed management programs. Thus, the process of stakeholder-centric watershed management program has provided a stimulus for the recovery and valuation of traditional practices resulting in a mix of ancient and current natural resource management practices.

In order to attain the intended objectives of the Green Legacy Initiative, it is necessary to have better success rates, to secure continuity of activities and ownership and commitment of the local communities for its sustainability. This study will investigate these and other related issues.

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<sup>2</sup> <https://www.worldagroforestry.org/blog/2020/06/09/ethiopia-grow-5-billion-trees-second-green-legacy-campaign>

<sup>3</sup> <https://www.ecowatch.com/ethiopia-tree-planting-2646183737.html>

## 2. Objectives of the Study

The overall objective of this study is to investigate the effectiveness of the Green Legacy Initiative in contributing to a sustainable economic development in Ethiopia.

Specifically, the study will focus on

- 1) Assessing the levels and rates of successes of the Green Legacy Initiative and their differentials across regions, locations, and socio-economic settings in the country;
- 2) Exploring the roles of socioeconomic and livelihood conditions (demographics, major resource user groups, farming systems, land use systems, major economic activities and sources of income, markets, social infrastructure, local institutions, service providers, and relevant policies and laws) in implementation of the Green Legacy Initiative;
- 3) Evaluating willingness of participation and levels of commitment from the side of the local communities in the national initiative;
- 4) Examining the contribution of the Green Legacy Initiative in economic development (the path to green growth); and
- 5) Identifying implementation challenges, remedial measures, and future opportunities in managing and conserving forests, soil, and water resources.

In order to attain the above objectives, the following research questions should be addressed:

- 1) To what extent is the Green Legacy Initiative successful? Are there visible differentials across regions and locations in terms of success rates? What are the factors contributing to the difference in success rates, if any?
- 2) What roles could the different socioeconomic and livelihood conditions play in implementing the Green Legacy Initiative?
- 3) Are community groups willing to participate in the Green Legacy Initiative? If not, which groups (the women and the men, the youth and the elderly, the rich and the poor, the educated and the uneducated, etc.) are active participants? What are the factors impeding participations, if any?
- 4) What are the major challenges in implementing the Green Legacy Initiative? What sorts of corrective measures be pursued while implementing the Green Legacy Initiative? What opportunities could be foreseen?

### **3. Methodology**

#### ***3.1. Data sources***

Four major regional states will be considered in this study where representative zones, woredas, and kebeles will be selected proportionally based on scientific methodologies. The researcher is expected to secure data about the levels of implementation of the Green Legacy Initiative overtime from concerned regional, zonal, and woreda offices. Field observations will be made to triangulate office data with the actual result on the ground for proper evaluation of success rates. Focus group discussions and key informant interviews will also be implemented. Representative households will also be sampled from the selected kebeles for a formal survey. Appropriate data collection instruments including formal questionnaires and checklists will be developed for collecting and organizing relevant datasets. Relevant documents should also be reviewed. The researcher is expected to explain the details in a proposal document to be prepared following this TOR.

#### ***3.2. Data analysis***

The data will be analyzed using appropriate analytical tools. Both descriptive and econometric tools are expected to be employed. Details should be clearly indicated in the proposal document.

### **4. Main Activities and Deliverables**

#### ***4.1. Main activities and outputs***

The main tasks/activities to be conducted by the researcher include the following:

1. Compile all necessary data (both primary and secondary) from different sources;
2. Undertake exhaustive literature review;
3. Analyze the collected data using scientifically proven analytical tools applying appropriate statistical software packages;
4. Produce a draft but comprehensive report and submit to the EEA for evaluation as per the timeline to be agreed upon and incorporate the comments given by the EEA staff;
5. Produce a revised report and present the findings workshops to be organized by EEA;
6. Revise the draft report based on the comments from the workshops;
7. Submit the final report;

8. Make necessary editions on the report and make ready for publication as a book chapter in the State of the Ethiopian Economy (SEE) or as a policy working paper; and
9. Produce one manuscript for publication in reputable journal where the manuscript is co-authored by the researcher and EEA staff.

#### **4.2. Deliverables**

The main deliverables of the study are:

1. Full proposal of the study;
2. Draft report of the study;
3. Presentation of findings on dissemination workshops to be organized by EEA;
4. The final report incorporating all feedback of the EEA and relevant stakeholders;
5. One journal manuscript to be co-authored by the researcher and EEA staff; and
6. Refined version of the report for publication as a book chapter in SEE or as a policy working paper.

#### **5. Eligibility and Selection Criteria**

The researcher shall have direct and relevant background on research related to green economics of climate change and economic valuation, as well as the required knowledge and skill on application of advanced and updated statistical/econometric software packages. Applicants should fulfil the following eligibility criteria:

- PhD degree in environmental and natural resource economics and related disciplines;
- A minimum of five publications related to the topic;
- Demonstrated experience in using Stata, SPSS, and other statistical software packages; and
- Demonstrated experience in undertaking and finalizing similar research projects.

The following criteria with the respective weights shall be employed to select resource persons for offering the training:

- *Field of study (30%);*
- *Research publications (30%);*
- *Research and professional experience (40%); and*
- *Women empowerment (5%).*

#### **6. Work Plan**

The total duration of this study is expected to be six months.

**Table 1: Major activities, deliverables, and timeline of the study**

<b>S/N</b>	<b>Deliverables and activities</b>	<b>Duration</b>
1.	Submission of full proposal	1-3 weeks
2.	Submission of required datasets to be collected	4-5 weeks
3.	Collection of relevant data	5-12 weeks
4.	Analyzing data and drafting the report	13-18 weeks
5.	Submission of draft research report	19th week
6.	Presentation of research finding on dissemination workshops	20-21 weeks
7.	Submission of revised final report and drafting journal manuscript	23-24 weeks

# **Ethiopian Economics Association (EEA)**



## **Terms of References (TOR)**

**For the Study**

**On**

## **Private Sector Development in Ethiopia: Trends, Challenges, and Policy Issues**

**April 2021**

**Addis Ababa, Ethiopia**

## 1. Introduction and Rationale of the Study

Private sector is widely acknowledged to be an essential component in the alleviation of poverty as a means of providing more and diversified economic opportunities. Private sector has been recognized as an engine for employment creation, income generation, provision of infrastructure as well as social services. For instance, according to a report by European Commission (EC) in 2014, private sector provides about 90% of jobs in developing countries (EC, 2014)<sup>1</sup>. The role of private sector is also important in contributing to quantity of gross domestic investment and its ability to allocate and employ resources efficiently (Nwakoby and Bernard, 2016)<sup>2</sup>. Private sector is, thus, identified as an essential partner in the fight against poverty, ensuring long-term economic growth and in the transformation towards an inclusive green economy.

In Ethiopia, the role of private sector as an engine for industrialization and structural transformation process were given much emphasis by the Government of Ethiopia (GoE) over the last three decades. This was noticed in a number of national policy documents including Industrial Development Strategy (IDS-2002); Sustainable Development and Poverty Reduction Program (SDPRP) – (2002/03- 2004/05); Plan for Accelerated and Sustained Development to End Poverty (PASDEP-2005/6–2009/10); Growth and Transformation Plan I (GTP-I:2010/11-2014/15); and Growth and Transformation Plan II (GTP-II:2015/16-2019/20). For instance, during the two GTP periods, the government has implemented different capacity building and skill development programs to enhance the capacity of private investors and attract investment to the economy. Moreover, the government made huge investment in the development of industrial parks.

However, the private sector development in the country is not impressive and the contribution of private sector to the national economy is not satisfactory. For example, the economic growth that the county experienced over the past decades has been largely driven by public investments in critical infrastructure, including transport, energy, and social services. Consequently, the share of public investment in GDP increased from 5 percent in the early 1990s up to an average of around 15 percent in 2018/19 (Gebreeyesus, 2019)<sup>3</sup>. In this regard, the World Bank report in 2016 also shows that Ethiopia has the third highest public investment, but the sixth-lowest private investment in the world (World Bank, 2016)<sup>4</sup>.

Another important dimension in Ethiopia's private sector development is sectors in which domestic private sector investors are entering. The sectoral distribution of domestic private sector shows that investors are not vigorously entering the productive sectors (manufacturing and agriculture) and the export market which are perceived as a critical

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<sup>1</sup> European Union, 2014. Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. *A new skills agenda for Europe*. Brussels.

<sup>2</sup> Clem Nwakoby & AlajekwuUdoka Bernard. (2016). "Effect of private sector investment on economic growth in Nigeria." *NG-Journal of Social Development*, Vol. 5, No. 4.

<sup>3</sup> Gebreeyesus, M. (2019). The private sector in Ethiopia's transformation. *The Oxford handbook of the Ethiopian economy*, 687-703.

<sup>4</sup> World Bank (2016). 'Ethiopia: Priorities for Ending Extreme Poverty and Promoting Shared Prosperity: Systematic Country Diagnostic', Report No: 100592-ET, World Bank, Washington, DC

pathway towards industrialization and structural transformation. Instead, most domestic private investors are increasingly concentrated in the service sector or/and domestic market (Gebreeyesus, 2019). For instance, during GTP-I period, from a total of 123 operational domestic private investment projects which got investment license from regions, 88 (71%) projects are engaged in the service sectors, while 21 (17%) projects in the manufacturing sector and 14 (11%) projects in agriculture sector (National Planning Commission, 2016)<sup>5</sup>. This indicates that it is important to identify weaknesses and constraints hindering the domestic private sector from robustly entering the productive sectors and export market.

This study, thus, intends to assess private sector development in Ethiopia focusing on trends, challenges and policy issues. Furthermore, the study is expected to propose implementable policy recommendation that will help the government in promoting the participation of private sector in national economy in general and productive sectors in particular.

## **2. Objectives of the Study**

The main objective of this study is to assess private sector development in Ethiopia. In doing so, the study is expected to investigate trends in private sector development in the country over the past three decades, challenges facing the sector and policies related to the development of the sector. More specifically, the study will address the following specific objectives:

- a) Assess trends in the private sector development in the country and identify challenges faced in their economic participation over the last three decades;
- b) Review policies and programs aimed at promoting private sector development in Ethiopia over the last three decades and examine for their effectiveness;
- c) Assess the engagement of private sector in Ethiopia's economy across different sectors (agriculture, industry and services) and subsectors;
- d) Identify and document sectors and subsectors where there is high/low participation of private sector and factors behind this; and
- e) investigate the contribution of private sector to the national economy (GDP, employment, investment, and other social services) and its trend overtime.

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<sup>5</sup> FDRE National Planning Commission, 2016. Growth and Transformation Plan II (GTP-II), Volume I-Main Text.

To attain the above objectives, the study attempts to address the following research questions:

- a. What factors explain the concentration of private sector in service sector compared to manufacturing and agricultural sectors?
- b. Why the various incentives that the government is providing are not producing the expected results in promoting the private sector development?
- c. What are key challenges hindering participation of private sectors?
- d. What is/are known about the effectiveness of policies and programs aimed at promoting the participation of private sector? What are the learning outcomes from previous policies/programs that the government can exploit?
- e. Is the contribution of private sector to the national economy improving/worsening? what factors explain this?

### **3. Methodology**

#### **3.1. Data sources**

The researcher should harmonize and use existing secondary data to address the objectives of the study. The researcher is expected to synthesize a dataset from different reports, surveys and explore time dimension of the data. All available data sources should be explored and discussed with EEA before going fully into data analysis phase. Possible data sources for the study include but not limited to:

- National Labor Force Survey (LFS);
- Large and Medium-Scale Manufacturing (LMSM) and Small-Scale Manufacturing (SSM) surveys;
- Statistical reports of Central Statistical Agency (CSA);
- Ethiopian Investment Commission (EIC) Database;
- Annual reports of National Bank of Ethiopia (NBE);
- Annual reports of Ministry of Finance (MoF); and
- World Development Indicators (WDI).

The researcher is encouraged to identify and use other existing secondary data as needed. For example, academic journals and books, newspaper articles, annual reports, policy papers, and other documents from both private and public organizations involved in promoting the private sector can be used by the researcher as required. This should be clearly indicated in the technical proposal.

Furthermore, the researcher is expected to review relevant policies and programs aimed at promoting private sector development in Ethiopia, including:

- Industrial Development Strategy (IDS-2002);
- Sustainable Development and Poverty Reduction Program (SDPRP) – (2002/03-2004/05);
- Plan for Accelerated and Sustained Development to End Poverty (PASDEP-2005/6–2009/10);
- Growth and Transformation Plan I (GTP-I:2010/11-2014/15); and
- Growth and Transformation Plan II (GTP-II:2015/16-2019/20)

### ***3.2. Method of data analysis***

The researcher is expected to employ a combination of both descriptive and econometric analyses. The specific econometric approach to be employed should be specified and discussed by the researcher in the technical proposal. It is expected that relevant and standard analytical software packages will be employed to analyze the datasets. The details of analytical methods are expected to be justified and explained in line with the objectives of study. The researcher should include this in the technical proposal.

## **4. Main Activities and Deliverables**

### ***4.1. Main activities and outputs***

The main tasks/activities to be conducted by the researcher include the following:

- Identify available secondary data sources that will address all objectives of the study;
- Organize the identified data sources and make it ready for the data analysis;
- Utilize all available representative secondary dataset mentioned under section 3.1 and others, and produce the research report;
- Produce a draft report and submit to the EEA for evaluation as per the timeline to be agreed upon and incorporate the comments given by the EEA staff;
- Produce a revised report and present the findings of the study at dissemination workshops to be organized by EEA;
- Revise the draft report based on the comments from the workshops;
- Submit the final report;
- Make the necessary review and edition of the report for publication as a book chapter in the State of the Ethiopian Economy (SEE) or as a policy working paper; and
- Produce one manuscript for publication in reputable journal to be co-authored by the researcher and EEA staff.

## **4.2. Deliverables**

The main deliverables of the study are:

- Full proposal of the study;
- Draft report of the study;
- Presentation of finding on dissemination workshops to be organized by EEA
- The final report incorporating all feedback of the EEA and relevant stakeholders;
- One journal manuscript to be co-authored by the researcher and EEA staff; and
- Refined version of the report for publication as a book chapter in SEE or as a policy working paper.

## **5. Eligibility and Selection Criteria**

The researcher shall have direct and relevant background on research related to Industrial Economics, sectoral analysis, as well as the required knowledge and skill on application of advanced and updated statistical/econometric software packages. Applicants should fulfil the following eligibility criteria:

- PhD degree in Industrial Economics, Development Economics, and related disciplines;
- A minimum of five publications related to the topic;
- Demonstrated experience in using, Stata, SPSS, and other statistical software packages; and
- Demonstrated experience in undertaking and finalizing similar research projects.

The following criteria with the respective weights shall be employed to select resource persons for offering the training:

- *Field of study (30%);*
- *Research publications (30%);*
- *Research and professional experience (40%); and*
- *Women empowerment (5%).*

## **6. Work Plan**

The expected duration of this study (after signing the contract) is five months as explained below.

**Table 1: Major deliverables and timeline of the study**

<b>S/N</b>	<b>Deliverables</b>	<b>Expected completion date</b>
1.	Submission of full proposal	Within 3 weeks of signing the contract
2.	Submission desk review checklist and dataset to be used for the study	Within 8 weeks of signing of the contract
3.	Submission of draft research report	Within 15 weeks of signing of the contract
4.	Presentation of research finding on dissemination workshops	Within 17 weeks of signing of the contract
5.	Submission of final report that addresses all comments by relevant stakeholders and EEA	Within 20 weeks of signing of the contract

## **Ethiopian Economics Associations (EEA)**



**Terms of Reference (ToR)**

**For the Study**

**On**

**Agriculture-Industry Linkages for Employment and Economic  
Transformation in Ethiopia**

**April 2021**

## 1. Introduction

At the early stage of transition from an agrarian economy to a modern economy, the manufacturing subsector in the typical developing economy has a greater potential to absorb surplus labor compared to the services sector, which in the typical low-income country is dominated by informal services. While it is feasible to move unskilled workers from agriculture into better-paid jobs in manufacturing activities, it is not feasible to move them into the formal services sector. Formal services sectors such as banking, insurance, finance, communications, and information technology are characterized by relatively low employment elasticity and also employment in these sectors requires education to at least upper secondary school level. Unskilled workers can find employment only in informal services such as retail trade and distribution, passenger transport and construction, where wages and productivity are often low. By contrast, employment in manufacturing industry, particularly in traditional labor-intensive industries such as clothing and footwear, require mostly on-the-job training (Athukorala and Sen, 2015)<sup>1</sup>.

While it is generally recognized that industrialization can potentially be a powerful force for employment generation and poverty reduction, the magnitude of the employment and poverty impact may differ by stage of economic development. At an early stage of economic development, countries are more likely to specialize in labor-intensive industries, so that for low-income countries, industrialization can potentially have a strong positive effect on job creation and consequently, poverty reduction, under the appropriate policy environment. At higher levels of income, as countries start moving out of labor-intensive industries and into capital and technology-intensive industries, the direct effect of industrialization on employment and poverty reduction will be weaker, though there may be strong indirect effects of industrialization on poverty reduction, as the profits obtained from the growth of capital-intensive industries are re-invested in the economy, leading to further economic growth and poverty reduction ( see Athukorala and Sen, 2015, pp:84-86).

The employment effect of industrialization can be decomposed into three elements. First, there is a direct effect of industrialization on employment operating through the increase in the total output of the manufacturing sector. Second, in the process of industrialization, there may be changes in the shares of different industries in overall manufacturing output, increasing the output of labor-intensive sectors and reducing output of capital-intensive sectors. Finally, employment can increase by an increase in the labor intensity of production, within industries (see Athukorala and Sen, pp: 66). Thus, achieving high manufacturing growth rates is not a sufficient condition for employment generation; employment impact of a given rate of output expansion depends on capital deepening in the production process at the individual industry level and a shift in the product mix from relatively more labor-intensive product lines to capital-intensive product lines (Krueger, 1981; Gutierrez *et al.*, 2007)<sup>2</sup>. The relative importance of these three components of

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<sup>1</sup> Athukorala, P. C., & Sen, K. ,2015. Industrialization, employment and poverty. *Michael Tribe and John Weiss (eds.), Routledge Handbook of Industrial Development, London: Routledge, 84-95.*

<sup>2</sup> Gutierrez, C., Orecchia, C., Paci, P. and Serneels, P. 2007. *Does Employment Generation Really Matter for Poverty Reduction?* Policy Research Working Paper 4432. Washington DC: World Bank.

industrialization-employment nexus is determined not only by the nature of the resource endowment of a given country but also by its policy regime choice.

In Sub-Saharan Africa including Ethiopia, the contribution of manufacturing subsector to GDP and employment has been minimal. For instance, although the total value increases more than doubled between 1996 and 2015, the share of manufacturing in GDP decreased from 12 percent to 10 percent during the same period (Woldemichael et al, 2017)<sup>3</sup>. This indicates that the recent economic growth that the continent has experienced is not matched with appropriate structural transformation and growth has been largely without jobs. For example, in Ethiopia, the responsiveness of formal employment to growth is found to be very low with 1 percent GDP growth having resulted in less than 0.4 percent growth in total employment (Page and Shimeles, 2015; Newman et al., 2016)<sup>4</sup>.

In countries such as Ethiopia, where agriculture is the dominant sector of the economy, resources for the development of industrial sector need to be generated primarily by creating strong linkage between agriculture and industry and exploiting these linkages. This should allow increasing of agricultural productivity which enables industries to grow with strong backward linkages. This in turn stimulates increased demand for agricultural and other primary products. For the structural transformation to be effective, the agriculture-industry linkage in the short run should focus on the development of industries that demand agricultural inputs such as textile, leather, sugar, agro-processing manufacturing industries as they strengthen the link between the agriculture and manufacturing sectors. These industries due to their backward and forward linkages, are promising industries to unlock the structural transformation process in an agriculture dominate economy, such as Ethiopia, under right policies and enabling environment.

## **2. Structure of Ethiopian Economy and Rationale of the Study**

The Ethiopian economy has recorded a 9 percent growth in 2018/19, higher than the 7.7 percent growth in the year 2017/18. This growth was attributed to a 12.6 percent growth in industrial output, an 11 percent increase in the service sector, and a 3.8 percent expansion in agriculture. Consequently, the share of industry in GDP has increased to 28.1 percent in 2018/19 from 27 percent in 2017/18, while that of the service sector slightly rose to 39.8 percent from 39.2 percent. In contrast, the share of agriculture to GDP dropped to 33.3 percent from about 35 percent during the same period (National Bank of Ethiopia, 2018/19)<sup>5</sup>. This gradual but steady shift in the structure of the economy reflects the government's policy direction of developing the manufacturing sector and promoting export-led growth while continuing to give due attention to modernizing the agriculture sector, which has dominated the country's economic base for years.

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Krueger, A. O. 1997. Trade Policy and Economic Development: What have We Learned? *American Economic Review*. 87 (1): 1–22

<sup>3</sup> Woldemichael, A., Salami, A., Mukasa, A., Simpasa, A., & Shimeles, A. (2017). Transforming Africa's Agriculture through Agro-Industrialization. *Africa Economic Brief*, 8(7), 1-12.

<sup>4</sup> Page, J., and Shimeles, A. (2015). Aid, employment and poverty reduction in Africa. *African Development Review*, 27(S1), 17-30.

Newman, C., Page, J., Rand, J., Shimeles, A., Söderbom, M., & Tarp, F. (2016). *Made in Africa: Learning to compete in industry*. Brookings Institution Press

<sup>5</sup> National Bank of Ethiopia (NBE), 2018/19. Annual report

As stated in different national policy documents (for example, see GTP-I, GTP-II), the strategic direction of the government of Ethiopia (GoE) is to bring about the accelerated structural transformation of the economy through enhancing industrialization. In doing so, GoE is convinced that agriculture is the engine that can propel the socio-economic development of Ethiopia by providing the basis for industrialization and necessary surplus for the expansion of other sectors of the economy. The strategy gives a priority to the development of agriculture as a primary stimulus for the sustainable growth of industry and is expected to raise productivity in both agriculture and industry through appropriate linkages between sectors, management, technology, human resources and various incentive mechanisms.

However, agriculture remains underdeveloped and agricultural productivity remains strikingly low in Ethiopia despite the considerable political support the sector received in terms of high budgetary allocation. For example, the share of Ethiopia's manufacturing industry is well below the benchmark countries which are now middle-income countries (Newman et al, 2016). This indicates that the economic growth rate that the country has registered over the past two decades has been without significant structural changes. This calls for a renewed effort for a structural transformation and diversification of Ethiopia's economy, so as to maintain the recent growth momentum, reduce poverty and inequality, create decent jobs, and improve the quality of lives and well-being of Ethiopians. For this, industrialization with strong backward and forward linkages with agriculture is a formidable strategy for Ethiopia to realize the much-needed structural transformation and sustain its economic growth.

This study, thus, intends to assess and generate evidence on the opportunities and constraints that the country faced in creating employment opportunities in industries over the past decades. Furthermore, the study will examine factors behind the weak structural transformation observed in Ethiopia's economy (from agricultural to industry) and propose policy recommendations that help overcoming this.

### **3. Objectives of the study**

The main objective of the study is to assess the role of agricultural-industry linkages in employment creation and structural transformation of the Ethiopian economy. More specifically, the study will:

- Identify factors behind weak structural transformation observed in the Ethiopian economy despite the double-digit growth registered during the last decades;
- Assess the contribution of agriculture and industries in general, and manufacturing industries in particular to employment creation and economy of the country;
- Assess exiting opportunities to exploit for the agriculture-industry linkage to contribute to the country's economy and employment creation;
- Review experiences and lessons of from other relevant countries which remarkably transformed their economies from a predominantly agrarian economy into industrialized economy; and
- Review the existing agriculture-industry linkage policy and strategy documents, examine the documents and identify limitations/shortcomings of these documents,

if any, and propose policy reforms that are necessary for ensuring strong and effective agriculture-industry linkages that will bring the needed structural transformation of the country's economy.

## 4. Methodology

### 4.1. Data sources

The researcher is expected to combine both primary and secondary sources of data to address the stated objectives of the study.

**Secondary data sources:** The researcher should identify all relevant secondary data sources and use it to address the objectives of the study. The researcher is expected to synthesize a dataset from different reports, surveys and explore time dimension of the data. All available data sources should be explored and discussed with EEA before going fully into data analysis phase.

**Primary data sources:** In addition to the secondary data sources, the researcher is also expected to collect primary data from selected industries, agri-businesses and commercial farms. Industries, commercial farms and firms engaged in agribusiness from Addis Ababa, Oromia, Amhara, SNNP and Dire Dawa city will be interviewed to examine the backward and forward linkages among these industries and the agriculture sector. For this, the researcher is expected to develop a comprehensive structured interview. The number of industries, commercial farms and agri-businesses to be selected from each region is provided in the following table. However, the number of commercial farms, industries and agri-businesses to be selected from each region given in Table 1 below is an indicative sample and can be adjusted in consultation with the researcher during the inception phase.

**Table 1<sup>6</sup>: Suggested Number of interviews with industries, commercial farms and agro-industries**

Region/city administration	Commercial farms	Industries	Agribusiness	Total
Addis Ababa	3	5	3	11
Oromia	3	5	3	11
Amhara	3	3	3	9
SNNP	3	3	3	9
Dire Dawa	2	2	2	6
Total	14	18	14	46

In addition to firms and enterprises engaged in commercial farms, agribusinesses and industries, Key Informant Interviews with local administration and experts of government agencies like the Ministry of Trade and Industry (MoTI), Ethiopian Institute of Agricultural

<sup>6</sup> Tigray region is excluded from the sample due to the current security situation in the region

Research (EIAR), regional chamber of commerce and sector associations, the Ethiopia Textile Development Institute (ETDI), and producers' associations will be conducted.

Furthermore, the researcher is expected to review relevant national development strategies and policies aimed at developing the agriculture-industry linkages as an engine for structural transformation of the country's economy, including:

- The Agricultural Development Led Industrialization Strategy (ADLI-1994);
- The National Industrial Development Strategy (NIDS-2002/03);
- Sustainable Development and Poverty Reduction Program (SDPRP-2002/03-2004/05);
- Plan for Accelerated and Sustained Development to End Poverty (PASDEP-2005/06-2009/10);
- Growth and Transformation Plan I (GTP-I:2010/11-2014/15); and
- Growth and Transformation Plan II (GTP-II:2015/16-2019/20)

#### ***4.2. Method of data analysis***

The researcher is expected to employ a combination of both quantitative and qualitative approaches. The specific quantitative approach to be employed should be specified and discussed by the researcher in the technical proposal. The details of analytical methods are expected to be justified and explained in line with the objectives of study. The researcher should include this in the technical proposal.

### **5. Main Activities and Deliverables**

#### ***5.1. Main activities and outputs***

The main tasks/activities to be conducted by the researcher include the following:

- Identify available secondary data sources that will address all objectives of the study;
- Organize the identified data sources and make it ready for the data analysis;
- Develop data collection instruments for the primary data and collect the primary data indicated under section 4.1
- Utilize both primary data to be collected and all available representative secondary dataset mentioned under section 4.1 and others, and produce the research report;
- Produce a draft report and submit to the EEA for evaluation as per the timeline to be agreed upon and incorporate the comments given by the EEA staff;
- Produce a revised report and present the findings of the study at dissemination workshops to be organized by EEA;
- Revise the draft report based on the comments from the workshops;
- Submit the final report;

- Make the necessary review and edition of the report for publication as a book chapter in the State of the Ethiopian Economy (SEE);
- Produce one manuscript for publication in reputable journal to be co-authored by the researcher and EEA staff.

## **5.2. Deliverables**

The main deliverables of the study are:

- Full proposal of the study;
- Draft report of the study;
- Presentation of finding on dissemination workshops to be organized by EEA
- The final report incorporating all feedback of the EEA and relevant stakeholders;
- One journal manuscript to be co-authored by the researcher and EEA staff
- Refined version of the report for publication as a book chapter in SEE

## **6. Eligibility and Selection Criteria**

The researcher shall have direct and relevant background on research related to industrial economics and macroeconomic modeling and analysis, as well as the required knowledge and skill on application of advanced and updated statistical/econometric software packages. Applicants should fulfil the following eligibility criteria:

- PhD degree in economics and related disciplines;
- A minimum of five publications related to the topic;
- Demonstrated experience in using GAMS, Stata, SPSS, and other statistical software packages;
- Demonstrated experience in undertaking and finalizing similar research projects.

The following criteria with the respective weights shall be employed to select resource persons for offering the training:

- *Field of study (30%);*
- *Research publications (30%);*
- *Research and professional experience (40%); and*
- *Women empowerment (5%).*

## 7. Work Plan

The expected duration of this study (after signing the contract) is five months as explained below.

**Table 2:** Major deliverables and timeline of the study

<b>S/N</b>	<b>Deliverables</b>	<b>Expected completion date</b>
1.	<i>Submission of full proposal</i>	<i>Within 3 weeks of signing the contract</i>
2.	<i>Submission desk review checklist and dataset to be used for the study</i>	<i>Within 8 weeks of signing of the contract</i>
3.	<i>Submission of draft research report</i>	<i>Within 15 weeks of signing of the contract</i>
4.	<i>Presentation of research finding on dissemination workshops</i>	<i>Within 17 weeks of signing of the contract</i>
5.	<i>Submission of final report that addresses all comments by relevant stakeholders and EEA</i>	<i>Within 20 weeks of signing of the contract</i>