

## Programme Initiation Plan

Country: Ethiopia

Programme Title: ETHIOPIA'S PROGRAMME FOR INCLUSIVE AND RURAL FINANCE (PIRUF)

### Expected Initiation Plan Outcomes:

- Undertaking a comprehensive data-driven and evidence-based diagnostic on FI through implementing the MAP (Making Access Possible) diagnostic<sup>1</sup>.
- Targeted activities around several national priorities related to financial inclusion, building on lessons learnt from UNCDF previous interventions in Ethiopia.
- Finalize the formulation of the full-fledged Ethiopia Country Programme document, building on the contribution of the Italian International Cooperation (IDCO) in 2015 and in close consultation with the Government, the RC, UNDP, other development partners and donors.
- Secure additional non-core resources at country level in support of the country program.

**Programme Duration:** 18 months (starting January 2016)

**Anticipated start/end dates:** January 2016 – June 2017

**Implementation modality:** National implementation

Responsible Party: UNCDF

Fund Modality: Cost-Sharing

**Total estimated budget\*:** USD 2,766,000

Out of which:

1. Funded Budget:	300,000
2. Unfunded budget:	2,466,000

Sources of budget:

• UNCDF:	300,000	(funded)
• IFAD	1,266,000	
• IDCO	1,200,000	
Total	<b>2,766,000</b>	

  
Judith Karl, Executive Secretary

UNCDF

Date & Seal

### Footnote to budget:

- IFAD funding request submitted by IFAD Country Director, and presently under review process in Rome.
- Potential contribution from Italian IDCO in Ethiopia to be further discussed. IDCO Office in Addis expressed potential interest to contribute to the present Program for Inclusive and Rural Finance.
- UNCDF also received from IDCO Rome a Euro 200,000 (USD 254,000) contribution in 2015, to be used for preparatory activities to the present Inclusive and Rural Finance Program, in the area of micro-insurance. This was successfully achieved, on a range of micro-insurance preparatory activities that will be scaled up during this program implementation.

<sup>1</sup> The NBE, CSA and WB are planning to launch a national survey on financial access in early January 2015. The MAP diagnostic will only be undertaken once the survey has been finalized and MAP is specifically authorized by NBE to build upon and complement the survey.

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## Abbreviations and Acronyms

AEMFI	Association of Ethiopia’s Microfinance Institutions
CENFRI	Centre for Financial Regulation and Inclusion
CSA	Central Statistical Authority
EIFTR	Ethiopian Inclusive Finance Training and Reserch Institute
FAO	Food and Agricultural Organization
FCA	Federal Cooperatives Agency
GDP	Gross Domestic Product
GTP	Growth and Transformation Plan
GoE	Government of Ethiopia
IAIS	International Association of Insurance Supervisors
ICT	Information and Communications Technolgy
IDCO	Italian Development Cooperation Office
IFAD	International Fund for Agriculture Development
ILO	International Labour Organization
ISD	Insurance Supervision Department
JP	Joint Program
JPMF	Joint Programme Monitoring Framework
KPIs	Key Performance Indicators
MAP	Making Access Possible
MDGs	Millennium Development Goals
MFIs	Micro Finance Institutions
MOFED	Ministry of Finance and Economic Development
MOU	Memorandum of Understanding
MOWCYA	Ministry of Women, Children and Youth Affairs
NBE	National Bank of Ethiopia
NFI	National Financial Inclusion
NEX	National Execution
PIM	Programme Implementation Manual
PMC)	Programme Management Committee
RUFIP	Rural Financial Intermediation Programme
RuSACCO	Rural Savings and Credit Cooperatives
TWG	Technical Working Group
UNCDF	United Nations Capital Development Fund
UNCT	United Nations Country Team
UNDAF	United Nations Development Assistance Framework
UNDG	United Nations Development Group
UNDP	United Nations Development Program
UNFPA	United Nations Population Fund
UNICEF	United Nations Children’s Fund
WFP	World Food Programme
WISE	Women in Self-Employment

# I Background on economic outlook and financial inclusion

## 1.1 Key facts about Ethiopia

The Federal Democratic Republic of Ethiopia is located in the Horn of Africa and occupies a total area of **1,104,300** sq. km (420,000 sq. mi), of which 1 million sq. km is land mass and 104,300 Sq. km is occupied by water. It is bordered by Eritrea to the north and northeast, Djibouti and Somalia to the east, Sudan and South Sudan to the west, and Kenya to the south<sup>2</sup>. According to the 2010 revision of the UN's World Population Prospects, the total population of Ethiopia was 82,950,000 in 2010 which gradually increased to 86,613,986 by 2013 and is estimated to reach over 90 million by 2015. With this estimated population, Ethiopia is the most populous landlocked country in the world, as well as the second-most populous nation on the African continent after Nigeria. More than 80 percent of the country's total population lives in the regional states of Amhara, Oromia, and SNNP. The main occupation of the settled rural population is farming, while the lowland areas are mostly inhabited by a pastoral people, who depend mainly on livestock production and move from place to place in search of grass and water.

## 1.2 Economic Outlook

Ethiopia has enjoyed double-digit growth, averaging 10%<sup>3</sup> in the past 10 years with exception of the year 2012 when the growth rate slipped to 6.9%<sup>4</sup>. As a result of strong economic growth, Ethiopians living below the poverty line reduced from 38.7% in 2004/2005 to 29.6% in 2009/2010. In 2012, Ethiopia was the 12<sup>th</sup> fastest growing economy in the world, and ranked 5<sup>th</sup> biggest economy in Africa. Per capita Gross Domestic Product (GDP) stood at \$410 in 2012. Despite this low level overall, there is less income inequality in Ethiopia in comparison to other Sub-Saharan countries such as Kenya, Mozambique and South Africa.

Agriculture still remains the backbone of the Ethiopian economy as it constitutes almost half of the country's GDP. More than 85 percent of the population still depends on agriculture as the source of income and employment. The agricultural sector also greatly influences the rate of macroeconomic growth in Ethiopia. About 12.7 million smallholder farmers account for approximately 95 per cent of agricultural GDP. With a total area of about 1.13 million km<sup>2</sup> and about 51.3 million hectares of arable land, Ethiopia has tremendous potential for agricultural development.

## 1.3 Financial Sector Landscape

The financial sector landscape in Ethiopia has shown progress in the past years with expanded

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<sup>2</sup> World Fact Book

<sup>3</sup> <http://www.worldbank.org/en/country/ethiopia/overview>

<sup>4</sup> <http://www.africaneconomicoutlook.org/en/countries/east-africa/ethiopia/>

access to financial services. Despite the fact that Ethiopia has been experiencing this significant growth over the past decade, the rural financial markets are largely under-developed. Out of a population of over 90 million, Ethiopia's rural sector remains the largest un-served market for financial services. Ensuring rural financial inclusion can unlock considerable economic potential of the country and benefit the rural poor by improving food security, increasing household income and employment. Currently the country has 19 commercial banks with a total branch network of 1,806 branches of which 39% are located in Addis Ababa. There are 31 Microfinance institutions (MFIs) licensed by National Bank of Ethiopia and operating in various parts of the country. However, of the 31 MFIs, only five account for close to 90% of total MFI capital, 93.5% of deposit mobilization, 90.4% of credit provisions, 90.8% of total assets of the MFI industry and 90% of the total client base of 3.2 million savers and borrowers<sup>5</sup>. In addition to MFIs, there are about 5,500 Rural Saving and Credit Cooperatives (RuSACCOs) in the country. Despite the huge number of RuSACCOs, there is no reliable data on the number of clients served, capital mobilized, and transactions on savings and credit by the RuSACCOs mainly due to lack of capacity of RuSACCOs to maintain a reliable data base and produce timely reports.

**Gap Analysis:** The country's efforts so far to extend financial access and usage to the rural population has been challenged by a number of factors including absence of capable rural distribution channels, lack of financial literacy, limited availability of insurance services beyond a few pilots and many other challenges that the complementary programme is designed to solve, including capacity building of financial services providers, launching a national financial education and literacy programme, designing financial products that best meet the needs of the underserved population, provision of affordable insurance services, efficient digital payment systems and empowering women and youth to engage productively through access to financial services.

## 1.4 Ethiopian Government's Commitment to Financial Inclusion

Ethiopia has initiated a number of financial sector reforms aimed at expanding financial services to the underserved population that has resulted in an increase in the number and type of financial services providers, all of which do not yet have the capacity, distribution and products to meet the real needs of the underserved population. Therefore, in terms of population coverage and range of financial services, the country's performance has a long way to go to provide adequate financial access. The Government started to address the access gap in its financial systems with the introduction of various Financial Sector Acts in the past 20 years, and with a bold target in its GTP to increase financial inclusion by 2015 from 15% to 67%. Over the past 8 years, the number of banked individuals and households has risen from under 1 million to over 20 million (banks 16 million and MFI's over 4 million), and licensed financial co-ops have a membership of over 2 million. The Government of Ethiopia is a signatory to the Maya Declaration, per commitments of MOFED and NBE. The Maya Declaration is a statement of common principles regarding the development of financial inclusion policy focusing on creating the right environment, implementing the correct framework, ensuring consumer protection

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<sup>5</sup> NBE statistics

measures and using data to inform and track financial inclusion efforts. These goals will be achieved through access to financial services being made available to the working poor in Ethiopia by the development of appropriate financial products for savings, credit and insurance; increasing awareness on available financial services; improving data and reporting capacity; strengthening financial literacy, particularly amongst women; and implementing efficient technology-based payment systems that reduce transaction costs and provide real time financial access for the poor. Within MOFED there is a team working on financial inclusion, and this complementary programme will ensure that it is aligned with MOFED's priority engagements to realize financial inclusion in Ethiopia. NBE, as the country's financial sector regulator is the key Government organ in regulating financial inclusion, and will lead the implementation of the complementary programme through the UN joint programme. Having signed the Maya Declaration, Ethiopia is supporting this Complementary Programme as an instrument for implementing the Maya Declaration and realizing the goals of the Growth and Transformation Plan.

Ethiopia's third generation PRSP (the Growth and Transformation Plan (GTP)) lays strong emphasis on: sustained growth of agriculture underpinned by savings mobilization to increase domestic resources for investment; building an all-inclusive implementation capacity; unleashing the potential of Ethiopian women; creating employment opportunities; etc. MFIs and RUSACCOs are the only major sources of agricultural finance to smallholder farmers, a key input to support agricultural growth and diversification as well as creating rural employment opportunities. MFIs and RUSACCOs also provide access to savings, thus tapping the savings potential of rural households.

In order to address these objectives, the GoE has realized that overall access to finance for its population is one of the foundations for lifting rural households out of poverty. Ensuring financial inclusion, including in under-served rural areas, can therefore be a channel through which the considerable economic potential of the country can be unlocked to benefit the rural poor through improved food security, increased household income and creation of employment opportunities. To make finance work, the rural poor need critical building blocks for being able to effectively use those financial services. These building blocks include among others: appropriate and client centric design of financial products that meet their real needs, strengthened financial services providers (especially rural finance providers) able to provide sustainably and responsibly a range of services including savings, credit, insurance and payments. The GoE also underlines in its priorities the importance of financial education to improve people's capacity to make good financial and investment decisions, efficient payment systems to lower the cost financial transactions and effective ways of targeting women and youth for economic empowerment. Core to GoE priorities is the need to develop risk mitigation strategies, especially in the agriculture sector, to enable increased production and productivity along agriculture value chains (including targeting smallholder farmers). The GoE finally recognizes the importance to drive its FI strategy and roadmap on the basis of reliable baseline and data, to be periodically up-dated.

## II Purpose and Approach of the Initiation Plan (IP) FI program.

The IP FI program will implement a number of targeted activities that have been identified by the GoE as priorities within their new Financial Inclusion Strategy. During the Initiation phase, UNCDF will also actively engage with the Government to support implementation of the country's *National Financial Inclusion Program being finalized with the support of the World Bank* building on the lessons learnt from UNCDF's ongoing activities in-country (and other global programs), including micro-insurance (UNCDF/ILO JP), savings mobilization and innovations in rural outreach (MicroLead), youth and women economic empowerment (YouthStart), digital finance (Mobile Money for the Poor ), Financial Literacy, and FI diagnostics (MAP), to complement the NBE/WB/CSA survey planned for the 1<sup>st</sup> quarter of 2016 to provide preliminary data on financial access. This IP will directly support the GoE National Financial Inclusion Strategy and its related action plan. Finally, with the Government's support, UNCDF will seek during this IP additional donor funding to support the implementation of the full-fledged FI program.

In the area of micro-insurance, The IP FI program will also build upon the preparatory work undertaken in 2015 thanks to the Euro 200,000 contribution from the Italian Development Cooperation (IDCO) to develop a comprehensive strategy around the promotion of micro-insurance as part of the national Financial Inclusion Strategy of the GoE. Specifically the following activities have been carried out:

- Product development, training and Promotion of savings linked microinsurance that promote sustainable savings for asset building and development in collaboration with Cooperatives, MFIs and other organisations serving the low income population;
- Support for specialized microinsurance company that would provide scaled up insurance access to cooperatives, workers, funeral schemes, women organisations and traditional rotating savings associations, with an outreach potential for millions of excluded people;
- Supporting and chairing the IIWG (index insurance working group) to extract lessons from on-going agricultural index insurance pilots, sharing index experiences and building a strategy promoting scaling up of these indexes and new initiatives that will significantly extend coverage to the 12 million farming households in the country thus contributing to national food security and development goals of the GTP
- Supporting the development of training institutions specializing in women economic empowerment that promote women enterprises providing savings, loans and insurance services.

*Throughout the above agenda, UNCDF will work closely with UNDP to anchor this new program within the priorities of the new UNDAF, and articulate the partnership to be developed with other UN agencies during the program implementation, especially UNDP, IFAD in the context of their RUFIP II program, and ATA (the Agricultural Transformation Agency, EIC and Kifiya) in the area of agricultural micro-insurance, ILO/FAO in CO-OP development, and UN Women on Women Economic Empowerment.*

### III Summary outcomes and outputs of the Programme Concept

#### **Outcome 1: Improved capacity of the GoE to develop a comprehensive financial inclusion roadmap and align stakeholder and resources around key priorities**

Output 1.1: MAP diagnostic completed and full-fledged project document finalized

#### **Outcome 2: Financial service innovation deployed to reach the un-banked**

Output 2.1: Digital Finance approach developed

Output 2.2: 1. Non-index insurance products developed and scaled up

Output 2.3 2. Index insurance scale up supported in collaboration with national stakeholders and development partners.

Output 2.4 Capacity building for financial services providers for low income population supported (particularly MFIs and Co-ops).

#### **Outcome 3: Income of rural women and youth improved through entrepreneurial capacity building and financial inclusion**

Output 3.1: Youth economic empowerment approach implemented

Output 3.2: Approach on women economic empowerment through FI developed

### IV Description of the Initiation Plan Outcome

#### **4.1 MAP diagnostic and programmatic framework**

Making access possible (MAP) that has been developed taking the consumer perspective into consideration and incorporates a comprehensive analysis of the demand, supply and regulatory environments, in order to identify key barriers and opportunities to increased financial inclusion for individuals and micro and small businesses. This data and analysis will become the building block for unpacking the activity areas for implementation of all the other components of the joint programme particularly targeting the SME's and small-holder rural farmers.

MAP has been developed by UNCDF in partnership with Financial Markets (FinMark) Trust and the Centre for Financial Regulation and Inclusion (CENFRI) and is intended to become a public good that can advance the global financial inclusion agenda. It is designed to bring together a broad range of stakeholders from the public and private sectors, led by national authorities. For Ethiopia, MAP will be formulated in consultation with Ministry of Finance and Economic Development (MOFED) and the National Bank of Ethiopia (NBE) and will be implemented in

partnership with national organizations such as the Central Statistical Authority (CSA) to maximize use of national capacity as well as to further enhance national capacity to undertake such work in future.

MAP, as well as the other outputs mentioned in the document, will be initiated during the Initiation phase and rolled into the full-fledged FI program implementation once it is approved.

The sequencing of the MAP related activities is mentioned below:

### **Phase 1 – Initial mission**

The initial phase will entail interactions with the Government (MOFED and NBE) to set up the MAP process in Ethiopia, which will include obtaining buy-in from government on the methodology and synchronizing MAP with ongoing financial surveys to avoid duplication and build on work done for to gather data for NFI launch purposes. UNCDF will meet key stakeholders and present the methodology and rationale at a kick-off workshop.

### **Phase 2 –Quantitative demand-side research and qualitative immersive research**

The first priority of the MAP programme will be to undertake a nationally representative demand-side survey that will provide comprehensive data on the current usage of financial services, both formal and informal, across all income categories in Ethiopia. A Financial Scoping (FinScope) survey will commence in mid-2016. Design of the FinScope questionnaire content, translations, sampling framework and field preparation for the FinScope survey will be initiated and enumerator training will be conducted for the FinScope survey, as much as possible utilizing capabilities already built by CSA and EDRI (Ethiopian Development Research Institute). The survey will take approximately 6-12 months to complete.

### **Phase 3 - Supply-side and regulatory research**

An in-country consultation for the supply-side is envisaged to commence mid-2016. A supply-side and policy and regulatory diagnostic team will partner and be guided by NBE and meet with a variety of financial sector stakeholders and gather information on the financial inclusion landscape as part of the supply and regulatory research.

### **Phase 4 - Synthesis process and report writing**

The synthesis process will draw together the findings of the demand-side research with the supply-side analysis and produce a comprehensive report of the status of financial sector in Ethiopia.

### **Phase 5 – Stakeholder workshop and road map development**

The MAP framework creates the space to convene a wide range of stakeholders around evidence-based country diagnostic and dialogue that leads to the development of national financial inclusion roadmaps and action plans. The roadmap identifies key drivers of financial inclusion and includes specific actions that will contribute to greater financial inclusion. At the end of the diagnostic process, a stakeholder workshop, incorporating key Government and donor stakeholders and financial service providers will be convened to share the research findings as well as to develop the next steps and roadmap to increase financial inclusion going

forward. The baseline data generated through the MAP diagnostic will allow the Government of Ethiopia to determine targets and as such, measure improvements in financial inclusion.

The MAP process will also lead to strong learning and knowledge management agenda, through targeted data analysis “deep dives” around specific market segments of population groups (i.e. women, youth etc...). It will also become part of a broader learning and knowledge management agenda in support to the GoE’s specific areas of interest around financial inclusion.

## **4.2 Digital Financial Services**

Ethiopia is expected to launch nationwide mobile platforms for payments and money transfers that will hugely diminish transaction costs and provide simple and readily accessible means of financial transaction for low income households and cooperatives that are located in remote areas of the country currently underserved by financial institutions. A number of studies have been undertaken by NBE, Banks, Microfinance institutions and Insurers. Mobile Money, Kifiya, E-Wallet and other media are very attractive propositions due to their low costs for the rural economy and the program Initiation Phase will start assessing the applicability, viability and scalability of available models. This initiative will be led primarily by the NBE as it has institutional authority to negotiate with the telecoms provider. The IP (and following FI program) will aim at creating a functional collaborative environment that leads to the development of appropriate products and instruments for the design and launch of bank-led mobile financial services.

Based on the lessons learnt from UNCDF’s Mobile Money for the Poor (MM4P), activities under the IP will include undertaking a comparative study on potential mobile payment products suitable for the rural population, develop financial products and implementation action plan. UNCDF proposes to review existing market research on digital finance (mobile banking/mobile payment/mobile money) and conduct additional research to complement existing information. Objective will be to have a comprehensive overview of the digital finance ecosystem and understand key opportunities and challenges to expand outreach of financial services through technology. This study will cover various aspects and stakeholders of the ecosystem (policy & regulation, customers & product development, distribution & agent network, providers & existing and future strategies, high volume & government payment, financial infrastructure). The research will have a special focus on rural population but will also cover urban and semi-urban areas to learn from the current experiences.

The IP will prepare the ground to develop a full-fledged agenda on DFS in the follow-up full FI program, involving all stakeholders of the digital finance ecosystem (NBE, Ministry of Finance and other ministries, financial services providers, telecom operator, distribution networks, etc.) with the objectives to better understand the market, raise knowledge and capacity of stakeholders and design and launch pilots with key stakeholders to test improved and innovative approaches. The set of activities to be developed then will respond to key challenges on:

- Developing the right products & services and customer experience to expedite development of remittances, savings, insurance and loans nationally but also focused on rural farmers

- Expand and improve the distribution network in urban and rural areas with a main focus on quality agent services
- Working with existing and new providers to test improved and new approaches to further expand usage of digital finance in rural areas
- Supporting and advising the government on policy to further support expansion of digital finance in challenging areas

### **4.3 Micro-insurance**

The IP will review the lessons from the UNCDF/ILO JP on Micro-Insurance, and develop a detailed strategy on non-index microinsurance to be deployed through the new FI program to be designed in 2016. The IP will focus on the introduction of non-index inclusive insurance covering life, asset and production risks of the rural population. As insurance may be bundled with rural savings and credit, there are a number of issues to be considered (such as distribution, pricing, etc.). These issues have to be carefully considered to ensure that the product is provided efficiently and affordably, thereby contributing to a very high level of savings mobilization and loan repayment. Provision of the above microinsurance products will need to be achieved gradually and incrementally (starting with credit life, savings linked life, and asset insurance) taking into account priorities of cover sought by the rural population, the complexity of risks, pricing, national capacity of insurance providers and insurance literacy of the rural population. Insurance products that meet the risk needs of farming and pastoralist households could already be tested during this IP in collaboration with insurers and development partners already deploying such products.

### **4.4 Youth and Women Economic Empowerment**

Women and Youth Economic Empowerment is a key factor for rural development and economic advancement and highlighted as a major target of the GTP. The IP will develop the initial activities leading to a full-fledged strategy on those issues during the follow up FI program.

For youth, UNCDF is proposing to take to scale the best practices from the YouthStart programme that was implemented in Ethiopia from 2010 to 2014 and brought access to financial and non-financial services to over 307,000 youth (of which 52% are young women). The joint programme will ensure that while young people access relevant and affordable financial services and financial education they also gain access to entrepreneurship training, mentoring, apprenticeships and other relevant non-financial services that support their transition from school to work, secure decent work and/or start/expand their own business. It will also ensure that the right policies and regulatory frameworks are in place to support these transitions and greater access to economic opportunities for youth. To support that approach, UNCDF will undertake eco-system analysis of youth access to financial services, existing supply side youth entrepreneurship and mentoring program as well as existing policy affecting youth, to propose a concrete strategy to further promote youth economic empowerment.

For Women economic empowerment, UNCDF will define during the IP the foundations of its future interventions targeting women as clients of FSPs, entrepreneurs, employees and consumers. Based on the analysis of the access and agency issues faced by women regarding the use of financial services, it will develop a specific strategy that will result in the economic empowerment of women through financial inclusion. Specific attention will be put on skills and business development services, mainstreaming women economic initiatives in the rural economy value chains, development of women production and distribution cooperatives, and training methodologies for building the capacity of rural women to engage in entrepreneurship; build capacity of rural women to engage in agribusiness and develop capacity of business development service providers to deliver relevant and effective services for rural women. The IP program will also seek to develop synergies with the Inclusive and Equitable Local Economic Programme (IELD) developed by UNCDF's other Practice Area LDFP (Local Development Practice Area). The synergies will be articulated with IELD's agenda in helping local governments promoting social economic infrastructure that benefit women, and the creation of conducive environments for public-private partnerships and private sector investments that benefit women. Particular attention will be paid in that context to the DRS region, where LDFP has focused its interventions in Ethiopia.

## V. Strategic positioning of the IP Financial Inclusion program

This IP has been designed to specifically support the GoE new Financial Inclusion Strategy. It is targeting priorities activities to be undertaken by UNCDF, with the objective to develop on that basis a broader FI program in 2016 that will extend the scope of its agendas to other priorities and articulate a broader partnership with other UN agencies and development partners to support a full-fledged FI program in Ethiopia.

The IP (as well as the ensuring full-scale program) also aims specifically at complementing the support of other funders such as IFAD and the World Bank by providing the essential knowledge and capacity building components to effectively support implementation of the GoE's financial inclusion agenda, the GTP and IFAD's RUFIP II. The rural and agricultural financial capacity being built under RUFIP II is intended to be an integral part of the national financial inclusion agenda as it evolves under Ministry of Finance and Economic Development (MOFED) and the National Bank of Ethiopia). RUFIP II's objective is to increase sustained access to a range of financial services for poor rural agricultural households through capacity building of inclusive finance providers, mainly MFIs and Rural Savings and Credit Cooperatives (RuSACCOs). These financial intermediaries are expected to play a key role in improving financial access to the excluded rural population and mobilize savings required to finance investments in these same underserved areas as part of the Growth and Transformation Plan (GTP).

RUFIP II will contribute directly to the GTP through: (i) its outreach to rural households who are generally poor; (ii) making available increased resources for investment in agriculture and livelihood activities; and (iii) its focus on the empowerment of women and (iv) coordination and management support for stakeholders. It builds on the successes of the first phase of the Rural Financial Intermediation Programme to scale up the delivery of financial services from a baseline of about 1.3 million in June 2012 to 6.9 million poor rural households by 30 June 2019. RUFIP II

is a nation-wide programme designed to support the MFIs, RuSACCOs and Unions to mobilize savings, build the assets of poor rural households, provide credit and avail inclusive insurance services.

The present IP's activities (and follow up FI program) will play the role of an "incubation space" to test ideas and approaches that could be scaled up through the RUFIP II program. A coordination committee will be established between the two programs in order to ensure that learning, lessons learnt and successful models can be shared and scaled up through the RUFIP II programmatic platform.

The IP's activities will also enable us to draw lessons from the past programmatic experience of UNCDF, including the lessons from the joint UNCDF/ILO program on micro-insurance, to define the agenda of the full scale programming that will follow up this Initiation phase. The IP will also capitalize about UNCDF experience in-country and outside in relation to the areas of priority interventions (digital finance, youth finance, women economic empowerment), to design initial interventions in those areas, that will be scaled up through the full scale programming.

Finally, the range of activities to be developed under the IP are very complementary and will reinforce each other. MAP will create data-driven and evidence-based platform to support the GoE's FI strategy, from which the implementation of the thematic interventions will be developed (DFS, youth finance, women economic empowerment, micro-insurance etc...). There will also be synergies among those thematic interventions, i.e the use of digital platforms to enable access to micro-insurance, savings and economic opportunities for youth and women.

## VI Management and Coordination arrangements:

National implementation with delegation to UNCDF (with the possibility for UNCDF to raise direct resources through Cost-Sharing agreement)

This 12-month Programme Initiation Plan aims to result in the development of a full programme document for IF in Ethiopia and secure initial non-core funding through the implementation of a set of preparatory activities that will validate and demonstrate the approach, while creating ownership and commitment to the programme among key stakeholders in Ethiopia and establish the foundation for effective programme implementation. Organization of implementation arrangements within GOE will result in capabilities for effective and timely transition from programme initiation to programme implementation rollout phase:

This IP of the FI program will be implemented under the overall National Execution (NEX) principles and norms. It will use the common set of procedures and rules detailed in the common United Nations Programme Implementation Manual (PIM), jointly agreed by the Government and Country Team, for all aspects of programme implementation, including programme formulation, implementation arrangements, annual work plan preparation, procurement, financial management and reporting, technical assistance, monitoring and evaluation, and auditing. The IP will be nationally executed under the overall responsibility of the Ministry of Finance and Economic Development, MOFED, delegated to NBE.

The National Bank of Ethiopia (NBE) is specifically responsible for the overall coordination of the IP program implementation. It will ensure the due coordination, follow-up and timely reporting of all regional and sectorial authorities. NBE organizes the monitoring of progress and ensures a result-based reporting within the Programme Management Committee. Accountability for the IP program within the UN System in Ethiopia is vested with the Resident Coordinator as Chair of the UN Country Team. The UNCT has overall responsibility for ensuring the accountability and harmonization of the IP program within its strategic policy and priority setting as reflected in the UNDAF.

UNCDF will be responsible for Financial and Procurement Administration.

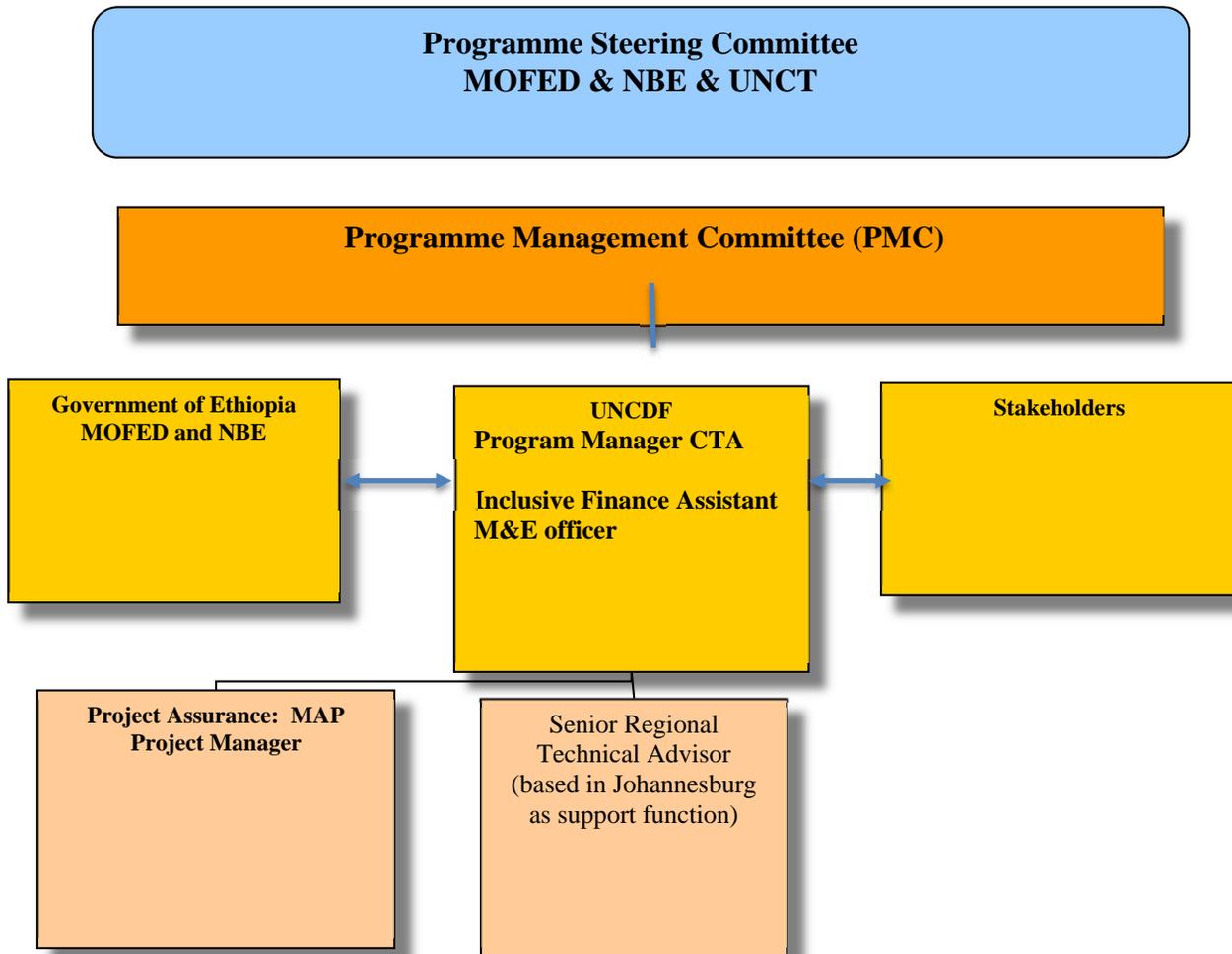
Given MOFED and NBE roles as a policy maker, regulator and supervisor and therefore the need to focus on higher level policy and regulatory issues, MOFED requests and UNCDF accepts the role of the Responsible Party for the provision of the following services:

- a) Implementing the activities mentioned under the IP in view of preparing the full-fledged FI program document.
- b) Conducting MAP related activities, as well as preparatory activities in the other areas mentioned in the IP document.
- c) Signing Performance Based Agreements (PBAs) with FSPs, providers of business support services, and networks and associations, making all payments, monitoring closely the performance, releasing payments as per terms of PBAs, preparing financial reports, submitting financial reports to MOFED and NBE, which retains the overall obligation for the implementation programme and therefore the responsibility to circulate and share reporting to all other parties as necessary. This will relieve some of the administrative burden from MOFED and NBE and help them to focus on their core roles in monitoring and evaluation, leadership support and policy and regulation.

- d) Hiring and payment of international consultants and programme staff as needed, which will be managed through the UNCDF operations and procurement systems.
- e) Making payments for operational expenditure incurred as a result of day-to-day implementation of other activities. UNCDF will open one Designated Account in Addis where funds will be transferred quarterly to on the basis of approved quarterly work-plans.

Given NBE's role as the Implementing Partner, all payments and transactions made by UNCDF will be on the basis of approved minutes of the PMC and/or requests from the Chairman of the PMC and Project Manager to carry out activities under approved work-plans.

Following is the proposed organization chart.



**Staffing:**

**1 Program Manager / Chief Technical Advisor (CTA)**

The Regional Technical Advisor based in Addis will lead implementation of the program. He will work under the supervision of the UNCDF Regional Inclusive Finance Unit based in Johannesburg and the administrative supervision of the UNDP Ethiopia Country Director,

The Chief Technical Advisor (CTA):

- provides technical assistance to the Financial Inclusion Programme Inception Phase and conducts related operations; Provides support to the implementation of the MAP diagnostic process.
- leads the finalization of the full-fledged Financial Inclusion document (beyond the present inception phase) in close coordination with the GoE as well as UNDP and the other UN agencies.
- provides further support/advice to various structures, such as the supported Financial Service Providers (FSPs), the Secretariat supporting the programme's investment committee; the National Bank of Ethiopia; the Federal Coop Agency, MoFED and MOWCYA, the Professional Association of MFIs, banks and insurers; private sector actors, the UNDP Office and other relevant stakeholders;
- develops partnerships with donors and other investors and contributes to resource mobilization.
- provides advocacy for the programme with Government and other relevant agencies.

**Inclusive Finance Assistant:**

The Inclusive finance Assistant shall have a minimum of 5 years of experience in inclusive Finance programs, focusing on women and youth financial and skills capacity building, digital payments systems and access to insurance for low income households. He or she will have a post graduate degree in development, finance, business, and economics of related fields. Proven understanding of best practices in MSME finance, including agricultural finance and credit delivered by value chain actors. He or she will have demonstrated experience in developing and implementing new agricultural financial products, payment systems, insurance and women and youth entrepreneurship.

**Monitoring and Evaluation Officer**

M&E officer shall have a minimum of 10 years of experience in monitoring and evaluation of access to finance programs. He or she will have a post graduate degree (preference will be given to holders of PhDs) in development, finance, economics, international relations or similar studies. He or she must have a strong research background, and strong familiarity with research methods. He or she will have experience in monitoring and evaluation of donor funded programs. She or he will be fluent in written and spoken English and strong competence in all Microsoft office applications. Familiarity with bilateral and multilateral donor agencies will be seen as advantage.

**VII. Monitoring and reporting**

Consistent with UNCDF guidelines, a comprehensive Monitoring & Evaluation (M&E) system will be developed for the full-fledged FI project document strategy, to assist UNCDF and other partner agencies in effectively managing the programme and produce reports on performance, achievements and impact. The Programme Coordination at UNCDF will have the overall responsibility of M&E. There will be an M&E officer based at the UNCDF offices with the responsibility of coordinating all the M&E functions and activities to be carried out by the implementing partners. In the meantime, the M&E officer under the IP will carefully monitor the implementation of the initial IP activities and make recommendations in case corrective measures are needed as follows:

The **monitoring** of PIP will be conducted through various methods and tools including:

- Regular field undertaken by the project staff.
- Participating in events and interviewing key partners;
- Technical backstopping visits by the Senior Regional Technical Advisor/ Map Advisor.

The **reporting** of PIP will include:

- Annual progress report
- Providing inputs to FIPA over all activities (i.e. UNCDF annual report);
- Producing Knowledge Management products to be shared by FIPA globally.

It is expected that the combination of data from monitoring and reporting will guide further implementation of PIP activities and achievement of outputs.

## ANNEX 1: Legal Context or Basis of Relationship

UNCDF as the Implementing Partner shall comply with the policies, procedures and practices of the United Nations safety and security management system.

UNCDF will undertake all reasonable efforts to ensure that none of the project funds are used to provide support to individuals or entities associated with terrorism and that the recipients of any amounts provided by UNCDF hereunder do not appear on the list maintained by the Security Council Committee established pursuant to resolution 1267 (1999). The list can be accessed via [http://www.un.org/sc/committees/1267/aq\\_sanctions\\_list.shtml](http://www.un.org/sc/committees/1267/aq_sanctions_list.shtml). This provision must be included in all sub-contracts or sub-agreements entered into under this Project Document.

Table 3 below provides illustrative examples on various UN organizations' cooperation arrangements.

**Table 3: Basis of Relationships**

Participating UN organization	Agreement
<b>IFAD</b>	IFAD is a specialized UN agency that invests on rural people through loans and grant to Government. IFAD is supporting the Government's RUFIP programme through a USD100 million dollar investment. The programme is implemented through DBE, MFIs and FCA (for RUSACCOs and their Unions) with oversight from NBE who chairs the Programme Steering Committee. RUFUP II coverage is national and the programme includes co-financing valued at USD 145 million from Government and Commercial Banks.
<b>UNCDF</b>	The UNCDF is the UN's capital investment agency for the world's 48 least developed countries. It creates new opportunities for poor people and their communities by increasing access to financial services and investment capital. Promoting financial inclusion is one of its key strategies for doing so; it works throughout the LDCs to ensure that more households and small businesses gain access to credit, savings, insurance and other financial services that expand opportunities and reduce vulnerabilities. Through its country programmes and global thematic initiatives, UNCDF is a global leader in branchless and mobile money, financial education, access to clean energy and access to financial services for the youth.

UNDP	UNDP, in partnership with the Gates Foundation, has been supporting the government of Ethiopia to build and strengthen institutional capacity within MOFED (through its Financial Inclusion Unit) and in selected regional office to implement a financial inclusion programme. UNDP has also been supporting entrepreneurs to access banking and financial services by supporting efforts aimed at increasing funds for micro-lending to poor households and developing new financial products that are more suitable to households and microenterprises without collateral. Furthermore, through the proposed Innovative Investment Facility, UNDP will be helping to mobilize loanable funds from traditional and non-traditional sources and help to build financial liquidity and capacity of banks and micro-financial institutions. These initiatives can be leveraged to successfully implement the major elements of this Joint Programme; UNDP will bring its experiences and complementarities with on-going programmes to bear in support of effective formulation and implementation of this initiative.
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### Box 1: IFAD

<p><b><i>IFAD and Rural Finance</i></b></p> <p><i>Over the last 30 years, microfinance has had an enormous impact on rural development. ground breaking institutions and models have emerged that are expanding financial services in new directions, using technology and innovations to serve more clients in increasingly remote communities, and offering them an ever-wider range of products.</i></p> <p><i>But even with these dramatic gains, the vast majority of poor men and women still do not have reliable, secure ways to save money, protect and build assets, or transfer funds. In fact, the most basic formal financial services reach only ten per cent of rural communities.</i></p> <p><i>In a changing global economy and in the context of financial crises, volatile food and agricultural commodity prices, and the perils of climate change, rural finance is central to IFAD’s work.</i></p> <p><i>As of December 2014, IFAD’s ongoing investments in rural finance were approximately US\$ 866 million. IFAD is one of the world’s largest lenders with 13 per cent of its portfolio dedicated to rural finance.</i></p> <p><i>IFAD recognizes vast potential to improve the livelihoods of rural people by increasing their access to a wide range of financial services and sound institutions. With over 30 years of experience and as one of the leading microfinance funders worldwide, IFAD has the knowledge and partners to make significant strides in rural finance.</i></p> <p><i>Building on IFAD’s experience in rural finance and the good practices developed over time within the sector, six guiding principles are at the core of IFAD’s approach and support to rural finance. Throughout its interventions in rural finance, IFAD works to:</i></p> <ul style="list-style-type: none"> <li>• <i>Support access to a variety of financial services, including savings, credit, remittances and insurance.</i></li> <li>• <i>Promote a wide range of financial institutions, models and delivery channels.</i></li> <li>• <i>Support demand-driven and innovative approaches.</i></li> <li>• <i>Encourage—in collaboration with private sector partners—market-based approaches that strengthen rural financial markets, avoid distortions in the financial sector and leverage IFAD’s resources.</i></li> <li>• <i>Develop and support long-term strategies focusing on sustainability and poverty outreach; and</i></li> <li>• <i>Participate in policy dialogues that promote an enabling environment for rural finance.</i></li> </ul>
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**Relevance to the IP programme:** RUFIP I and II have so far provided credit and financial access support to over 2 million rural farmers, in addition to capacity building and other support to rural cooperatives and other regional stakeholders. IFAD is the leader in this programme whose contribution will make financial services work for farming households, including women and youth.

## Box 2: UNCDF

### **United Nations Capital Development Fund (UNCDF)**

UNCDF has a unique financial mandate within the UN system. It provides investment capital and technical support to both the public and the private sector. The ability to provide capital financing -- in the forms of grants, soft loans and credit enhancement – and the technical expertise in preparing portfolios of sustainable and resilient capacity building and infrastructure projects, makes its mandate a very useful complement to the mandates of other UN agencies. It also positions UNCDF as an early stage investor to de-risk opportunities that can later be scaled up by institutional financial partners and increasingly by philanthropic foundations and private sector investors.

UNCDF has also a proven track record in developing local public finance capacities, which were brought to a national scale by larger development partners (i.e. World Bank). It is also one of the development agencies most involved in promoting financial inclusion through a market development approach. From an early support to national microfinance strategies in the 1990s, UNCDF has recently profoundly updated its market development approach through the development of a new diagnostic tool and programmatic framework to support the development of national financial inclusion strategies. MAP provides governments with detailed data of demand and financial access, with analysis on the new drivers of financial inclusion on the supply side (i.e. role of technology and mobile banking, emergence of new distribution channels, digitalization of social transfers), and with broader policy framework analysis.

UNCDF is the only UN agency mandated to focus primarily on the least developed countries (LDCs), currently supporting 33 out of the 48 LDCs, with country level programmes, as well as regional and global programmes. UNCDF is also working in 6 Southern non- LDCs. UNCDF's work on inclusive finance seeks to develop inclusive financial systems and ensure that a range of financial products is available to all segments of society, at a reasonable cost, and on a sustainable basis. UNCDF supports a wide range of providers (e.g. microfinance institutions, banks, cooperatives, money transfer companies) and a variety of financial products and services (e.g. savings, credit, insurance, payments, and remittances). UNCDF also supports newer delivery channels (e.g. mobile phone networks) that offer tremendous potential for scale.

UNCDF's work on local development finance aims at ensuring that people in all regions and locations benefit from growth. This means dealing with the specific local challenges of, for example peri-urban areas and remote rural locations. It means re-investing domestic resources back into local economies and services through inter-alia, fiscal decentralization, climate finance and project finance. We focus our efforts towards strengthening public financial management and local revenue, improving the quality of public and private investments and promoting innovations at the local level.

UNCDF's original mandate – to promote economic development in the least developed countries – remains highly

*relevant today. Economic growth is necessary to enhance living standards, reduce poverty and cope with the world's growing population. And it must be socially and environmentally sustainable to deliver maximum benefits for current and future generations*

## ANNEX 2: Annual Work Plan and Budget Year 1

### YEAR 1

<b>Goal: Initial set up of activities that will lead to Increased resilience, economic opportunities and agricultural production through enhanced productivity as a result of increased access to a range of financial services by poor rural households in Ethiopia.</b>											
EXPECTED OUTCOMES	PLANNED ACTIVITIES <i>List activity results and associated actions</i>	TIMEFRAME				ATLAS CODE	RESPONSIBLE PARTY	Budget Description	PLANNED BUDGET		
		Q1	Q2	Q3	Q4				Total	UNCDF	Unfunded
<b>Outputs</b>	<b>Output 1:1 A detailed demand-side and Supply side analysis in the form of the FinScope survey produced</b>										
Activities	Activity Result 1.1 Launch Programme (Initiation mission) Preparatory consultations completed and steering committee set up						UNCDF	Programme launch and meetings	\$20,000	\$ 20,000	
Activities	Activity Result 1. 2.1 Conduct Demand Side FinScope Survey						UNCDF	International Consultants and travel	\$800,000	\$ 280,000	\$520,000
<b>outputs</b>	<b>Output 1. 2: Detailed Supply side and regulatory survey conducted and report produced</b>										
Activities	Activity Result 1.2.2 Conduct Supply side & policy FinScope Survey						UNCDF	International Consultants Travel	\$400,000		\$400,000
<b>outputs</b>	<b>Output 1.3 : Financial Inclusion road map developed:</b>										
Activities	Activity Result 1.3 Hold stakeholder workshop and develop a road map & Action plan						UNCDF	Workshop & Travel	\$ 250,000		\$250,000
<b>Outputs</b>	<b>Output 1.4 Knowledge management publications produced</b>										
Activities	Activity Result 1.4 Conduct Knowledge management research and publish result						UNCDF	Research & publication	\$96,000		\$96,000
<b>Outputs</b>	<b>Output 2.1: Non-index insurance products developed</b>										

<b>Activities</b>	Activity Result 2.1 Design & test at scale life savings, credit life, property and multi-peril insurance schemes with Insurers, MFIs and SACCO unions						UNCDF	Consultants International	\$220,000		\$220,000
<b>Outputs</b>	<b>Output 2.2 Digital payments designed and piloted</b>										
<b>Activities</b>	Activity 2.2.1. Study local needs, available services and define mobile platforms						UNCDF	Consultants International	\$100,000		\$100,000
<b>Activities</b>	2.2.2. Introduce scalable mobile based payment systems						UNCDF	Consultants	\$40,000		\$40,000
<b>Outputs</b>	<b>Output 3.1 Produce an actionable work plan to enable rural women to acquire skills, engage with rural FSP's and value chains and access financing</b>										
<b>Activities</b>	3.1.1. Study opportunities and needs of youth economic empowerment						UNCDF	Consultants & travel	\$150,000		\$150,000
<b>Activities</b>	3.1.2. Develop an approach for women economic empowerment through IF, especially in rural areas.						UNCDF	Local consultants & travel	\$157,333		\$157,333
<b>Outputs</b>	Programme operational costs										
	Staff costs						UNCDF	Salaries	\$ 350,000		
<b>TOTAL Programme Cost</b>									\$2,583,333	300,000	\$2,283,333
Indirect Support Cost 8 %									\$182,667		\$182,667
<b>TOTAL Programme and Indirect Support Cost</b>									\$2,766,000		\$2,466,000

## ANNEX 3. Results and Resource Framework

<b>Programme outcome 1:</b> Improved capacity of Government of Ethiopia (GoE) to develop a comprehensive financial inclusion road map and align stakeholders and resources around agreed key priorities based on a rigorous evidence-based diagnostic exercise concluded using Making Access Possible (MAP) diagnostic tools.											
JP Outputs	Output Phases	Participating UN organization	Participating UN organization corporate priority	Responsible Party	Indicative activities for each Output	Planned Targets	Resource allocation and indicative time frame* In USD '000s				Total
							Y1				
<b>output 1</b> Improved capacity of GoE to develop and implement financial inclusion roadmap by MAP	Output 1: A detailed demand-side analysis in the form of the FinScope survey produced	UNCDF		NBE, CSA,	1.1.1 Launch Programme (Initiation mission) Preparatory consultations completed and steering committee set up	1	20				20
	Output 2: Detailed Supply side and regulatory survey conducted and report produced				1.1.2. Demand Side FinScope Survey	1	800				800
					1.2. Assessment of Supply Side and regulatory environment analysis;	1	400				400
	Output 3: road map developed:				1.3 Hold stakeholder workshop and develop a road map & Action plan	1	250				250
	Output 4 Knowledge management publications produced				1.4. KM and publications produced	1	96				96
					<b>TOTAL</b>						<b>1,566</b>

<b>Programme outcome 2: Expanded outreach and sustainability of financial services through implementation of innovative insurance products and digital financial systems to enhance household protection and capacity.</b>											
Outputs	Output Phases	Participating UN organization	Participating UN organization corporate priority	Responsible Party	Indicative activities for each Output	Planned Targets	Resource allocation and indicative time frame* In USD '000s				Total
							Y1	Y2	Y3	Y4	
2.1 Non-index inclusive insurance services developed	Output 1: Non-index insurance products developed	UNCDF		NBE	2.1.1. Design and test at scale life savings, credit life, property and multi-peril insurance schemes with Insurers, MFIs and SACCO unions	3	220				220
2.2 Digital payments designed and piloted	Output I: comparative study on mobile payment systems, pilot test and scalable services introduced	UN CDF		NBE	2.2.1. Study local needs, available services and define mobile platforms ; 2.2.2. Introduce scalable mobile based payment systems	1.	100				100
					Total		360				360

<b>Programme outcome 3: Income of rural women and youth improved through entrepreneurial capacity building, and financial inclusion.</b>											
JP Outputs	Output Phases	Participating UN organization	Participating UN organization corporate priority	Responsible Party	Indicative activities for each Output	Planned Targets	Resource allocation and indicative time frame* In USD '000s				Total
							Y1				
Output 3: Improved Access to financial services by Women and Youth	Output 3.1 Produce an actionable work plan to enable youth economic empowerment and empowerment of women through IF, especially in rural areas (engaging with rural FSP's and value chains).	UNCDF		NBE/FCA/MOWCYA	3.1.1. Study economic opportunities and needs of youth through FI	1	150				150
					3.1.2. Develop an approach for women economic empowerment through FI, including with rural FSPs and value chains.	1	157,33				157.33
					<b>Total</b>		<b>307,33</b>				<b>307.33</b>
<b>Outputs 1,2&amp; 3</b>	Staff costs				1 Project Manager (24 months) 2 Programme Assistants (24 months) Other admin costs		220 100 30				220 100 30
					<b>Total</b>		<b>350</b>				<b>350</b>
					<b>Indirect Support Costs</b>		<b>182,667</b>				<b>182,667</b>
<b>Outputs 1,2&amp; 3</b>					<b>Grand Total</b>		<b>2,766,000</b>				<b>2,766,000</b>



## ANNEX 4: Risk Assessment

Risk factor	Description of risk	Risk rating	Mitigation measures	Rating of residual
v	Organization of implementation arrangements internally within UNCDF delayed  Manpower availability and Quality	Low to medium	Recruitment initiated as soon as IP project approved. Coaching and support to be provided by international expert	Manageable
Programming risks	Delays in the implementation of the project outputs Delays in implementing MAP Weak performance of pilot activities (i.e low repayment of smallholder farmers targeted by MI products) Lack of adoption of DFS Low buy-in around youth financial services.	Low	Outputs are straightforward and build on UNCDF proven expertise and capacity. - MAP has been applied in more than 10 countries, methodology is solid and FinScope ready to be started as soon as IFAD funding is confirmed. - YouthStart / MicroLead have strong track record in Ethiopia and DFS approach has also been successfully deployed in five other countries in Africa. - MI pilots also implemented in the context of 5 years of solid experience with MI innovations in Ethiopia through UNCDF/ILO JP. - Risk mitigated by other interventions around agriculture growth / stability and rural infrastructure (World Bank Agricultural Growth Project etc.), as well as investments in agriculture marketing, small scale irrigation by GoE etc. • MFIs are cautious in their assessment of repayment capacity while lending for crop farming;	Manageable
Political interference	Political interference distorting credit culture; • Loan defaults	Low	Client sensitization and awareness building will inculcate a strong sense of credit discipline and culture reducing any potential impact of political interference; • RUSACCOs and other FSPs manage largely their own resources for lending; Government's commitment for non-interference in GTP.	Nil
Funding Risk	UNCDF may not be able to raise the funding required for the IP implementation	Medium	Funding request to IFAD for MAP under review. IDCO interested in further promoting FI in Ethiopia and indicated they may consider additional funding to UNCDF if it spends the full allocation provided in 2015. GoE indicated their readiness to support UNCDF resource mobilization agenda for the FI program. The project manager will focus, with support from UNCDF external staff, on fund raising from donors for the IP and beyond,	Manageable

## ANNEX 5: UNCDF existing activities related to financial inclusion in Ethiopia and lessons learnt

**YouthStart** is a programme developed in partnership with The MasterCard Foundation to reach youth in Sub Saharan Africa with financial and non-financial services, in particular savings and financial education. In 2011, UNCDF's YouthStart programme began implementation in Ethiopia with ACSI and PEACE, and during the past 4 years, almost 340,000 youth (51% women) have saved closed to US\$9,000,000, and 73,000 young entrepreneurs have accessed loans to either start or expand their own business. Lessons are that, with appropriate technical assistance and continued engagement, the partner FSPs have embraced youth as a new market segment and incorporated it in their LT strategy. There is tremendous to expand this agenda in Ethiopia, especially if articulated with a broader ecosystem approach combining youth finance with access to non- financial services and capacity building around job creation, entrepreneurship and employability

**MicroLead**, a savings led initiative in partnership with The MasterCard Foundation and the Bill & Melinda Gates Foundation that seeks to increase access to financial services and attract financial service providers into underserved markets. Under the MicroLead programme in Ethiopia, UNCDF supported the general capacity building of two mid-sized Ethiopian MFIs, with an emphasis on deposit mobilization. The MFIs have transformed from credit-focused institutions to client-focused financial inclusion institutions. Their number of voluntary depositors grew from 56,085 in June 2011 to 141,533 in March 2015 and the percentage of their gross loan portfolio financed by voluntary deposits grew from 8% to 20%, thereby lessening their need to borrow at high interest rates. One of the MFIs is leading the industry with its use of POS devices to collect savings at the door-step of its customers. Lesson is that there is tremendous potential in Ethiopia to further expand savings based approaches and the deployment of alternative delivery models to reach the un-banked in remote areas, with saving as well as other financial services.

Looking to the future, UNCDF plans to actively engage in the National Financial Inclusion program as well as two programmes that it presently runs successfully.

**CleanStart** is a program supported by the Austrian Development Cooperation, Norad and Sida to assist leading institutions to develop financial products that enable poor people to afford clean energy technologies. CleanStart has started its activities in Ethiopia, which is the second country in Africa where the full sector-led approach has been implemented. The country's large off-grid population, growing demand for access to clean and modern sources of energy and increasing access to capital to finance these create an enabling environment for the program. The purpose of CleanStart is to improve energy access and contribute to the reduction of carbon emissions in developing countries such as Ethiopia. This is done by assisting poor households and micro-entrepreneurs to obtain access to sustainable, low-cost, clean energy equipment and services through microfinance. The program is planned to be operational in Ethiopia for five years (2015-2019/20) and it is expected that by the end of project, there shall be an increased and sustainable access to RETs by more than 291,000 low-income households and micro-entrepreneurs (about 1,455,000 people) through the use of microfinance in the country as part of the project described below.

CleanStart Ethiopia will be implemented in partnership with the UNDP-GEF's 'Promoting Sustainable Rural Energy Technologies (RETs) for Household and Productive Uses' project, which has a budget of

\$4.1 million and has 4 different components – to strengthen policy, regulatory and legal framework favourable to RETs, to increase public awareness in rural areas on RETs, to setup a Sustainable Finance Mechanism (SFM) for RETs (CleanStart model) and to setup a business incubator to promote greater entrepreneurship for investment in RETs in Ethiopia. CleanStart’s SFM model will be implemented to achieve the targeted outcomes and outputs of UNDP-GEF project’s SFM component (component 3), which has a budget of US\$2.165 million and which focuses on developing a credit guarantee facility with the Development Bank of Ethiopia. CleanStart’s own confirmed budget for Ethiopia is US\$980,000, with a possibility of bringing an additional US\$2 million (currently unfunded) from its global project, if CleanStart implementation model in Ethiopia is found to be viable and scalable. This additional funding from CleanStart, if made available depending on project performance, will be used to scale-up CleanStart’s activities with Financial Service Providers (FSPs) as well as innovative RET suppliers and service providers. The long-term strategic vision of CleanStart is to setup a platform in Ethiopia for increasing access to finance for RETs, integrated into the Government’s Climate Resilient Green Economy (CRGE) strategy, which can scale-up the CleanStart implementation model by channeling large-scale funding from international development institutions and donors through this platform.

**Digital Finance:** The deployment of DFS offers tremendous potential in Ethiopia, considering the challenge of reaching remote rural populations. The lesson from MM4P program is that, in order to build the adoption of DFS at scale, a holistic approach that addresses the various components of the digital eco-system need to be built at the same time, with a strong engagement with the policy maker to create an enabling environment to support this agenda. This eco-system approach includes the following pillars: customers (through client-centric product design), providers, infrastructure, agent networks, payments and the policy and regulatory environment. This approach will be proposed and tested in Ethiopia, based on in-depth consultation with the GoE.

**Better Than Cash Alliance (BTCA)**, an initiative founded by the Bill & Melinda Gates Foundation, Citi, Ford Foundation, Omidyar Network, USAID and Visa Inc, which brings together private sector companies, government, donors, UN agencies and international NGOs committed to accelerating the shift from cash to electronic payments. There is tremendous potential to digitize a range of social and relief-related payments in Ethiopia, which will be explored under this project.

**Microinsurance:** The ILO and UNCDF established the Joint project on “Promoting Access to Microinsurance for Financial Inclusion and Decent Work” in 2007 to develop and test a process of national strategy development in the area of microinsurance using a sector based approach. MFIs are currently the main providers of microinsurance in Ethiopia, mainly credit life; and the new Microinsurance Regulation issued by NBE in January 2015 created an improved playing field for insurers to enter the microinsurance space. Microinsurance is a rather new phenomenon in Ethiopia. The Country Diagnostic, which was conducted in 2008, identified no formal microinsurance products and limited potential. Since MFIs and SACCOs do not report on their insurance activities, the exact number of covered risks is unknown. The independent M & E report of the JP completed in 2014 stated that the total number of micro-insured persons in Ethiopia has reached *4.1 million* by mid-2014. This number is bound to show phenomenal increase with the scaling up insurance access for rural households through life, property and agricultural insurances.

**Relevance to the inception phase (and ensuing full-fledged FI program):** UNCDF’s global experience on FI will play an important in supporting the implementation of the GoE National Financial Inclusion

Strategy. This is the case for UNCDF’s data-driven diagnostic and national stakeholders’ engagement (MAP), savings mobilization and alternative delivery models (MicroLead), access for youth (YouthStart), digital financial services (MM4P), access to clean energy through enabling financial services (CleanStart), risk mitigation especially for smallholder farmers (Micro-Insurance program), and digitization of social payment (BTCA). Women economic empowerment and strengthening financial literacy come as cross cutting themes in those above programs.

## ANNEX 6: Theory of Change

*Theory of Change* is a specific and measurable description of a social change initiative that forms the basis for strategic planning, on-going decision-making and evaluation. According to the Centre for Theory of Change<sup>6</sup>, The TOC process hinges upon defining all of the necessary and sufficient conditions required to bring about a given long term outcome. It uses backwards mapping requiring planners to think in backwards steps from the long-term goal to the intermediate and then early-term changes that would be required to cause the desired change. This creates a set of connected outcomes known as a “pathway of change”. A “pathway of change” graphically represents the change process as it is understood by the initiative planners and is the skeleton around which the other elements of the theory are developed (Center for Theory of Change).

The IP aims to contribute to the development of a strong financial sector in Ethiopia, inclusive for low-income rural households and (their) micro and small enterprises, thus contributing to

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<sup>6</sup> [www.theoryofchange.org](http://www.theoryofchange.org)

*The Center for Theory of Change is a non-profit organization 501 established to promote quality standards and best practice for the development and implementation of Theory of Change, with a particular focus on its use and application in the areas of international development, sustainability, education, human rights and social change.*

the goal of the Government of Ethiopia (GOE) National Financial Inclusion (NFI) Strategy, the Growth and Transformation Plan 2nd Phase (GTP II) and IFAD' Rural Financial Intermediation (RUFIP II) to contribute to the reduction of poverty in rural Ethiopia. In its strategy for development, (GTP II) the GoE has realized that overall access to finance for its population forms the foundation for transforming rural households out of poverty. Ensuring rural financial inclusion therefore can be a channel through which considerable economic potential of the country can be unlocked to benefit the rural poor through improved food security, increased household income and creation of employment opportunities.

To make finance work, the Government agencies and stakeholders need adequate information (baseline data) on demand and supply of financial services in the country and regulatory issues to make relevant policy decisions. The rural poor also need critical building blocks for effective utilization funds availed to them. The key building blocks include appropriate financial products, capable financial services providers for needed services such as savings, credit and insurance and effective ways of targeting women and youth for economic empowerment among others. The IP therefore specifically addresses the gaps in the key building blocks to enhance capacity of the regulators, financial service providers and the development of appropriately targeted financial products.

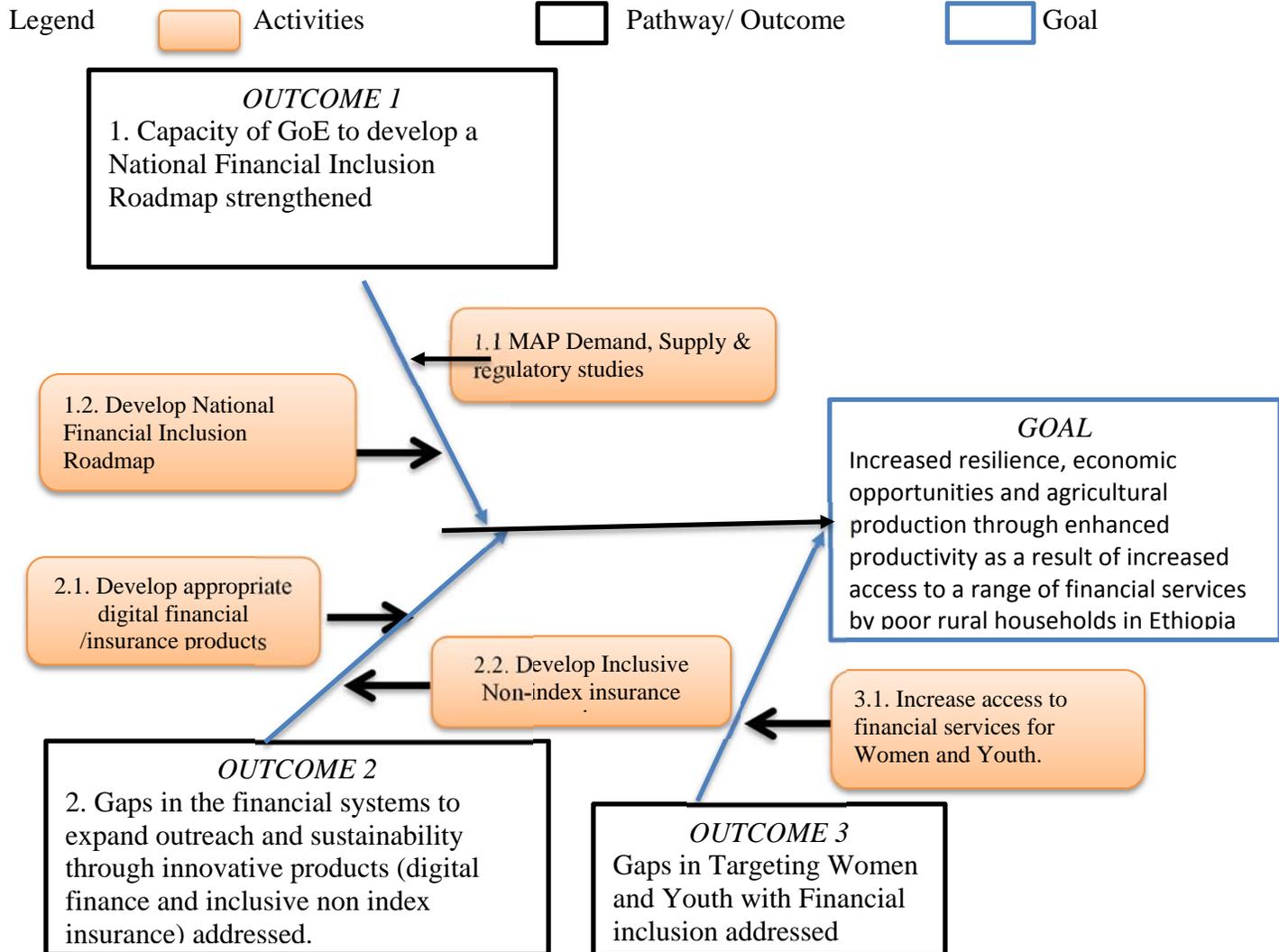
The keys assumptions are that a vibrant and inclusive financial sector facilitates economic activities especially for the rural poor that lead to increased productivity, incomes and asset accumulation. When the poor accumulate assets (both liquid and physical) they are better able to withstand shocks (such as calamities, floods, death of breadwinner etc.) that tend to create a vicious circle of poverty.

The IP has three pathways of change to address these gaps which include the following:

- Improving the capacity of Government of Ethiopia (GoE) to develop a comprehensive financial inclusion road map and align stakeholders and resources around agreed key priorities based on a rigorous evidence-based diagnostic exercise concluded using Making Access Possible (MAP) diagnostic tools.
- Expanding outreach and sustainability of financial services through implementation of innovative financial products to enhance household protection and capacity, around non-index micro-insurance and digital financial services.
- Improving income of rural women and youth through entrepreneurial capacity building, and financial inclusion.

Each activity undertaken by the IP is geared towards a direct contribution to one of the pathways (outcomes) that determine the transformation process to the overall goal of IP programme (and full-fledged FI program afterwards). The transformation process to the goal is depicted in the theory of change diagram presented in figure 1 below.

**Theory of Change diagram Figure 1**



**Annex 7: JOB DESCRIPTION FOR PROJECT MANAGER**

I. Post Information	
Post Title: Chief Technical Advisor (CTA) Country: Ethiopia Organizational Unit: UNCDF	Current Grade: Proposed Grade: P4 Approved Grade: Post Classified by:

Supervisor: UNCDF Regional Technical Director Source of Funding: Project	Classification Approved by:
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## II. Organizational Context

Under the supervision of the UNCDF Regional Inclusive Finance Unit based in Johannesburg, and the administrative supervision of the UNDP Ethiopia Country Director, the Chief Technical Advisor (CTA):

- provides technical assistance to the Financial Inclusion Programme Inception Phase and conducts related operations; Provides support to the implementation of the MAP diagnostic process.
- leads the finalization of the full-fledged Financial Inclusion document (beyond the present inception phase) in close coordination with the GoE as well as UNDP and the other UN agencies
- provides further support/advice to various structures, such as the supported Financial Service Providers (FSPs), the Secretariat supporting the programme’s investment committee; the National Bank of Ethiopia; the Federal Coop Agency, MoFED and MOWCYA, the Professional Association of MFIs, banks and insurers; private sector actors, the UNDP Office and other relevant stakeholders;
- develops partnerships with donors and other investors and contributes to resource mobilization.
- provides advocacy for the programme with Government and other relevant agencies.

At the country level, the RTA supervises the management team and provides technical support to the UNDP Country Office. S/he receives technical and policy guidance from UNCDF’s Regional Office.

S/he also receives support and guidance from the Regional Office, including on disbursements, financial and performance management, organizational issues, business development, resource mobilization strategies and related tools. The NTA acts as a technical advisor to UNDP in the field of inclusive finance and works in partnership with other organizations of the UN System for policy advice and knowledge management and sharing.

The NTA shall work in close collaboration with UNDP and ensure that inclusive finance activities are reflected in annual work plans according to the objectives of the Support Programme to the National Financial Inclusion. S/he develops strong partnerships with other development partners (including the World Bank, DFID, KFW, the Italian Cooperation, etc.) through promoting the comparative advantages of UNCDF and UNDP, especially in the field of financial inclusion, with a view to enhancing opportunities for mobilizing resources for non-core activities.

## III. Functions/Key Results Expected

### The Regional Technical Advisor:

- Provides technical assistance to the Programme, conducts related operations, and plays the role of a technical assistant;
- Leads the finalization of the full-fledged FI program document, in close coordination with the GoE, UNDP and other UN agencies.
- provides further support/advice to various structures, such as the supported Financial Service Providers (FSPs), the Secretariat supporting the programme’s investment committee, the National Bank of Ethiopia, the Professional Association of MFIs, FCA, private sector actors, and the UNDP Office;
- Provides support in the development and use of business development strategies and tools, and in the collection of information to build and develop strategic partnerships, enhance business opportunities and resource mobilization for inclusive finance in Ethiopia;
- Provides management of knowledge for the development of financial inclusion;

- Provides support to the efforts of the UNCDF Regional Unit for Southern and Eastern Africa regarding the development of the Organization and its initiatives in general.
- Contributes to UNCDF's regional financial inclusion strategy development and knowledge management.

### Impact of Results

The work of the RTA on Financial Inclusion has an important impact on the effectiveness, efficiency and scaling-up of programmes, at the national and regional levels, as emphasized in the Annual Report, as well as on aspects of service delivery and financial achievements, business development and resources mobilization, including for non-core activities. It has a direct impact on the success of the National Financial Inclusion Strategy and on the achievement of the objectives of the UNCDF Regional Unit, and ultimately, of the SDGs. The results of the RTA in Inclusive Finance have an important impact on UNCDF's reputation as the preferred partner in Inclusive Finance, a centre of excellence in the country and the region, and in light of its successes in developing strategic partnerships with main actors and implementing joint programmes for inclusive finance in the country and the sub-region. Finally, the work of the National Expert has a significant impact on resource mobilization (for non-core activities) and the ability of UNCDF to contribute to the successful development of inclusive financial sectors in the country and the region.

### Competencies

#### Corporate

- Demonstrates integrity and fairness by modelling UN values and ethical standards;
- Displays cultural and gender sensitivity and adaptability;
- Treats all people fairly and without favouritism;
- Shows strong corporate commitment;
- Promotes the vision, mission and strategic goals of UNCDF and UNDP.

#### Functional

- Demonstrates strong technical knowledge in field of Inclusive Finance;
- Proven practical knowledge of Inclusive Finance especially as applied in the context of LDCs, in Africa and Ethiopia; in particular understanding of the Ethiopian financial sector, government policy and macro-economic issues;
- Familiarity with UNDP and UN system and role of key institutions in the field of Inclusive Finance. Knowledge of UNDP field level organization;
- Comprehensive understanding of the project management cycle and managing for results;
- Knowledge of programme framework;
- Knowledge of Atlas at the required level for this position.

#### Managerial/Behavioural

- Leadership
- Focuses on impact and results for client;
- Takes initiative and calculated risks;
- Builds trust in interactions with others;
- Leads team creatively and effectively, and resolves conflicts;
- Displays positive attitude;
- Takes decisions.

- Managing Relationships

- Builds strong client relationships;
- Builds strong relationships with partners;
- Communicates clearly and convincingly.
  - Task Management
- Provides quality outputs in a timely manner;
- Analyzes problems carefully and logically, leading to fact-based and practical recommendations.
  - Managing Complexity
- Manages projects effectively;
- Supports development of clear Unit strategy;
- Develops innovative solutions.
  - Building and Sharing Knowledge
- Shares knowledge and experience with colleagues;
- Actively builds deep knowledge in Inclusive Finance area;
- Makes valuable practice contributions in Inclusive Finance;
- Promotes knowledge management in the Unit/Office.
  - Learning and People Development
- Provides constructive coaching and feedback;
- Promotes learning environment in Unit/Office.

## VI. Qualifications

<b>Education :</b>	Master's degree in economics, finance, business administration, law or related field.
<b>Experience :</b>	A minimum 10 years' experience in Financial Inclusion in progressively more responsible positions in microfinance and inclusive finance, with proven experience in Africa. Success in building strong partnerships and mobilizing resources.
<b>Language Requirements:</b>	Fluency in both written and spoken English. Fluency in the national language is advantageous.
<b>Duration of contract:</b>	One year, with possibilities for renewal based on performance.

# Annex 8 : SAMPLE LETTER OF AGREEMENT BETWEEN THE GOVERNMENT AND A UNITED NATIONS AGENCY UNDER NATIONAL IMPLEMENTATION

## HOW TO USE THIS AGREEMENT

- This agreement is used when a United Nations agency co-operates in carrying out activities under national implementation. (It may also be adapted where a United Nations agency undertakes activities under NGO implementation.)
- The implementing partner prepares this agreement in consultation with the United Nations agency concerned (the signatories to the letter of agreement). Although this is a bilateral agreement between the implementing partner and the UN agency concerned, if required, the UNDP country office can assist with formulating the agreement and liaising with the United Nations agency.
- After counter-signature by UNDP, UNDP keeps one original and provides the [UN Agency] with the other original.

## TERMINOLOGY

1. This Agreement utilizes the harmonized terminology in line with the revised [financial regulations and rules \(FRR\)](#) which have introduced new/redefined terms as follows:
  - a. 'Execution' is the overall ownership and responsibility for UNDP programme results at the country level which is exercised by the government, through the Government Coordinating Agency by approving and signing the Country Programme Action Plan (CPAP) with UNDP. Therefore, all activities falling within the CPAP are nationally executed.
  - b. 'Implementation' is the management and delivery of programme activities to achieve specified results, specifically the mobilization of UNDP programme inputs and their use in producing outputs that will contribute to development outcomes, as set forth in the Annual Work Plans (AWPs).

These two terms are elaborated under the [Legal Framework](#) section of the [Programme and Project Management Section of the POPP](#).

2. It is important to note that at the level of project management, the terms “execution” under the non-harmonized operational modalities, including global and regional projects and “implementation” under the harmonized operational modalities have the same meaning, i.e. management and delivery of project activities to produce specified outputs and efficient use of resources. Therefore, this Agreement uses the term “implementation” in line with the “harmonized operational modalities” to cover also at the project level the term “execution” under the non-harmonized operational modalities. More specifically, all references to “Executing Agency” have been replaced with “Implementing Partner”.
3. When using this Letter of Agreement in non-harmonized or non-CPAP countries, change the following terms as follows:
  - a. Execution instead of Implementation
  - b. Executing Entity instead of Implementing Partner

Dear [name of head of United Nations agency],

1. Reference is made to consultations between officials of the [insert name of the government implementing partner for the project] (hereinafter referred to as "the implementing partner ") and officials of the [name of United Nations agency] ("the United Nations agency") with respect to the participation of the [name of the United Nations agency] in the UNDP support to project [number and title of project], to be managed by the Government. The latter shall be represented for the purpose of such management by the implementing partner; [name of the government implementing partner].

2. The implementing partner recognises that [insert name of the United Nations agency] enjoys privileges and immunities under the Convention on the Privileges and Immunities of the Specialised Agencies, to which the Government of [programme country] became a signatory on [insert date of signature of the Convention; information available with BOM/OLPS].

3. In accordance with the programme support document or project document and with the following terms and conditions, we confirm our acceptance of the services to be provided by the United Nations agency towards this programme or project. Close consultations will be held between the United Nations agency and the implementing partner on all aspects of the services to be rendered as described in Attachment 1: Description of services of this letter of agreement.

4. The United Nations agency shall provide the services and facilities described in Attachment 1: Description of services of this letter of agreement.

5. The implementing partner shall retain overall responsibility for the UNDP support to the project and shall designate a project co-ordinator [National Director or other title of this official].

6. The personnel assigned by the United Nations agency to the project, and under contract with the United Nations agency shall work under the supervision of the project co-ordinator. The supervisory arrangements shall be determined in mutual consultation and described in the relevant terms of reference of the personnel. This personnel shall remain accountable to the United Nations agency for the manner in which assigned functions are discharged.

7. In the event of disagreement between the project co-ordinator and the project personnel of the United Nations agency, the project co-ordinator shall refer the matter under dispute to the United Nations agency for the purpose of finding a satisfactory solution. In the interim, the decisions of the project co-ordinator shall prevail.

8. Upon signature of this letter of agreement and pursuant to the budget of the project document and the work plan, the implementing partner agrees that UNDP headquarters will advance funds to the United Nations agency, according to the schedule of payments specified in Attachment 2: Schedule of services, facilities and payments.

9. The United Nations agency shall submit a cumulative statement of expenditure each quarter (31 March, 30 June, 30 September and 31 December). The statement will be submitted to the implementing partner through the UNDP resident representative within 30 days following those dates. The format will follow the standard expenditure report of the United Nations agency, unless otherwise agreed to between the parties [in which case the format will be attached to this agreement]. The implementing partner will include the expenditure reported by the United Nations agency in the financial report.

10. The United Nations agency shall recost and rephrase the schedule of services and facilities described in Attachment 2, as necessary, when submitting the statement of expenditure to the implementing partner. The United Nations agency may incur expenditures that exceed its assigned annual budget by four per cent or by US\$20,000.00, whichever is higher, in order to cover differences between actual and pro-forma costs. The implementing partner shall adjust its financial records and confirm the revision submitted by the United Nations agency.

11. The United Nations agency shall submit such reports relating to the project as may reasonably be required by the project co-ordinator in the exercise of his or her duties.

12. The United Nations agency shall provide the implementing partner with an annual report of non-expendable equipment purchased by the United Nations agency for the project. The report shall be submitted within 30 days following 31 December, and shall be included by the Government implementing partner in the main inventory for the project.

13. The United Nations agency shall submit job descriptions and candidates for the posts foreseen in section 1 of Attachment 2 and obtain clearance of the Government implementing partner for the personnel to be assigned to the project.

14. Any changes to the programme support document or project document which would affect the work being performed by the United Nations agency in accordance with Attachment 1 shall be recommended only after consultation with the United Nations agency. Any changes to these arrangements shall be effected by mutual agreement through an amendment to this letter of agreement.

15. The arrangements described in this agreement will remain in effect until the end of the project, or the completion of activities of the United Nations agency according to Attachment 2, or until terminated in writing by either party. The schedule of payments specified in Attachment 2 remains in effect based on continued performance by the United Nations agency unless UNDP receives written indication to the contrary by the implementing partner.

16. For any matters not specifically covered by this agreement, the appropriate provisions of the project document and revisions thereof and the appropriate provisions of the financial regulations and rules of the United Nations agency shall apply.

17. All further correspondence regarding this agreement, other than signed letters of agreement or amendments thereto should be addressed to [*name and address of implementing partner official*].

18. The implementing partner and the United Nations agency shall keep the UNDP Resident Representative fully informed of all actions undertaken by them in carrying out this agreement.

19. Except as provided in paragraph 6 above, any dispute between the implementing partner and the United Nations agency arising out of or relating to this letter which is not settled by negotiation or other agreed mode of settlement, shall, at the request of either party, be submitted to a Tribunal of three arbitrators. Each party shall appoint one arbitrator, and the two arbitrators so appointed a third arbitrator, who shall be the chairperson of the Tribunal. If, within 15 days of the appointment of two arbitrators, the third arbitrator has not been appointed, either party may request the President of the International Court of Justice to appoint the arbitrator referred to. The Tribunal shall determine its own procedures, provided that any two arbitrators shall constitute a quorum for all purposes, and all decisions shall require the agreement of any two arbitrators. The expenses of the Tribunal shall be borne by the Parties as assessed by the Tribunal. The arbitral award shall contain a statement of the reasons on which it is based and shall be final and binding on the parties.

20. The implementing partner shall handle and be responsible for any third-party claim or dispute arising from operations under this agreement against UNDP or the United Nations agency, their officials or other persons performing services on their behalf, and shall hold them harmless in respect of such claims or disputes. The foregoing provision shall not apply where the parties agree that a claim or dispute arises from the gross negligence or willful misconduct of the above-mentioned individuals.

If you are in agreement with the provisions set forth above, please sign and return to this office two copies of this letter. Your acceptance shall thereby constitute the basis for your organisation's participation in the project.

Yours sincerely,  
For the implementing partner of [country]

[Name and title]  
[Date]

Signed on behalf of the [United Nations agency]  
[Name and title]  
[Date]

## Attachment 1

### DESCRIPTION OF SERVICES

Project number:

Project title:

Work to be performed by the United Nations agency:

Provide a summary of the results to be achieved by the United Nations agency, particularly the outputs they are expected to produce. Explain also the activities to be carried out by the United Nations agency.

Description of services:

Provide a detailed description of the projects inputs by component. This may include identifying candidates for project posts based on terms of reference provided by the Government-implementing partner or recruiting already identified candidates.

Annexes:

Attach, as appropriate, job descriptions for consultants, terms of reference for contracts, technical specifications for equipment items, training nomination forms, etc.

Attachment 2

SCHEDULE OF SERVICES, FACILITIES AND PAYMENTS

Section	Budget line	Work months	Total costs	Estimated expenditure by year		Schedule of payments	
				Year 1	Year ...n	Year 1	Year ...n
Section 1 : Personnel							
Section 2 : contracts							
Section 3 : Training							
Section 4 : Equipment							
Section 5 : Miscellaneous							
Section 6: Micro-capital grants							
Total							

Note:

- Expenditures for personnel services may be limited to salary, allowances and other entitlements, including the reimbursement of income taxes due and travel costs on appointment to the project, duty travel within the programme country or region and repatriation costs.
- The implementing partner shall be responsible for providing miscellaneous services such as secretarial assistance; postage and cable services and transportation as may be required by the United Nations agency personnel in carrying out their assignment.
- Adjustments within each of the sections may be made in consultation between the implementing partner and the United Nations agency. Such adjustments may be made if they are in keeping with the provisions of the programme support document or project document and if they are found to be in the best interest of the programme or project.