Study on Nonfarm Livelihoods in Refugee-Hosting Regions in Ethiopia

Nonfarm Livelihood Subcomponent Assessment and Recommendations for DRDIP Phase II
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### Abbreviations and Acronyms

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>CIG</td>
<td>common interest group</td>
</tr>
<tr>
<td>COVID-19</td>
<td>coronavirus disease 2019</td>
</tr>
<tr>
<td>CS</td>
<td>case study</td>
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<tr>
<td>CSO</td>
<td>civil society organization</td>
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<tr>
<td>DRDIP</td>
<td>Development Response to Displacement Impacts Project</td>
</tr>
<tr>
<td>FGD</td>
<td>focus group discussion</td>
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<tr>
<td>KII</td>
<td>key informant interview</td>
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<tr>
<td>LED</td>
<td>local economic development</td>
</tr>
<tr>
<td>NGO</td>
<td>nongovernmental organization</td>
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<tr>
<td>RuSACCO</td>
<td>rural savings and credit cooperative</td>
</tr>
<tr>
<td>SME</td>
<td>small and medium-sized enterprise</td>
</tr>
<tr>
<td>UN</td>
<td>United Nations</td>
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<tr>
<td>UNDP</td>
<td>United Nations Development Programme</td>
</tr>
<tr>
<td>UNHCR</td>
<td>United Nations High Commissioner for Refugees</td>
</tr>
</tbody>
</table>
Acknowledgments

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Executive Summary

The Development Response to Displacement Impacts Project (DRDIP) is a World Bank-supported regional program in the Horn of Africa (Ethiopia, Uganda, Djibouti, and Kenya), which aims to improve access to social services, expand economic opportunities, and enhance environmental management for host and forcibly displaced communities. It was initiated in 2016 for a five-year period with US$100 million total funding for Ethiopia provided by the government of Ethiopia and the World Bank. DRDIP has been implemented in 15 woredas (districts) across the five main refugee-hosting regions of Ethiopia: Afar, Benishangul-Gumuz, Gambella, Somali, and Tigray.

DRDIP has been supporting target communities through multiple interventions/subcomponents. One subcomponent focused on the nonfarm livelihoods, which include value chain activities, such as agro-processing, transport, distribution, marketing, and retail; tourism; manufacturing; construction; and mining, as well as self-employment operations such as handcrafting, bakeries, mechanics, and kiosks. For Phase II, DRDIP aims to improve and strengthen the nonfarm livelihoods interventions, focusing on women and youth.

This study assesses the activities implemented under DRDIP’s nonfarm livelihood subcomponent and provides an analysis of the nonfarm economy in Ethiopia’s refugee-hosting regions and woredas to shape future DRDIP interventions. The study also assesses findings from recent studies around the world pertaining to nonfarm livelihoods. Specifically, this review was conducted with the Ethiopian nonfarm economy in mind in an effort to support and inform the next phase of DRDIP’s nonfarm livelihoods interventions for women and youth in refugee-hosting areas.

This study offers the following recommendations for improving and strengthening the nontraditional livelihoods subcomponent under Phase II of DRDIP.

**Access to Markets**

DRDIP has not been able to adequately engage the private sector, and its approach may not be sufficiently market-based. The extremely heterogeneous state of private sector development in many of the refugee-hosting regions as well as in the contexts in which the program operates makes tackling these concerns quite difficult, but the following potentially helpful approaches could be built into Phase II.

**FOSTER PUBLIC-PRIVATE DIALOGUE**

Inadequate public-private dialogue was flagged as one of the program’s major constraints. Under Phase II, DRDIP should work to create synergies and linkages through effective public-private exchanges involving a range of stakeholders, including government and nongovernmental actors, community representatives, enterprises, and sectoral associations, to address market challenges more systematically and to improve coordination. The program could
collaborate with development partners who are active in
the space, such as the United Nations High Commissioner
for Refugees (UNHCR) and the International Finance
Corporation.

**COLLABORATE WITH THE PRIVATE SECTOR TO SUPPORT
MARKET-DRIVEN ACTIVITIES**

The assessment revealed that market-based approaches
were not systematically adopted or used. In Beninshangul-
Gumuz, market assessments were conducted prior to imple-
mentation and influenced program activities; in other areas,
this was not the case. Activities were therefore inconsistently
informed by a thorough assessment of existing business
opportunities, did not involve private sector actors, and did
not build on the local ecosystem. Engaging with groups like
the Amaharo Coalition—a network of private sector actors
operating in refugee-hosting areas—could foster DRDIP
engagement with the private sector without the need to
reach out to individual actors.

**FOCUS ON VALUE CHAIN DEVELOPMENT**

In numerous assessed regions, respondents point to the need
for more focus on regionally relevant value chains, such as
agro-processing and agro-packaging in Gambella and the
leather and livestock industries in Somali and Afar. Phase II
could emphasize the development of value chains and iden-
tify priority sectors. To ensure that program strategies are
appropriately context-specific, a sectoral focus will require
the development of different strategies for rural and urban
areas, for each region, and even for the relevant woredas
within a region.

Figure ES.1 illustrates community organizations assisted
under the nonfarm livelihoods subcomponent.

<table>
<thead>
<tr>
<th>Afar</th>
<th>Benishangul-Gumuz</th>
<th>Gambella</th>
<th>Somali</th>
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<tr>
<td><strong>RURAL</strong></td>
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<tr>
<td>• Milk processing</td>
<td>• Apiculture</td>
<td>• Fish processing</td>
<td>• Milk processing</td>
</tr>
<tr>
<td>• Salt production and</td>
<td>• Soybean production</td>
<td>• Milk processing</td>
<td>• Apiculture</td>
</tr>
<tr>
<td>processing</td>
<td>• Milling and grinding</td>
<td>• Briquette production</td>
<td></td>
</tr>
<tr>
<td>• Apiculture</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>URBAN</strong></td>
<td>• Agro-processing of fruits</td>
<td>• Leather processing</td>
<td>• Manufacturing parts for</td>
</tr>
<tr>
<td>• Waste management</td>
<td>• Bamboo processing</td>
<td>• Grocery retail</td>
<td>water irrigation</td>
</tr>
<tr>
<td>and recycling</td>
<td>• ICT centers</td>
<td>• ICT centers</td>
<td>• Glass production</td>
</tr>
<tr>
<td>• Cheap material</td>
<td></td>
<td></td>
<td>• Leather processing</td>
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<tr>
<td>production for</td>
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<tr>
<td>construction</td>
<td></td>
<td></td>
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<tr>
<td>• Tourism</td>
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</table>
Access to Finance

Financial access is a serious challenge to all businesses and private enterprise in Ethiopia, and particularly critical for micro, small, and medium enterprises headed by women, young adults, and others who struggle to provide needed collateral.

INCREASE SEED MONEY FOR COMMON INTEREST GROUPS (CIGs)

Several respondents noted that CIG seed finance amount was insufficient for some of the more market-linked and profit-oriented businesses that members were intending to start. Given this, DRDIP should explore the possibility of increasing the amount of seed finance for CIGs from ETB 150,000 to ETB 250,000.

PILOT REVOLVING FUNDS FOR SUSTAINABLE FINANCING

To address stakeholder concerns about the lack of accountability among CIG members in terms of the use of DRDIP funds, revolving credit funds could be piloted in select regions, particularly Tigray and Benishangul-Gumuz as the security situation permits. The regional livelihood specialists in these two regions have had several interactions with the Uganda DRDIP livelihoods team learn about the Uganda’s community revolving fund approach and experience. Based on this, these two regions have already prepared a proposal for piloting the community-level revolving fund approach, which can be implemented in Phase II.

PARTNER WITH MAJOR BANKS TO IMPROVE FINANCIAL ACCESS FOR SUCCESSFUL CIGs

Partnerships with major banks could facilitate access to credit and digital financial services to successful businesses started by CIGs. DRDIP could build on broader efforts being undertaken by the Ministry of Finance and the Job Creation Commission in Ethiopia to encourage additional private financing for micro, small, and medium enterprises.

Integration with Other DRDIP Components

LEVERAGE DRDIP-SUPPORTED ECONOMIC INFRASTRUCTURE

Lack of supporting productive infrastructure is a main barrier to the development of nontraditional livelihoods. The poor conditions of the roads that connect refugee-hosting areas to regional and national markets profoundly hinder the ability of enterprises to access supplies and sell their products; the lack of electricity and water makes it extremely challenging for many business activities to be fully operational and/or remain profitable; and a deficient Internet connection limits the introduction of technology and hampers the development of digital businesses. While such structural challenges cannot be addressed by the nontraditional livelihood subcomponent, DRDIP’s first component could improve the most-needed local infrastructure, and linkages among DRDIP’s components could be fostered. A coordination mechanism could help create potential synergies between subcomponents.

Technical Assistance

Engage technical assistance partners to support business advisory services and value chain development, strengthen market and financial access, support the aggregation of CIGs, and strengthen livelihood implementation support teams

Many stakeholders complain of their consistent struggle to access a variety of business support services. Improving access to such services, providing technical support around access to markets and finance, and strengthening livelihood implementation support teams could bolster the overall implementation process. The project could engage relevant technical assistant partners to support this.
Use community business agents trained by technical assistance partners for last-mile support

A major gap in DRDIP is the provision of business development and advisory services at the local/community level. During Phase II, community business agents with prior entrepreneurial experience could be recruited to support community groups and entrepreneurs through the provision of range of services, including identification of business opportunities, preparation of business plans, offering basic business management training to entrepreneurs and CIGs, liaising with financial institutions for enterprise loans, facilitating backward and forward market linkages, and creating linkages between entrepreneurs/group enterprises and local government.

Women’s Economic Empowerment

COLLABORATE WITH DEVELOPMENT PARTNERS TO LEVERAGE WOMEN-LED CIGs TO PROMOTE WOMEN’S ECONOMIC EMPOWERMENT (WEE)

Based on the assessment, an early notable success of DRDIP’s nonfarm livelihoods subcomponent is its support of the inclusion and empowerment of women in economic activities. Phase II could build on this success by specifically focusing on women-led CIGs and improving WEE outcomes. Such an effort could be undertaken in conjunction with partners already active in the country, such as the Gates Foundation.

Refugee Inclusion

Several research pieces on Ethiopia’s refugee-hosting areas show that, in some regions, refugees are already contributing to local economic development through the introduction of new skills and innovation in some sectors. Phase II of DRDIP could therefore consider both populations and include a percentage of refugee beneficiaries in the nontraditional livelihood subcomponent. Further, and more specifically, DRDIP could support refugee CIGs based in camps as well as mixed CIGs, in collaboration with UNHCR and the Refugees and Returnees Services, who could help identify appropriate economic activities.

Support Urban and Rural Beneficiaries

Ethiopia’s urban and rural areas have developed very distinct nonfarm economies. Phase II of DRDIP could develop differentiated strategies for the two areas, keeping in mind the specific challenges and opportunities of each. Figure ES.1 identifies potential areas of focus, which could serve as a starting point for further refinement.

Regular Monitoring and Measuring Impact

Another gap in DRDIP is the lack of consistent monitoring and the failure to use insights generated during monitoring to inform and adapt program design. Introducing a streamlined management information system and regular and rapid assessments to measure the outcomes and impact of the nonfarm livelihood interventions could help address these concerns during Phase II.
1 Background, Research Objectives, and Methodology

The Development Response to Displacement Impacts Project (DRDIP) is a World Bank-supported regional program in the Horn of Africa (Ethiopia, Uganda, Djibouti, and Kenya), which aims to improve access to social services, expand economic opportunities, and enhance environmental management for host and forcibly displaced communities. It was initiated in 2016 for a five-year period with US$100 million total funding for Ethiopia provided by the government of Ethiopia and the World Bank. For Phase II, DRDIP aims to improve and strengthen the nonfarm livelihood interventions, focusing on women and youth. This study assesses the activities implemented under DRDIP’s nonfarm livelihood subcomponent and provides an analysis of the nonfarm economy in Ethiopia’s refugee-hosting areas to shape future DRDIP interventions. Promising nonfarm livelihood options for refugee and host communities, particularly women and youth, are identified. The study findings offer actionable recommendations with clearly identified entry points for increasing the effectiveness and impact of DRDIP’s nonfarm livelihood activities on the targeted refugees and host communities.

Figure 1.1. Study Activities Conducted
The study was conducted using both primary and secondary data. The study team conducted fieldwork in the woredas (districts) where DRDIP has been implemented—except Tigray1—using the following qualitative methods: local consultations, in-depth interviews, focus group discussions, and case studies. Data on local context were collected from woredas and informed the sampling strategy through a series of rapid interviews with local actors (local government, enterprises, and nongovernmental organizations [NGOs]) on the main characteristics of the local economy and existing interventions. Consultations were conducted with regional DRDIP livelihood specialists and implementation support teams, followed by woreda consultations with relevant government offices, private sector actors, community actors, and NGOs. Interviews and focus group discussions revolved around DRDIP and other interventions on nonfarm livelihoods, including questions about the local business environment and local economic actors. Validation meetings were held at the end of the data collection process to present the findings, which were then synthesized into regional case studies.

This study is organized in five sections, including this one. Section 2 briefly introduces DRDIP and outlines the context within which it operates. Section 3 outlines the key themes emerging from the study; and section 4 explores those in greater detail. Section 5 summarizes the recommendations that emerge from the findings. Detailed case studies presenting the findings from each surveyed region (Afar, Gambella, Benishangul Gumuz, and Somali) are provided in the appendix.

1. The ongoing military confrontation between the Ethiopian National Defense Force and the Tigray People’s Liberation Front did not allow the research team to conduct fieldwork in Tigray. This study therefore covers 12 out of the 15 woredas where the program has been implemented.
2 The Ethiopian Context

**DRDIP in Ethiopia**

The Development Response to Displacement Impacts Project (DRDIP) has been implemented in 15 Ethiopian woredas (districts), spread across the country’s five main refugee-hosting regions: Afar, Benishangul-Gumuz, Gambella, Somali, and Tigray (see map 2.1). While host communities—areas within in a 20 kilometer radius of a refugee camp—represent the project’s primary target, the interventions are also expected to provide indirect benefits to refugee communities by improving infrastructure, service delivery, natural resource management, and economic opportunities. A key marker of DRDIP is its focus on the poorest and most vulnerable of community members, as reflected in the selection of beneficiaries for the livelihood interventions.

**Map 2.1. Ethiopia’s Main Refugee-Hosting Regions**
DRDIP comprises four components, each of which has subcomponents:

- **Component 1. Social and economic services and infrastructure**
  - **Subcomponents**
    1. Community investment fund
    2. Capacity building for local planning and decentralized service delivery

- **Component 2. Sustainable environmental management**
  - **Subcomponents**
    1. Integrated natural resources management
    2. Small-scale, micro, and household irrigation schemes
    3. Supply of alternative energy sources

- **Component 3. Livelihood program**
  - **Subcomponents**
    1. Support for traditional livelihoods
    2. Support for nontraditional livelihoods
    3. Capacity building for community-based organizations for livelihoods
    4. Project management and monitoring and evaluation

The Ministry of Agriculture and Natural Resources leads the coordination and overall management of DRDIP implementation. Governance includes national-, regional-, and woreda-level steering committees, which convene the relevant line ministries. The project has been implemented using a community-driven approach, with robust grassroots-level participation by host communities. The planning process for implementing the activities was conducted at the subkebele (subward) level through consultations with the community to ensure inclusiveness, accountability, and learning.

### Table 2.1. DRDIP Intervention Areas

<table>
<thead>
<tr>
<th>Region</th>
<th>Woredas</th>
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<tbody>
<tr>
<td>Afar</td>
<td>Asayita</td>
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<td></td>
<td>Berhale</td>
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<tr>
<td>Benishangul-Gumuz</td>
<td>Bambasi</td>
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<td></td>
<td>Homosha</td>
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<td></td>
<td>Mao-Komo</td>
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<td>Gambella</td>
<td>Abol</td>
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<td></td>
<td>Dimma</td>
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<td></td>
<td>Gog</td>
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<td></td>
<td>Itang</td>
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<tr>
<td>Somali</td>
<td>Aw Barre</td>
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<td></td>
<td>Dollo Ado</td>
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<td></td>
<td>Kebribeyah</td>
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<tr>
<td>Tigray</td>
<td>Asgede-Tsimbla</td>
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<td></td>
<td>Tahtay Adyabo</td>
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<td></td>
<td>Tselemt</td>
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</table>

DRDIP = Development Response to Displacement Impacts Project.

### Refugees in Ethiopia

Ethiopia is among the largest refugee asylum countries in the world, reflecting the region’s ongoing fragility and conflict. As of August 31, 2021, the country was host to 795,108 refugees. And while Ethiopia provides protection to refugees from 26 countries, the vast majority are from South Sudan, Somalia, Eritrea, and Sudan, living at camps located along the border in Gambella, Somali, Tigray, Benishangul-Gumuz, and Afar. Except for Tigray, these regions are among the nation’s least developed, lagging according to all human development indicators. In addition, Ethiopia has experienced significant internal displacement over the past few years: there are currently about 4 million internally displaced persons living in the country.

Ethiopia’s history of hosting refugees is long. Over the past 50 years, Ethiopia has been the country of origin for significant numbers of refugees and a country of destination.

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3. Ethiopia was not a country of origin for significant numbers of refugees from the early 1990s until the outbreak of conflict in northern Ethiopia in late 2020.
for the region’s displaced. Each wave of displacement is closely connected to periods of political turmoil in the country, regional instability and conflict, or climatic crises. In 1969, the Ethiopian government established its first refugee camp in Itang to accommodate people fleeing Sudan’s first civil war; the number of camps has been growing since, now housing asylum seekers from South Sudan, Somalia, and Eritrea. There are 25 refugee camps in Ethiopia. In 2010, Ethiopian authorities introduced a new policy permitting refugees to live outside of the camps if they have a sponsor who will enable them to be self-sufficient. In practice, this scheme has mainly benefited Eritrean refugees. In subsequent years, a reduction of humanitarian aid coupled with growing numbers of protracted refugees has led the Ethiopian government to revise its refugee policy. In 2016, at the Leaders’ Summit on Refugees in New York, Ethiopia committed to improving the lives of refugees and responding to their needs in a more comprehensive manner by increasing access to basic services and employment opportunities. Its nine pledges include expanding its existing out-of-camp policy; issuing work permits to refugees, especially in areas open to foreign workers; increasing the enrollment of refugee children in education; expanding the provision of basic services to refugees; and allowing for the local integration of refugees.

In 2017, Ethiopia adopted the Comprehensive Refugee Response Framework, which serves as a vehicle for the implementation of the nine pledges. Implementation of the framework was initiated in February 2017, and the Ethiopian government has since outlined a strategic approach aimed at improving rights and enhancing services to benefit both refugees and host communities. A new refugee proclamation (no. 1,110, adopted in February 2019) has been widely hailed as one of the most progressive on the African continent. The law grants refugees access to a wide range of rights and services and to improved socioeconomic integration, including the right to work, although uncertainties remain around implementation. Importantly, the proclamation gives refugees who have been in Ethiopia for at least 20 years the right to local integration. Other major policy improvements include the adoption of the Global Compact on Refugees and a 10-year National Comprehensive Refugee Response Strategy aimed at enhancing self-reliance and resilience among refugees and host communities.

The terms refugee and host community are complex in the Ethiopian context. Research conducted by the World Bank has observed how difficult it can be to distinguish refugee from host due to cross-border connections and common ties of language, kinship, and ethnicity. All of the refugee-hosting regions in Ethiopia have a long history of mobility and cultural connections to other communities across regional borders and a relatively fluid or flexible attachment to national identity (Vemuru, Sarkar, and Woodhouse 2020). Further, some host communities have emerged only in response to the arrival of refugees and related humanitarian operations. Finally, in many contexts—the identity of an individual as either a refugee or a host is subsumed under other identity markers, which includes gender and ethnicity. It is in this complex sociopolitical context that DRDIP operates.

**Nonfarm Livelihoods in Ethiopia**

Ethiopia has experienced rapid growth, at an average annual rate of 9.4 percent from 2010/11 to 2019/20, along with improving human development outcomes in education, health, and other dimensions, which is largely attributable to growth in the agricultural sector and public-investment-led growth in urban areas (Ronnas and Sarkar 2019). This rapid economic expansion has led to a reduction in the poverty level from about 30 percent of the population in 2011 to 24 percent in 2016, and an increase in per capita income. The reduction in poverty levels has been
particularly pronounced in urban areas (World Bank 2020). From 2005 to 2015, the number of productive jobs (i.e., jobs that allow people to sustain themselves above the poverty line) increased from 20 to 33 million.

Despite such progress, Ethiopia continues to be home to an extremely large population of very poor and vulnerable people. With an estimated per capita annual income of US$790 in 2019, Ethiopia remains one of the poorest countries in the world and, more crucially, despite decreasing levels of overall poverty, the poorest have not benefited equally from growth (e.g., the consumption levels of the poorest has remained nearly unchanged), and shock-induced vulnerability levels are high.

The labor market remains a challenging one, especially for youth and women. With nearly two million new entrants to the Ethiopian labor market every year, job creation remains a key challenge, made even more difficult by the limited size of the private sector and the lack of diversity in the Ethiopian economy, which continues to predominantly rely on agriculture. In fact, if Ethiopia’s ambitious Sustainable Development Goal of achieving productive employment and decent work for all by 2030 is to be achieved, job creation needs to increase rapidly to an estimated 2.8 million annually—double the rate between 2005 and 2015. Levels of unemployment and—more crucially for such a low-income country—underemployment and vulnerable employment are high, while the cost of living has risen exponentially over the past few years. The Ethiopian lowlands, characterized by an arid or semiarid climate, limited resources, a lack of infrastructure, and significant remote areas, have faced repeated natural hazards in recent years, endangering livelihoods and triggering displacement.

Although the service and manufacturing sectors have shown signs of development in recent years, agriculture remains a key contributor to livelihoods in Ethiopia, accounting for 65 percent of employment. In fact, economic growth does not appear to have been associated with a commensurate productive and structural transformation of the economy and labor market. Despite very rapid agricultural growth, economic diversification outside the large cities has progressed slowly. The growth of nonagricultural enterprises has been disappointing so far, at least in rural areas. The development of small and medium-sized enterprises has been lackluster, hindering vertical economic integration. This “missing middle” also contributes to an increasingly fractured economy, with a large-scale, capital-intensive, and often foreign-funded and export-oriented modern sector on the one hand and a traditional sector of very small or nano enterprises on the other. This divide has a distinct geographic dimension: the large-scale modern sector is confined to large cities and large commercial farms (Ronnas and Sarkar 2019, n3).

In short, the Ethiopian economy is still characterized by a lack of diversification and an underdeveloped private sector, partly due to the predominant role of the public sector in some subsectors, including telecommunication, financial and insurance services, transportation, and retail, and partly due to national regulations protecting specific economic sectors from foreign investment. Enterprises also suffer from foreign exchange shortages, lack of access to finance capital, difficult access to inputs and bureaucratic delays, lack of energy, and low skill levels in the workforce. Further, Ethiopia’s economic growth has been concentrated in the highlands and in urban areas; the lowlands have experienced very little livelihood diversification.

The contribution of the industrial sector to the country’s gross domestic product is modest but expected to grow. It currently relies primarily on food processing, beverages, textile and garments, leather, chemicals, metals processing, and cement production. The tertiary sector is strategically important because it brings with it foreign exchange earnings, mainly through the successful state-owned company
Ethiopian Airlines. Tourism and telecommunications are also developing at a rapid rate. However, while COVID-19 has had a limited impact on agriculture, the pandemic has strongly affected the tourism, hospitality, air transport, and manufacturing sectors.

Successive growth and transformation plans have outlined Ethiopia’s strategy for becoming a middle-income country by 2025, and a 10-year development plan for 2021–30 is under preparation. Among the government’s priorities is private sector development through foreign investment and industrial parks, with the aim of improving productivity in the agriculture and manufacturing sectors. Nonfarm activities, along with entrepreneurial promotion and micro and small enterprise manufacturing development, are identified as key areas to address in the structural transformation of Ethiopia’s economy. It is generally accepted that nonfarm livelihoods can positively impact welfare and that they are associated with higher per capita expenditure (Adjognon and others 2017). Further, nonfarm livelihood development in rural areas has a demonstrably positive affect on economic development and resilience because it improves household income diversification, increases rural employment, reduces poverty, and fosters a more spatially balanced distribution of the population. For most rural households, however, nonfarm economic activities still only represent a small source of employment and income. While some evidence suggests an opportunity-driven shift of labor from agriculture to more productive economic pursuits in nonagricultural sectors, other evidence suggests a parallel distress-driven shift of labor out of agriculture as rural households are forced to turn to casual agricultural wage work or self-employment in low productivity services (Ronnas and Sarkar 2019 supra n3). The Ethiopian government is aware of these challenges and has established a Jobs Creation Commission to spearhead its employment creation agenda.

Impact of COVID-19 and the Conflict on Economic Growth

In addition to the COVID-19 pandemic, social and political unrest, as well as the associated internal displacement, complicates the context on the ground and hampers Ethiopia’s ability to achieve its development targets. The pandemic has exacerbated existing inequalities in the labor market as job losses have been concentrated among the disadvantaged, that is, among self-employed and casual laborers. Gender inequalities have also intensified: more women than men have lost their jobs. Such broad patterns also exist in refugee-hosting areas. A study conducted by the International Labour Organization and Samuel Hall on the impact of COVID-19 on labor markets in refugee-hosting areas in Somali and Tigray shows that the pandemic deepened inequalities both between hosts and refugees and between men and women. Enterprises led by male hosts were found to fare better than those led by displaced groups or by women, and women were more likely to have experienced a loss of income (Adjognon and others 2017).

In this broader context, nonfarm livelihood strategies will be vital to Ethiopia’s addressing its developmental challenges. Nowhere are challenges starker than in the country’s refugee-hosting areas, mostly situated in historically underdeveloped peripheral regions. The local economies in these areas, hindered by limited access to markets and inputs, low education levels, and lack of access to finance, are dominated by informality and agricultural activities.

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3 National-Level Findings

This section synthesizes the findings that emerged out of the assessment of the four regions of Afar, Benishangul-Gumuz, Gambella, and Somali, all of which have similar local economies, including their agricultural, service, and retail sectors, and to varying degrees, tourism, natural resource extraction, and cross-border trade. This section first outlines the contours of the main nonfarm sectors and actors in the refugee-hosting areas of the selected regions and then explores common challenges and opportunities related to the expansion of such sectors. (The context-specific economic conditions of the regions and project-affected woredas are outlined in section 4.)

Agriculture remains the backbone of Ethiopia’s economy despite the government’s stated policy goals of achieving structural transformation of the economy by focusing on nonfarm activities, particularly the promotion of entrepreneurship and manufacturing development for micro and small enterprises. On-farm and agricultural economic activities represent an essential livelihood for most people in the surveyed areas, but nonfarm economic activities have also become increasingly important. Strengthening nonfarm livelihood is important for livelihoods diversification; improving the coping mechanisms; and providing additional income sources to communities, especially women and youth. In addition, the nonfarm activities are direct income sources for landless people.

Refugee-hosting areas in Ethiopia are often in remote woredas with limited market infrastructure, a challenging business environment, and a high degree of aid dependence, which hinders the expansion of nonfarm economic activities. The economy in some refugee-hosting woredas, notably in Somali and Afar, are highly dependent on both illicit and legal cross-border trade, particularly in remote areas close to the border, such as Dollo Ado (Betts and others 2019). Nonfarm relevant actors in the regions include government representatives, development and humanitarian agencies, financial service providers, civil society organizations (CSOs) and associations, and Ethiopian diaspora, each discussed in turn below.

GOVERNMENT ACTORS

Relevant public agencies for nonfarm livelihoods include the Ministry of Agriculture and Natural Resources—the main partner for the Development Response to Displacement Impacts Project (DRDIP); the Agricultural Transformation Agency; the Job Creation Commission; the Ministry of Women, Children and Youth Affairs; the Micro and Small Enterprises Development Agency, the Ministry of Urban Development and Housing; the Ministry of Innovation and Technology of Ethiopia; the Ministry of Mines and Petroleum of Ethiopia; the Ministry of Labor and Social Affairs of Ethiopia; the Ministry of Culture and Tourism of...
Ethiopia; the Ministry of Peace; and the Federal Technical and Vocational Education and Training Institute. The Ministry of Peace is of particular importance as it houses the Administration of Refugee and Returnee Affairs, which is responsible for refugees in Ethiopia.

DEVELOPMENT AND HUMANITARIAN ACTORS

Many of the surveyed locations are in lagging areas with a high degree of aid dependence and a high concentration of international development and humanitarian actors who have become essential in filling the gaps in the local market systems. Some of the most important actors include United Nations (UN) agencies such as the World Food Programme, the Food and Agriculture Organization, and the UN High Commissioner for Refugees (UNHCR); international nongovernmental organizations (NGOs) such as Mercy Corps, CARE, Save the Children, Oxfam, International Rescue Committee, and Norwegian Refugee Council; and Mekane Eyesus—the Ethiopian Evangelical Church, which is a member of the Lutheran World Federation. Many of these agencies are relevant to livelihood programming for both refugees and host community members. Unlike DRDIP, Mercy Corps and the Regional Development and Protection Programme (RDPP) are conducting integrated

In Afar, livestock farming and agriculture are the main economic activities, reflected in the high prevalence of pastoral communities. The region is famous for its salt extraction sector, its tourism industry has the potential to grow, and it could become a central trade corridor connecting Ethiopia to the port of Djibouti.

While mining is an important sector in Benishangul-Gumuz in terms of earned revenues, most people’s livelihoods revolve around agriculture. However, there is an effort by government stakeholders to move toward small-scale, off-farm and nonfarm activities, such as agro-processing, handcrafts, and trade.

Gambella’s economy is largely dominated by agriculture. The underdevelopment of the nonfarm sector is aggravated by structural factors that hamper business creation, especially the state of infrastructure: the lack of roads, electricity, telecommunication, and financial institutions present major barriers.

On one hand, most people in Somali live in peripheral areas, engage in pastoralism, and depend on livestock. On the other hand, the region has thriving urban and semiurban areas with important trade routes to neighboring countries, and rates of technology use, particularly digital finance, are much higher than in other regions.
programs for refugees and the host community. RDPP, in particular, was cited as a successful example of an intervention contributing to social cohesion and the integration of refugees. In a similar vein, Mercy Corps is implementing a market systems development program to contribute to LED in both Gambella and Somali. The essential market infrastructure in these regions is often provided by development and humanitarian actors. In Dollo Ado, Somali, for example, an important infrastructure facility is the slaughterhouse constructed by UNHCR, which supplies fresh and safe beef to households and restaurants and is the first of its kind in the area. Other essential market services provided by these actors include providing grants or loans for small businesses, vocational training, and business skills development.

LOCAL CSOs AND ASSOCIATIONS

While the central role of development and humanitarian actors in the local market systems may suggest weak local ownership of nonfarm livelihood programs, many local CSOs and associations are providing meaningful help to communities in response to socioeconomic, cultural, and environmental challenges. During the COVID-19 pandemic and its accompanying economic recession, for example, the salt association in Berhale, Afar, stepped in and provided loans and food items at discounted prices to the local community. Another notable example is from Somali, where Save Ethiopian Environments (SEE) is focused on environmental rehabilitation and the sustainable provision of energy and livelihoods in areas hosting refugees and internally displaced persons. In fact, several respondents in Somali referred to numerous local CSOs and associations that foster women’s empowerment, such as the Garbage and Sanitation Association, which is creating jobs for women in Kebribeyah, and Umul-gargaar, a local women’s association in Aw Barre, which is raising awareness to reduce harmful gender practices.

DIASPORA

The economic engagement of the Ethiopian diaspora varies by region and woreda. General reports suggest that the diaspora is involved in infrastructure development, construction, and the extraction of natural resources. Findings from the Somali region align with previous studies of the area by Samuel Hall that reveal how important remittances and investments by the diaspora are to the region (ILO/Samuel Hall 2020a). Respondents in Somali also noted that the diaspora is engaged in philanthropic activities like building schools and assisting the community during COVID-19. The most cited challenges in attracting diaspora investment were an uncertain political situation in the country (for example, local conflicts in Gambella), challenging market conditions that discourage investments, a lack of awareness of diaspora-related investment policies, and insufficient facilitation of investments by local government actors.

FINANCIAL SERVICE PROVIDERS

All surveyed areas have a low concentration of financial service providers, and the banks and microfinancing services that do exist are often only accessible in urban and semiurban areas. Most of the population cannot access financial services because of burdensome formal requirements, such as high collateral and loans with interest, which Islam prescribes. Due to such limited access, most respondents use traditional savings groups or enterprises to buy goods on loan from suppliers—a finding in line with previous research (Bezu and Barrett 2012), which concluded that local savings and credit associations in Ethiopia positively contribute to poverty reduction in rural populations engaged in nonfarm livelihoods in that they provide a way to gradually accumulate assets, diversify economic activities, and access high-return activities.
Challenges

The transition of Ethiopia’s economy into one that generates more nonfarm jobs and activities will likely be difficult. It will require addressing multiple social, cultural, political, and infrastructure challenges. Most livelihoods in the primarily rural refugee-hosting areas remain characterized by traditional activities. While the regions and woredas face different context-specific challenges regarding the transition from on-farm livelihoods to more nonfarm economic activities, the main barriers are limited expertise and experience in nonfarm activities; a challenging business environment; cultural barriers for women; and conflict and lack of social cohesion. Each are discussed below.

LIMITED EXPERTISE AND EXPERIENCE IN NONFARM ACTIVITIES

Because agriculture, especially traditional agricultural activity, is the primary livelihood for most Ethiopians, the population has limited expertise in nonfarm activities. Nomadic communities in Somali, for instance, who have been encouraged by government programs to adopt sedentary lifestyles, are still largely dependent on livestock.

“The community also lacks adequate knowledge and experience of nonfarm livelihoods because it is a remote area, and the community grows up as a nomadic pastoral. Their life always related to livestock production and cultivating seasonal agriculture.” (FGD3, male participant, Aw Barre)

A CHALLENGING BUSINESS ENVIRONMENT

Limited access to business development services, inadequate avenues for and onerous regulation of legal cross-border trade, and limited economic infrastructure have hindered the growth of local businesses and employment. Most entrepreneurs said that the most significant constraints they face are infrastructure challenges, particularly electricity, water supply, telecommunications, roads, and technology for modernizing nonfarm economic activities and for utilizing natural resources. Common interest groups (CIGs) and enterprises also frequently complained of a lack of available training facilities and support to improve their business and financial proficiency.

“The facilities or the infrastructures that support the livelihood activities are either not existing as a whole or poorly functioning in most of the targeted areas.” (WC11, DRDIP staff, Dollo Ado)

The lack of economic infrastructure to connect business hubs as well as onerous cross-border trade policies also contribute to illicit cross-border trade. In some remote border areas in Somali and Afar, in fact, the local economy is heavily dependent on such trade. The limited access to legal cross-border trade coupled with the border closings caused by COVID-19 has affected businesses in the woredas and has led to inflation and products being available. Enterprises that legally import goods from neighboring countries find obtaining authorizations and exchanging money challenging, and they are unable to compete with the lower prices of contraband.

CONFLICT AND LACK OF SOCIAL COHESION

A significant challenge in developing local market systems and attracting investment is the uncertain political and security situation in many parts of Ethiopia. Ongoing internal displacement and conflict also lead to the continuous need for humanitarian interventions even as the development of market systems is disrupted. For example, insecurity within Gambella was cited as the main challenge to nonfarm livelihoods. Similarly, Berhale in Afar has been completely cut off from telecommunication services, and is only poorly connected to electricity due to its proximity to the conflict in the
Tigray region. There are also ongoing ethnic conflicts and border disputes between Afar and Somali, including intense recent fighting (Oxford Analytica 2021). Such insecurities in the assessed woredas and other locations in Ethiopia are potentially reversing prior gains in poverty reduction and development and hindering possibilities for further investment and entrepreneurial development.

“The deteriorating security situation in the region is the main barrier. Besides, lack of business enabling environment, weak commitment from the government offices to support nonfarm livelihoods, and lack of affordable credit access for the active poor are among the main barriers.”

(RC8, DRDIP staff, Assosa)

CULTURAL BARRIERS FOR WOMEN

Gender-based discrimination in accessing economic opportunities was the most-cited challenge among female respondents. Despite significant improvements toward gender equality in all social, political, and economic dimensions over the past few decades in Ethiopia, women are often not seen as central participants in the private market. Furthermore, as boys have often been favored in terms of accessing education, and girls often marry early and shoulder the burden of housework, women are disadvantaged in the labor market. Women who do engage in economic activities outside the household are often assigned traditionally acceptable economic activities, and those who try to be entrepreneurs may encounter stigma and discrimination. Women entrepreneurs also struggle more than their male counterparts in accessing financing to expand their businesses.

“They may be discriminated against based on social and religious aspects. For example, when they do have access to finance, women typically face more rigid loan processes. One would expect women who choose to be entrepreneurs to be at least treated the same as men.”

(PKII15, DRDIP staff, Asayita)

Nonfarm activities available to women and men vary, with women usually being engaged in petty trade or in traditionally assigned roles, such as a worker in a restaurant or tea shop.

“No woman is engaged out of the cultural or the traditional gender roles assigned to her because it would look like she is cursing her families or degrading their personalities or the identities of their families.”

(CS8, male youth, Dollo Ado)

Many women also raised the issue of the double burden of participating in the private market while they are still expected to fulfill their domestic duties.

“But still, the women are carrying the double burden and that is putting an extra heavy load on their shoulders. They have household (nonproductive) responsibilities at home and are expected to contribute to the shop equally. So, they have to manage their houses and do all the heavy tasks in addition to working in the shops equally with the men.”

(FGD19, female participant, Asayita)

Opportunities

Despite the varied socioeconomic challenges in the assessed refugee-hosting locations, the roll out of ambitious economic and refugee integration policies means that opportunities exist to promote nonfarm activities in Ethiopia. At the same time, demands from communities to oversee their own development means that humanitarian and development actors are under increasing pressure to diverge from “business-as-usual.”

LIBERALIZATION OF THE TELECOM SECTOR AND DIGITALIZATION

In 2019, the government of Ethiopia announced the opening of its telecommunication market to private-sector competition and foreign investment, laying the foundation of
digitalization for economic development. The World Bank is currently supporting the government by investing US$200 million to build a digital economy through the newly founded Ethiopia Digital Foundations Project (Dione 2021).

The findings of this study demonstrate the potential for using digitalization for nonfarm livelihoods, particularly digital finance. Access to telecommunication and mobile technology varies across the region, but Somali already has a high level of digital usage and can serve as a model for other areas. Services such as Hello Cash or E-Birr are easily adaptable and accessible to urban and rural communities with a mobile connection. Refugees used to be excluded from using mobile money transfers, but with identification provided under the new refugee policy, they can now open a bank account and access mobile money transfer services. Digitalization can also play a vital role in information dissemination, online market linkages, and marketing. Currently, market information is mostly exchanged informally between enterprises and suppliers, and improved access to technology has the potential to improve access to market information and linkages. Technologies like WhatsApp is already being used for market information exchanges and cross-border trade.

**THE NEW REFUGEE POLICY**

New regulations, including the Comprehensive Refugee Response Framework adopted by the government of Ethiopia, end the strict encampment policy, improve access for refugees to improved socioeconomic integration and in limited cases, given them the right to work. However, a more nuanced notion of socioeconomic integration is needed because in many of Ethiopia’s refugee-hosting areas, the concepts of host and refugee communities are somewhat blurred by the fact that members of both communities might share ethnic and sociocultural traits and have been living with one another in symbiosis for centuries.

**LOCAL OWNERSHIP AND EMPHASIS ON SUSTAINABILITY OF LIVELIHOOD INTERVENTIONS**

In line with the need for a new approach to integrated interventions, and in the face of increasing public criticism about the sustainability of aid programs, communities and local actors are demanding that they be viewed as partners in nonfarm livelihood development. A frequent theme emerging from the focus group discussions is that community members do not wish to just receive aid—they want to take ownership of their livelihoods to actively improve their lives. Community members expressed concern over the sustainability and effectiveness of the livelihood interventions offered by NGOs, which can be redundant and insufficiently monitored. Such views align with the general trend in the development and humanitarian industry toward more sustainable interventions and community ownership.

“The communities should develop methods of supporting one another within their surrounding communities rather than expecting support from external bodies or from far because this will build a sense of ownership and also an indication for change, while others should also think beyond the financial support because if once we supported with the skills and techniques how to run business we will bring the required finance within a short period of time, and the reason behind the failures of the project is due to this commitment and lack of communities participation in risk-sharing.” (FGD1, male participant, Kebribeyah)

Local actors and enterprises play central roles in the market system and enhance community resilience. However, platforms and mechanisms to facilitate private-public dialogue are limited. Key actors include the Ethiopian diaspora from Somali, who distributed free personal protective equipment to help people protect themselves from COVID-19, and the salt association in Berhale, Afar, which creates employment and uses its resources for philanthropic causes.
during crises like the pandemic. Successful local entrepreneurs could contribute to LED more systemically and could help strengthen market linkages to CIGs.

“The public-private sector dialogue is not developed. Even the awareness is limited only to a handful of individuals. They need to establish a platform where they can confer how to collectively act to alleviate the impacts of joblessness. Some investors do some limited philanthropy—usually out of religious dedication. However, what we need is coming together to change our society for the better” (RC11, NGO, Semera)
4 Assessment of the Nontraditional Livelihood Subcomponent

Implemented Activities
The Development Response to Displacement Impacts Project (DRDIP) third component focuses on livelihoods under its three subcomponents: (1) traditional livelihoods; (2) nontraditional livelihoods; and (3) capacity building. Subcomponent 2, which targets nontraditional livelihoods, is the focus of this assessment.

The objective of the nontraditional livelihood sub-component is to support the creation and strengthening of local organizations to create business and employment opportunities and to increase income and savings among community members. Such goals are achieved through the establishment of community institutions, which are then given skills training, capacity-building equipment, and/or financial support. Three types of community-based organizations are targeted by the subcomponent’s activities: common interest groups (CIGs), rural savings and credit cooperatives (RuSACCOs) and cooperatives, described below (see also figure 4.1):

- **CIG.** A group of 10–15 economically active poor individuals, with the common purpose of achieving sustainable livelihoods by pooling their resources in savings and credit to accumulate capital. CIGs receive a booster DRDIP grant to support investments in select market-oriented enterprises. CIGs established under the program have been focused on vegetable sales, milk processing, cattle sales, petty trade, restaurants and cafes, hotels, and clothing shops, among other activities.

- **RuSACCO.** Member-owned financial cooperative that provides financial services in rural areas.

- **Cooperative.** Association with a minimum of 50 members that facilitates access to inputs (e.g., equipment, technologies, and improved seeds for farmers).5

**SUPPORT**
CIG members received training on financial literacy, business plan preparation, entrepreneurial skills, and other topics, in addition to seed money. Kebele and woreda offices organized the trainings, most of which were held at the beginning of the project. Beneficiary CIGs, selected based on the quality of their submitted business plans, received start-up grants of ETB 150,000, distributed in two equal tranches. CIG members had to demonstrate their ability to save by contributing 7.5 percent of the capital before receiving seed money.

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5. Cooperatives are governed by the Cooperative Societies Proclamation 985 (2016).
Cooperative managers and RuSACCO members benefited from the training and capacity-building activities. Selected RuSACCOs also received seed money based on their business plans. Cooperatives did not receive financial support but were provided with office equipment.

Beneficiaries were selected at the local level among the economically active poor—i.e., vulnerable community members willing to work—with a focus on women and youth. Interviews conducted for this assessment confirmed that a key aspect of the nonfarm livelihood support interventions is that they provide support to individuals who would otherwise not be able to start a business.

GOVERNANCE
The Ministry of Agriculture is responsible for the coordination and overall management of DRDIP program activities. Steering committees are in place at the federal, regional, and woredas levels comprising relevant line ministries and agencies, as well as the Refugees and Returnees Services and the United Nations High Commissioner for Refugees (UNHCR). At the regional and woreda levels, livelihood implementation teams support the implementation of nontraditional livelihood activities. These teams comprise DRDIP staff and experts from the Rural Job Creation Bureau, Cooperative Promotion Unit Agency, Bureau of Micro and Small Enterprise Development, Women and Children Affairs, Women, Children and Youth Affairs and the Bureau of Youth and Sports Affairs.
Strengths and Successes

SOCIAL INCLUSION AND SUPPORT TO THE MOST VULNERABLE

The subcomponent provides livelihood opportunities and jobs to vulnerable individuals who are excluded from the formal labor market and who have a limited ability to start their own businesses. The support provided by the project is therefore extremely significant to the intervention’s beneficiaries.

“I was unemployed, and my friends and I formed this association. Here in Asayita, most of the educated people are employed in government offices. But for us, who are illiterate and have lower education levels, there is less job opportunities. The main constraint we faced to start our business or to get a job was the problem of finding interested individuals to work with (as they often) lack experience, lack business skills and financial capacity. Micro and small-scale enterprise offices of Asayita woreda gave us training, and DRDIP provided us some financial support, which helped us to start our business and to change our life.” (CS22, male participant, Asayita)

IMPACTFUL TARGETING: CHANGING THE LIVES OF YOUTH

Refugee-hosting areas are characterized by high levels of youth unemployment and underemployment, especially among those lacking the higher education sought by employers and those lacking the necessary skills or capital to run their own businesses. In fact, beneficiaries identified lack of skills and lack of finance as the two most significant challenges that youths face. The subcomponent successfully addressed these barriers and gave vulnerable youths the chance to provide for themselves and their families. Some noted that the program benefits helped them in overcoming feelings of social isolation and disengaging from harmful practices like khat and alcohol consumption. Interestingly, the subcomponent is also related to irregular migration: some youths who benefited from the interventions had either planned to or had in the past traveled to the Middle East in search of economic opportunities. While their past experiences with migration may have helped them acquire some of the skills needed to benefit from the program, in some instances, the interventions appear to have dissuaded further irregular migration.

“I went to Saudi Arabia illegally to seek a job there and change my life and support my family but, unfortunately, I failed, and I returned two years ago. After that I could not get a job in Berhale since I have no formal education and there are no large companies hiring unskilled workers in the town. There are a few businesses with capital in Berhale, but they are mostly operated by association members or family members. So, I spent the last two years sitting at home and waiting for aid, it has become my fate.” (CS24, male youth participant, Berhale)

CHANGING ATTITUDES TOWARD WOMEN

Women have been the primary group benefiting from the activities implemented under the nonfarm livelihood subcomponent. Because of the challenges they face when trying to start businesses, especially in terms of accessing capital, women beneficiaries stressed that they could not have created a business without the support of the subcomponent, which transformed their lives by making them self-reliant.

The provided support has more than an economic impact: it also changes attitudes toward women because the beneficiaries of the interventions no longer remain at home to attend to domestic chores and care for children. Through their participation in economic activity through DRDIP’s nonfarm livelihood component, beneficiaries could attend meetings, meet people, take on responsibilities, and gain skills and recognition. Women felt pride in doing something that benefited their communities, and some explained that
their communities are grateful for the services provided by their businesses and see them as “good examples.”

“Except for the DRDIP project, I don’t have any financial resources. The DRDIP program takes us to different meetings, and we share experience. They treat us well, they help us. They give us either support or aid. In the long past, we were subjected to do only housework and to care for our children. But currently, we are able to do different works, and rather than looking for someone to give me some money, this gives me satisfaction. And I also support my family.”

Ojulu’s colleagues affirmed her observations, adding that their earned income lets them provide for themselves and for their children, without needing to depend on their husbands, family members, or neighbors. They also gained confidence in their ability to run a business just like men can:

“It made me think independently, for myself as a person and for my kids. It showed me that a woman has the capacity to do something and is even doing better than a man.”

Earning an income allows a woman to make decisions about the allocation of money and improve the lives of their children:

“My husband has very little money left at the end of the month, [he spends the money] in town before he comes home. My children and I used to suffer a lot. But now after I started this business, my life and that of my kids have changed. I do not ask him any more for money to support me and my children.”

Box 4.1. Business Creation and Women’s Economic Empowerment Case Study: Oduni (Gambella)—“Let Us Make a Difference in Life”

Oduni, which means “let us make a difference in life” in the local language, is the name of a common interest group (CIG) formed with the support of the project in Ilay kebele (Abol woreda, Gambella). The group has 15 members: seven women and eight men. Members have together saved 10,000 birr and attended training offered under the nontraditional livelihoods’ subcomponent. One woman member explains: “The training opened our eyes on how to save money and run a business.”

The first lesson the group learned was to adapt to demand. When they began their activity, CIG members sold tea and coffee, but they did not have enough customers to make money. The partners realized that there were too many coffee shops in the area and that the COVID-19 pandemic would limit the number of people traveling through the area. They decided to switch their activity to selling cooking oil, sugar, soft drinks, biscuits, and other basic food items. Ojulu, the oldest woman in the group, highlighted that their business contributed to a change of attitudes in the community:

“It changes the wrong mindset of communities that a woman cannot make a living or ensuring her livelihood by doing business herself. As I am earning my own income I am very happy to participate in this project …. I do not have the words to express what I feel about this organization (DRDIP). In some areas there were women who didn’t leave their houses. However, nowadays, women are able to organize in different associations like participating in cotton, agriculture, animal fattening. In addition, this project organized people in different works; it gave credits and improved livelihood activities and thereby improved people’s lives.”

(CS20, female participant, Asayita)
Female beneficiaries believe that the nontraditional livelihoods subcomponent contributed to changes in perceptions of a woman’s role in society and the family by contributing to their financial independence and increasing their social status and decision-making power. Female CIG members are now able to support their families, be financially independent, and support other women who need help.

“Generally, us women are no longer dependent on men or on our husbands because we have money, so we can go and help elders, victims, and women with disabilities. Because of the training, we are free from male domination and at the same time we show that women can be equal to men.” (CS20, female participant, Asayita)

Initially, the CIG was established to open a restaurant called Lucy Restaurant, but the newly established business was heavily affected by the COVID-19 pandemic:

“The COVID-19 time was very hard for such a business and people were not interested or afraid to go and eat in restaurants. So, we could not continue doing it. Then, out of desperation, we decided to switch to the goat fattening business.”

Members of the all-female Lucy Goat Association are also young, most between the ages of 20 and 30. In a region affected by conflict, the beneficiaries proudly stressed that their CIG comprises both Afar and Habesha members:

“The team members are mixed (half Afar and half Habesha), and we managed to develop good communication and mutual understanding. We are very thankful to our kebele for giving us this chance and making us engage in such productive activity that significantly changes our life.”

Some beneficiaries became the breadwinners of their households after getting support from DRDIP. Women stressed that attitudes toward women are changing in the community, which is reflected in the type of occupation they can have: women are now free to become businesswomen, even in sectors that used to be for men only, such as contracting. As a result, the private sphere is also changing as women with income-earning jobs gaining more power in household decision-making processes.

“Yes, having a job or income helps women to be self-sufficient, and they are independent, moreover, economically active women are somewhat superior, and they are the decision makers of their family, therefore the community gives respect,
and their voice is louder than the others. They have great dignity. Myself and other women like me, who take the responsibility of their family, have gained some respect in this community, and we are partially or fully the decision makers of our families. And our decision is not a destructive one, rather it is a constructive one.” (CS5, female participant, Aw Barre)

INCREASING AND DIVERSIFYING THE SUPPLY OF GOODS AND SERVICES IN LOCAL COMMUNITIES

Women respondents stressed that the interventions had an impact both directly on beneficiaries through income generation and savings as well as indirectly on the entire community by sponsoring businesses that now provide goods and services not previously available at the local level, such as particular foods, clothing, and shoes among others. In that sense, the CIGs were able to address a market failure that was affecting the community’s well-being.

“To be honest, we benefited more [from the project] as we get income from it for our household, we saved money and we provide access to fresh and healthy vegetable for our communities, which means save time and no longer have to travel long distance to buy them, so I can confirm that both ourselves, as individuals, and the community, benefited from the project.” (FGD2, female participant, Kebribeyah)

Challenges and Gaps

LIMITED TECHNICAL CAPACITY OF GOVERNMENT OFFICES IN CHARGE OF THE IMPLEMENTATION AT THE LOCAL LEVEL

While DRDIP implementation relies on the government, especially regional livelihood specialists and woreda- and kebele-level government employees, the lack of regional- and local-level capacity represents a major problem. Local actors assessed the situation similarly: woreda officials stressed that the livelihood support teams do not receive sufficient capacity-building training and lack the resources needed to effectively implement the nonfarm livelihood activities.

INSUFFICIENT TRAINING AND FOLLOW UP

The training provided by DRDIP was not sufficient for the beneficiaries to become successful entrepreneurs. Most training sessions took place at the beginning of the project, but capacity building was very limited throughout implementation. Respondents claimed that skill-gap assessments would have allowed for training tailored based on the needs of beneficiaries and that coaching mechanisms were missing.

LACK OF MARKET LINKAGES, AND INVOLVEMENT OF THE PRIVATE SECTOR

The absence of the private sector and the lack of a market-based approach represent major gaps, a point raised by DRDIP stakeholders. In some areas, market assessments were conducted prior to implementation to develop a menu of market-oriented nonfarm livelihood activities on which CIG members should focus, but such efforts were not systematic, resulting in many cases with activities planned without the benefit of an assessment of existing business opportunities, without the involvement of private-sector actors, and without building on the local ecosystem. In Gambella, regional actors deplored the intervention’s lack of attention to local value chains, especially in agro-processing and agro-packaging.

INSUFFICIENT AMOUNT OF SEED FINANCE FOR CIGs

Beneficiaries explained that the grant of ETB 150,000 distributed in two equal tranches of ETB 75,000 was insufficient to cover the investments required for some businesses. Because of high inflation in recent years, the provided amount is sometimes inadequate to cover equipment and
inputs. For example, one respondent noted that flour milling is a profitable business but the price of a grain mill is ETB 200,000, which exceeds the amount of the grant. The issue of CIG member accountability was also raised. The allocated money is in the form of a grant rather than a loan, which means beneficiaries are not expected to pay back the funds. Some DRDIP staff reported problems with beneficiaries using grant money for personal expenses and believe that the allocation of money through revolving funds would improve accountability.

**LIMITED SUPPORT FOR COOPERATIVES AND RuSACCOs**

Although the nontraditional livelihood subcomponent is meant to support CIGs, cooperatives, and RuSACCOs, local-level interviews indicate that most activities focused on CIGs. Little information is available about the local support provided to RuSACCOs, and most respondents stressed that they still face major capacity gaps that the delivered training did not fully address. Similarly, respondents were less enthusiastic about the support provided to cooperatives and stressed that most of them were not interested in office equipment but instead wanted and expected financial support.

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**Box 4.3. COVID-19 Impacts on Common Interest Groups**

Like most countries across the globe, Ethiopia was hit by the COVID-19 pandemic in March 2020, leading the federal government to declare a state of emergency and to put restrictions in place from April to September 2020. The pandemic affected the implementation of the nontraditional livelihood component in multiple ways.

First, to mitigate the spread of the virus, gatherings of people were forbidden, resulting in the cancellation of trainings and meetings of members of common interest groups (CIGs), rural savings and credit cooperatives (RuSACCOs), and cooperatives, significantly limiting the support received by beneficiaries. Even when gatherings resumed, weekly meetings were replaced by monthly ones, which, according to respondents, led to information gaps.

In addition, the restrictions on movement put in place during the state of emergency had a tremendous impact on individuals and businesses alike. Businesses found it difficult to access supplies and bring goods to market. An increase in transportation costs—they doubled since the pandemic and have not yet returned to previous levels—hindered profits. Supply disruptions caused the price of all commodities to skyrocket, impacting CIGs by increasing supply costs and affecting product demand. To cope with the pandemic and associated inflation, most households had to reduce their expenses and used their income for basics like food. In response, some CIGs implemented adaptation strategies, gravitating toward business activities in higher demand. Examples include a CIG specializing in retail children’s clothing switching to selling vegetables and a restaurant turning into a fattening business. However, not all CIGs were able to adapt, and respondents noted that some businesses had to shut down completely during the pandemic, particularly restaurants, pool houses, and hair salons.
LACK OF COORDINATION AMONG IMPLEMENTING ACTORS
Although livelihood support teams convened representatives of various government offices, activities were mostly conducted in silos according to regional implementation plans focused on quantitative targets. DRDIP project coordinators complain about the lack of support from woreda offices, which might suggest misalignment between the project and local government plans, although, in some cases, woreda offices have been strongly involved in the project and supported activities. In addition, coordination between government actors and nongovernmental organizations (NGOs) implementing various local projects was lacking at all locations.

LACK OF REGULAR MONITORING AND ADAPTIVENESS OVER TIME
In all regions, respondents raised concerns over the absence of monitoring, which led to information gaps about the performance of the CIGs, RuSACCOs and cooperatives. Kebele-level officers lack the time, expertise, and incentives to monitor and accordingly report on CIGs, RuSACCOs, and cooperatives, and no formal system exists to collect project-level information. Respondents noted that they did not have the opportunity to provide feedback on the selection of activities proposed by the project team or on the implementation quality. Respondents believe the activities might have been adapted to a greater degree had they been given the chance to provide feedback.
5 Recommendations for Phase II

This section summarizes recommendations that emerged from the assessment of the Development Response to Displacement Impacts Project (DRDIP) nontraditional livelihood subcomponent.

Access to Markets
DRDIP has not been able to adequately engage the private sector, and its approach may not be sufficiently market-based. The extremely heterogeneous state of private sector development in many of the refugee-hosting regions, as well as in the contexts in which the program operates, makes tackling these concerns quite difficult, but the following potentially helpful approaches could be built into Phase II.

FOSTER PUBLIC-PRIVATE DIALOGUE
Inadequate public-private dialogue was flagged as one of the program’s major constraints. Under PHASE II, DRDIP should work to create synergies and linkages through effective public-private exchanges involving a range of stakeholders, including government and nongovernmental actors, community representatives, enterprises, and sectoral associations, to address market challenges more systematically and to improve coordination. The program could collaborate with development partners who are active in the space, such as the United Nations High Commissioner for Refugees (UNHCR) and the International Finance Corporation.

COLLABORATE WITH THE PRIVATE SECTOR TO SUPPORT MARKET-DRIVEN ACTIVITIES
The assessment revealed that market-based approaches were not systematically adopted or used. In Benishangul-Gumuz, market assessments were conducted prior to implementation and influenced program activities; in other areas, this was not the case. Activities were therefore inconsistently informed by a thorough assessment of existing business opportunities, did not involve private sector actors, and did not build on the local ecosystem. Engaging with groups like the Amaharo Coalition—a network of private sector actors operating in refugee-hosting areas—could foster DRDIP engagement with the private sector without the need to reach out to individual actors.

FOCUS ON VALUE CHAIN DEVELOPMENT
In numerous assessed regions, respondents pointed to the need for more focus on regionally relevant value chains, such as agro-processing and agro-packaging in Gambella and the leather and livestock industries in Somali and Afar. Phase II could emphasize the development of value chains and identify priority sectors. To ensure that program strategies are appropriately context-specific, a sectoral focus
Figure 5.1 illustrates the prioritized sectors or economic activities emerging from inputs from local government stakeholder and community-level discussions, which could be explored under Phase II.

**Access to Finance**

Financial access is a serious challenge to all businesses and private enterprises in Ethiopia, and is particularly critical to micro, small, and medium enterprises headed by women, young adults, or others who struggle to provide needed collateral.

**INCREASE SEED MONEY FOR COMMON INTEREST GROUPS**

Several respondents noted that CIG seed finance amount was insufficient for some of the more market-linked and profit-oriented businesses that members were intending to start. Given this, DRDIP should explore the possibility of increasing the amount of seed finance for CIGs from ETB 150,000 to ETB 250,000.

**PILOT REVOLVING FUNDS FOR SUSTAINABLE FINANCING**

To address stakeholder concerns about the lack of accountability among CIG members in terms of their use of DRDIP funds, revolving credit funds could be piloted in select regions, particularly Tigray and Benishangul-Gumuz, as the security situation permits. The regional livelihood specialists in these two regions have had several interactions with the Uganda DRDIP livelihoods team learn about the Uganda’s community revolving fund approach and experience. Based on this, these two regions have already prepared a proposal for piloting the community-level revolving fund approach, which can be implemented in Phase II.

**PARTNER WITH MAJOR BANKS TO IMPROVE FINANCIAL ACCESS FOR SUCCESSFUL CIGs**

Partnerships with major banks could facilitate access to credit and digital financial services to successful businesses started by CIGs. DRDIP could build on broader efforts being undertaken by the Ministry of Finance and the Job Creation Commission in Ethiopia to encourage additional private financing for micro, small, and medium enterprises.
Integration with Other DRDIP Components

LEVERAGE DRDIP-SUPPORTED ECONOMIC INFRASTRUCTURE

Lack of supporting productive infrastructure is a main barrier to the development of nontraditional livelihoods. The poor conditions of the roads that connect refugee-hosting areas to regional and national markets profoundly hinder the ability of enterprises to access supplies and sell their products; the lack of electricity and water makes it extremely challenging for many business activities to be fully operational and/or remain profitable; and a deficient Internet connection limits the introduction of technology and hampers the development of digital businesses. While such structural challenges cannot be addressed by the nontraditional livelihood subcomponent, DRDIP’s first component could improve the most-needed local infrastructure, and linkages among DRDIP’s components could be fostered. A coordination mechanism could help create potential synergies between subcomponents.

Technical Assistance

ENGAGE TECHNICAL ASSISTANCE PARTNERS TO SUPPORT BUSINESS ADVISORY SERVICES AND VALUE CHAIN DEVELOPMENT, STRENGTHEN MARKET AND FINANCIAL ACCESS, SUPPORT AGGREGATION OF CIGs, AND STRENGTHEN LIVELIHOOD IMPLEMENTATION SUPPORT TEAMS

Many stakeholders complain of their consistent struggle to access a variety of business support services. Improving access to such services, providing technical support around access to markets and finance, and strengthening livelihood implementation support teams could bolster the overall implementation process. The project could engage relevant technical assistant partners to support this.

USE COMMUNITY BUSINESS AGENTS TRAINEED BY TECHNICAL ASSISTANCE PARTNERS FOR LAST-MILE SUPPORT

A major gap in DRDIP is the provision of business development and advisory services at the local/community level. During Phase II, community business agents with prior entrepreneurial experience could be recruited to support community groups and entrepreneurs with the provision of a range of services, including identifying business opportunities, preparing business plans, delivering basic business management training to entrepreneurs and CIGs, liaising with financial institutions for enterprise loans, and facilitating backward and forward market linkages between entrepreneurs/group enterprises and local government.

Women’s Economic Empowerment

COLLABORATE WITH DEVELOPMENT PARTNERS TO LEVERAGE WOMEN-LED CIGs IN THE PROMOTION OF WOMEN’S ECONOMIC EMPOWERMENT (WEE)

Based on the assessment, an early notable success of DRDIP’s nonfarm livelihoods subcomponent is its support for the inclusion and empowerment of women in economic activities. Phase II could build on this success by specifically focusing on women-led CIGs and improving WEE-related outcomes. Such an effort could be undertaken in conjunction with partners already active in the country, such as the Gates Foundation.

Refugee Inclusion

Several research pieces on Ethiopia’s refugee-hosting areas show that, in some regions, refugees are already contributing to local economic development by introducing new skills and innovation in some sectors. Phase II of DRDIP could therefore consider both populations and include a percentage of refugee beneficiaries in the nontraditional livelihood
subcomponent. Further, and more specifically, DRDIP could support refugee CIGs based in camps as well as mixed CIGs, in collaboration with UNHCR and the Refugees and Returnees Services, who could help identify appropriate economic activities.

**Support to Urban and Rural Beneficiaries**

Ethiopia’s urban and rural areas have developed very distinct nonfarm economies. Phase II could develop differentiated strategies for the two areas, keeping in mind the specific challenges and opportunities of both. Figure 5.1 identifies potential areas of focus, which could serve as a starting point for further refinement.

**Regular Monitoring and Measuring Impact**

Another gap in DRDIP is the lack of consistent monitoring and the failure to use insights generated during monitoring to inform and adapt program design. Introducing a streamlined management information system and regular and rapid assessments to measure the outcomes and impact of the nonfarm livelihood interventions could help address these concerns during Phase II.
References


Appendixes
A Lessons from Recent Studies Pertaining to Nonfarm Livelihoods

This literature review\(^6\) assesses findings from recent studies around the world pertaining to nonfarm livelihoods. Specifically, this review was conducted with the Ethiopian nonfarm economy in mind as an effort to support and inform the next phase of DRDIP’s nonfarm livelihoods interventions for women and youth in refugee-hosting areas. Principal findings relevant to DRDIP’s next phase are outlined below.

Gender and Productivity
- Female-owned enterprises are less productive, although their productivity may be underestimated because of constraints on women’s time and imprecise productivity measures.
- Differences in output per worker between men and women are overwhelmingly accounted for by sorting according to sector and size. The discrepancies are not due to differences in capital intensity, increasing returns to scale, human capital, or local investment climate characteristics.
- The unequal degree of responsibilities in the household and the consequent different time constraints between genders drive differential business outcomes.

Gender and Participation in Rural Nonfarm Enterprises
- Women appear to be limited to low return wage and self-employment activities in the nonfarm sector, resulting in lower impacts in terms of improving food security.
- Women’s nonfarm entrepreneurship is not strongly correlated with household composition or with educational attainment.
- Inequalities among men can be explained by unequal assets, while inequalities among women depend on the interplay of asset ownership and the degree to which women are able to negotiate norms governing household production. A shift of responsibilities in household production to other family members, including men, could improve women’s well-being and overall household incomes.
- In Ethiopia, Sri Lanka, Indonesia, and Bangladesh, age-participation profiles in nonfarm enterprise activity are concave (lower participation rates among the youngest and oldest groups) among women and insignificant among men.

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\(^{6}\) Literature review by Ashutosh Raina and Ronald Leo Sullivan Jr., 2021.
Age and E-commerce

- Household age composition matters for e-commerce participation. The larger the share of members ages 15 to 35, the more likely the participation. This indicates that it is easier for younger people to participate in e-commerce.
- E-commerce is more likely to generate higher absolute income gains for individuals who are younger, have technical training, knowledge of e-commerce and migrant experience. However, in relative terms, income can increase more among individuals who are older, less educated, have less knowledge of e-commerce or less migrant experience.

Policy Recommendations

- Focus should be on lowering barriers to entry for Women. These may include household time constraints and access to finance, education, land, and inputs.
- Food safety net policies should pay more attention to the factors that allow increased participation in higher-earning activities by women, since they could then build on existing patterns of addressing food security.
- Microinsurance schemes and social protection policies are needed to protect households from negative external events—especially those enterprises with high growth potential who are capable of taking on more risky and productive types of business (often headed by younger owners).
- For increased sustainability, connect new businesses with local mentors, professional support providers, and extension workers.
- Invest in microenterprise clusters through incubation and connection between rural and urban areas to scale up to small and medium-sized enterprise (SMEs).
- Investment in local infrastructure and business environments in rural areas will support the performance of nonfarm enterprises.
- Asset and knowledge accumulation of existing firms should be encouraged to the extent that existing firms appear to confer positive externalities on other firms in their neighborhoods or clusters – increasing proximity is important in this regard.
- Policies should support enterprise owners through education and training, access to credit for business expansion, or possibly development of clusters.
- Developing e-commerce requires infrastructure, logistics, skills, entrepreneurship, and a conducive business environment. In Taobao Villages, investments in technical and vocational training, as well as tailored technical training on e-commerce seem to help improve e-commerce participation and realize gains.
- The poor need instruments to gradually accumulate assets and access high-return activities. Local saving and credit associations in rural Ethiopia seem to play an important positive role.
- Farmers should be provided with low-interest credit and entrepreneurship skills training to facilitate engagement in nonfarm activities.
Literature Review

Performance and Survival of Non-Farm Entrepreneurship in Rural Africa: Evidence from the LSMS-ISA Surveys—Ethiopia, Malawi, Nigeria, and Uganda

Description/objective
This paper was prepared for the Annual Bank Conference on Africa, “Harnessing Africa’s Growth for Faster Poverty Reduction” in 2014. Authors estimate productivity dispersions and multinomial logit models.

Type
External scholarly paper

Authors/Global Practice
P. Nagler and W. Naude

Year
2014

Country/region
Ethiopia, Malawi, Nigeria, Uganda

Key findings
- Most rural nonfarm enterprises operate in low-risk, low-productivity sectors such as trade, sales, and services.
- On average, nonfarm enterprises in rural areas are less productive than those in urban areas.
- Female-owned enterprises are less productive than male-owned enterprises.
- Enterprises operating continuously over the year are more productive than enterprises operating intermittently.
- In Malawi, idiosyncratic and geographic shocks negatively affect enterprise productivity; however, idiosyncratic shocks can push individuals to begin operating a nonfarm enterprise. (Idiosyncratic shocks are those connected to the individual household, such as death or illness of a household member, loss of employment, or experience of violence or theft. Geographic shocks such as floods, droughts, pest attacks, and livestock epidemics can impact agriculture.
- In Ethiopia, shocks are not significantly correlated with enterprise productivity or operation.
- Few households enter riskier but more lucrative sectors.
- Rural nonfarm enterprises are more likely than urban enterprises to exit the market due to idiosyncratic shocks.
- The performance and survival patterns of rural nonfarm enterprises reflect a difficult business environment, lack of adequate financing and social protection, and continuing regional and gender disparities.

Transforming Rural Non-Farm Livelihoods: The NRLM Journey

Description/objective
This note is part of the South Asia Agriculture and Rural Growth Discussion Note Series. It seeks to disseminate operational learnings and implementation experiences from World Bank-financed rural, agriculture, and food systems programs in South Asia.

Type
World Bank discussion note

Authors/Global Practice
A. Gupta and V. Nair

Year
2020

Country/region
India
Key findings
- Local mentors, professional support providers, and extension workers contributed to the sustainability of new businesses.
- Convergence with local governance structures plays a key role in providing regular market access to enterprises in remote areas.
- Access to timely and affordable finance is critical.

Creating Jobs in the Non-Farm Economy—Lessons from Global Experience in Ethiopia

Description/objective
This presentation was created by Parmesh Shah, Global Lead, Rural Livelihoods and Agriculture Employment, Agriculture Global Practice of the World Bank.

Type
World Bank presentation

Authors/Global Practice
Parmesh Shah

Year
2018

Country/region
World

Key findings
- Opportunities for the rural nonfarm sector in Ethiopia include tourism, food and beverages, handcrafting and cultural industry, textile and garment, leather and footwear, and repair and manufacturing.
- Potential strategies to bolster rural nonfarm enterprises include:
  - Develop a continuum of on-farm, off-farm, and nonfarm growth opportunities, enterprises and services; an integrated growth strategy
  - Develop a spatial approach which connects rural, small towns and large cities
  - Support existing micro enterprises (formal and informal) to graduate to SMEs. Support incubators which enable this.
  - Introduce incubation in technical schools and business institutions. Develop skills for business and entrepreneurship at all levels.
  - Support Ag Tech incubation
  - Build on existing clusters and help them in spatial scaling up
  - Build new enterprises and clusters around services
  - Invest in an enterprise support ecosystem for nonfarm economy

Growing the Rural Nonfarm Economy to Alleviate Poverty: An Evaluation of the Contribution of the World Bank Group

Description/objective
This independent evaluation assesses the contribution of the World Bank to growing the rural nonfarm economy to alleviate poverty. It assesses the Bank’s projects and strategies from 2004 to 2014 and provides recommendations.

Type
World Bank independent evaluation

Authors/Global Practice
Independent Evaluation Group (IEG)

Year
2017

Country/region
World

Key findings
- Value-chain activities require better upfront diagnostics of women’s roles, including their relative access to assets,
services, and markets, as well as bargaining power with actors across the value chains.

- The rural nonfarm sector can contribute to economic growth, household income diversification, rural employment, poverty reduction, and a more spatially balanced population distribution.
- World Bank projects that have focused on reaching the rural poor, including rural livelihoods, community-based approaches with a productive aim, and social safety nets with a productive inclusion theme, have been effective in reducing vulnerability and increasing access to services but not in supporting the sustained income or employment that can lift people out of poverty.
- World Bank projects with a growth aim, including agricultural value chain projects and productive partnerships, have frequently achieved increased sales, revenues, and incomes; however, reach to the rural poor is often not evident (poverty is not targeted or tracked).
- In rural areas, agricultural workers are more than four times more likely than with people employed in other sectors to be poor.
- Eighty percent of the world’s poor live in rural areas.

Non-Farm Enterprise Performance and Spatial Autocorrelation in Rural Africa: Evidence from Ethiopia and Nigeria

**Description/objective**
This paper tests for the presence and significance of spatial autocorrelation on rural entrepreneurship in Africa using data from the georeferenced 2011 Ethiopian Rural Socioeconomic Survey (ERSS) and the 2010/2011 Nigeria General Household Survey (NGHS).

**Type**
External scholarly paper

**Authors/Global Practice**
N. Owoo and W. Naudey

**Year**
2014

**Country/region**
Ethiopia, Nigeria

**Key findings**
- Education, age, household size, religious affiliation, and community infrastructure are the most significant determinants of nonfarm enterprise productivity in Ethiopia and Nigeria.
- In Ethiopia, Muslim-owned rural nonfarm enterprises appear to perform significantly better than those owned by non-Muslims. This may be evidence of the importance of religious social capital in rural nonfarm enterprise performance as well as a specialization in trade among the Muslim population. However, the magnitude of these religious effects are less—but still significant—when controlling for spatial effects, suggesting that the spatial distribution of Muslim households play a major role in explaining rural nonfarm enterprise performance in Ethiopia. (Models that do not explicitly correct for spatial dependence overestimate the importance of religious affiliation in explaining rural nonfarm enterprise performance in Ethiopia.)
- In Nigeria, nonfarm entrepreneurs who have access to a microfinance institution perform about one third better than entrepreneurs who do not have access to such an institution.
- In Ethiopia, rural nonfarm enterprises owned by male heads of household perform better than female heads across all of the model specifications.
• Rural nonfarm enterprise performance declines with distance from tarred and asphalt roads, meaning that physical infrastructure is an important determinant of rural nonfarm enterprise performance.

• In Nigeria, additional community infrastructure variables, such as access to telephones and distance to market, become important in determining nonfarm enterprise performance.

• In some regions, there is a negative relationship between rural nonfarm enterprise performance and agricultural participation, implying that enterprises in these areas are not clustered to take advantage of active farming activities, as is often assumed in other studies. (Further research is needed to establish if this is due to the type of rural nonfarm enterprise or to some other unexplained characteristic of rural nonfarm enterprises in Africa.)

• Investments in local infrastructure and business environments in rural areas will support the performance of nonfarm enterprises.

• Asset and knowledge accumulation of existing firms should be encouraged to the extent that existing firms appear to confer positive externalities on other firms in their neighborhoods or clusters—enhancing proximity is important in this regard.

• Policies to improve the skills and technology of potentially leading enterprises in the community may spill over to nearby enterprises.

• Entrepreneurial and management training positively influence enterprise performance.

Non-Farm Entrepreneurship in Rural Sub-Saharan Africa: New Empirical Evidence

Description/objective

This paper reports on the prevalence and patterns of nonfarm enterprises in six sub-Saharan African countries and studies their performance in terms of labor productivity, survival, and exit using the World Bank’s Living Standards Measurement Study—Integrated Surveys on Agriculture (LSMS-ISA).

Type

External scholarly paper

Authors/Global Practice

Paula Nagler and Wim Naude

Year

2016

Country/region

Ethiopia, Niger, Nigeria, Malawi, Tanzania, Uganda

Key findings

• Rural households operate enterprises due to both push and pull factors and tend to do so in easy-to-enter activities (sales and trade) rather than activities with higher starting costs (transport services) or that require an educational investment (professional services).

• Rural, female-headed enterprises, those located further away from population centers, and businesses that operate intermittently have lower levels of labor productivity than urban and male-owned enterprises or enterprises that operate throughout the year.

• Forty-two percent of rural households operate a nonfarm enterprise, contributing between 8 percent (Malawi) and 36 percent (Niger) to average household income.

• Most rural nonfarm enterprises are informal, operate seasonally, and create few jobs.

• Positive business opportunities, particularly for households living closer to denser markets, lead rural households to operate enterprises. The better educated and those who can obtain credit are more likely to start businesses, suggesting that access to human and physical capital matters.
Wealthier households and households headed by older, more educated men tend to be more engaged in non-farm enterprises.

Enterprises operated by necessity seem less productive than those operated because of an opportunity arising from market proximity. The latter tend to attain better capacity use by operating throughout the year, seek credit more often, and have better-educated owners.

Nonfarm enterprises in regions with a history of violent conflict are less productive.

Female-owned enterprises are less productive, although their productivity may be underestimated because of constraints on women’s time and imprecise productivity measures.

Policies should support enterprise owners through education and training, access to credit for business expansion, and possibly the development of clusters.

Microinsurance schemes and social protection policies are needed to protect households from negative external events—especially those with enterprises headed by younger owners.

Rural Non-Farm Employment and Household Welfare: Evidence from Malawi

Description/objective
This paper uses nationally representative panel data and a combination of econometric approaches to explore linkages between rural nonfarm activities (wage and self-employment) and household welfare in rural Malawi. Participation in nonfarm wage employment occurs when at least one member of the household holds or held a nonagricultural job involving a wage or salary contract in the 12-month period prior to the survey. For nonfarm self-employment, participation implies at least one member of the household has owned a business or worked on their own account during the 12-month period prior to the survey.
participation in nonfarm self-employment by an average of about 8 to 10 percentage points.

- Farm households involved in rural nonfarm enterprises appear more likely to invest in inputs purchases.
- Participation rates among the poor are significantly lower than among the non-poor. In 2013, 20 percent of the poor were engaged in self-employment activities compared with 30 percent of the non-poor. For wage employment, participation rates for the non-poor are more than double that of the poor. (Descriptive analyses indicate the existence of high and low return sectors of nonfarm activities and that the high return sectors are almost exclusively available to a handful of privileged people due to entry barriers that prevent marginalized groups—the poor and sometimes women—from accessing those opportunities.)
- The characteristics of rural nonfarm enterprises in Malawi are consistent with scant potential for job creation as they are mostly informal, have low productivity, and short life spans.
- Wealth of the household (captured by a normalized asset index) significantly increases participation in both nonfarm wage employment and self-employment. Assets such as tables, sewing machines, televisions, and bicycles, can be used to operate household enterprises, or commute to a nonfarm wage or business place, as examples, thereby increasing the likelihood of a household participating in nonfarm wage employment or self-employment.
- The proportion of other households owning a business in the same geographic area significantly and positively affects the likelihood that each household will participate in nonfarm self-employment and nonfarm wage employment.
- For nonfarm wage employment, the middle segments of the population benefit the most. For nonfarm self-employment, the upper segments benefit the most. However, in both cases, the poorest appear to benefit the least from participation.
- A household’s engagement in nonfarm wage employment reduces the likelihood of its consumption expenditure falling below the poverty line by 7 percentage points. Self-employment reduces poverty incidence by 8.5 percentage points. This is an important margin relative to the pooled sample poverty incidence of 37 percent.
- Participation in nonfarm wage employment reduces the likelihood that a household feels food insecure by 5 to 6 percentage points. For nonfarm self-employment, the effect is not statistically significant.
- Participation in nonfarm self-employment increases the likelihood (but not the intensity) of inputs use, especially inorganic fertilizer purchases, among rural households by 5 percentage points. We do not find a significant effect of wage employment on input purchases.
- Rural nonfarm enterprises have positive welfare effects on objective and subjective measures of household welfare. The magnitude of the welfare effects of self-employment is larger than from wage employment. This is likely through the provision of funds for investment in agricultural production—the mainstay of most rural households.

Non-Farm Diversification, Poverty, Economic Mobility and Income Inequality: A Case Study in Village India

Description/objective

This paper assembles data at the all-India level and for the village of Palanpur, Uttar Pradesh, to document the growing importance and influence of the nonfarm sector in the rural economy from the early 1980s to the late 2000s.
Type
World Bank research paper

Authors/Global Practice
Peter Lanjouw Himanshu, Rinku Murgai, and Nicholas Stern; Development Research Group, Poverty and Inequality Team

Year
2013

Country/region
India

Key findings
- While greater income mobility may be associated with some equalization of economic opportunities in the village, rising incomes from nonfarm sources have nonetheless been strongly associated with rising inequality.

E-Commerce Participation and Household Income Growth in Taobao Villages

Description/objective
This paper examines the role of e-commerce participation in household income growth, drawing from a representative survey of Taobao Villages in 2017.

Type
World Bank working paper

Authors/Global Practice
X. Luo and C. Niu; Poverty and Equity Global Practice

Year
2019

Country/region
China

Key findings
- E-commerce participation is not random: participation is higher among households with younger household heads, secondary education, technical and vocational education, urban work experience, and knowledge of e-commerce.
- E-commerce participation is associated with higher household income, with some indications that participation has a strong positive effect on household incomes.
- E-commerce appears to yield benefits that are broadly shared among participants in an equitable way in Taobao Villages.
- Development of Taobao Villages shows a trend of clustering. New Taobao Villages tend to emerge next to existing Taobao Villages.
- Taobao Villages on the coast developed spontaneously, often led by a couple of first-mover return migrants. Nearby villages then followed.
- Government support, often through subsidized service provision by experienced e-commerce service firms, has become a major force for the incubation of inland Taobao Villages.
- Education of the household head is positively related to e-commerce participation, but the positive and statistically significant marginal effects of education peak at technical school and then level off. Thus, e-commerce participation requires a prerequisite level of education to get started, and technical school seems a better fit for this requirement than general education.
- E-commerce is not attractive to graduates with university degrees because these graduates tend to have higher opportunity costs to participate in e-commerce.
- Household heads who are less risk-averse are more likely to participate in e-commerce, which is still relatively new to the rural areas and inherently more risky than traditional farming.
• Age, gender, marital status, ownership of agricultural land, and the health of the head of household are not significant predictors of e-commerce participation.

• Households with more family members are more likely to participate in e-commerce, probably because they enjoy economies of scale and division of labor as well as risk diversification.

• Household age composition matters for e-commerce participation. The larger the share of members ages 15 to 35, the more likely the participation. This indicates that it is easier for younger people to participate in e-commerce.

• Land does not have a significant effect on e-commerce participation. This might be because land is not direct capital or a necessary condition in an e-commerce operation. Households with more land might be in a stronger financial position to participate in e-commerce, but people without land might have lower opportunity costs to participating in e-commerce.

• People living in villages that are farther away from a train station are more likely to participate in e-commerce. As distance to train stations serves as a proxy for access to markets, the farther away people are to train stations, the higher their costs of accessing traditional markets. This indicates that e-commerce reduces transaction costs by connecting sellers and buyers online and becomes a substitute for traditional markets.

• People who live in villages that are in the suburbs of a big city are less likely to participate in e-commerce, either because they are closer to traditional markets or because it is easier for them to engage in urban labor activities.

• Village population, which usually signifies local market potential, is not associated with e-commerce participation. E-commerce helps to connect e-tailers to consumers online, which attenuates the role of local demand.

• While the wealthy gain more from participation in e-commerce in absolute terms, the less wealthy experience higher income growth in relative terms.

• While younger individuals with technical training, knowledge of e-commerce, and migrant experience are likely to have higher income increase in absolute terms through e-commerce, those older, with less education, knowledge, or migrant experience have the potential to benefit more in relative terms.

• Developing e-commerce requires infrastructure, logistics, skills, entrepreneurship, and a conducive business environment. In Taobao Villages, investments in technical and vocational training, as well as tailored technical training on e-commerce seem to help improve e-commerce participation and realize gains.

Does the nonfarm economy offer pathways for upward mobility? Evidence from a panel data study in Ethiopia

Description/objective
This paper uses data from the Ethiopian Rural Household Survey from 1994 to 2004 in 15 villages to investigate the impact of rural farm households’ diversification into nonfarm employment on their consumption expenditure dynamics, sources of consumption growth for nonfarm participants, and whether nonfarm employment is pro-poor by estimating its impact on expenditure growth separately for the poor and the rich.
There is a positive relationship between the share of non-farm income and household expenditure growth. This holds for all income tertiles, but the top income tertile benefits more from rural nonfarm enterprise participation. Wealthier households participate in higher-return, skilled rural nonfarm enterprise activities.

Higher growth elasticity among wealthy households suggests that rural nonfarm enterprises may aggravate rural income inequality as participants earn higher returns and enjoy faster income growth with greater gains enjoyed by the initially better off.

Faster growth among nonfarm participants results from higher returns to their endowments, especially to physical assets, seniority, and female labor.

Households at the top tertile of the distribution earn 75 percent more per capita than those at the bottom. However, unlike many other African countries, the share of income from nonfarm employment is higher in the lower income tertile (33 percent of consumption expenditure) than for the top income tertile (10 percent).

The driving force behind livelihood diversification for poorer rural households in Ethiopia seems to be desperation rather than profit seeking in response to lucrative opportunities.

Employment Dynamics in the Rural Nonfarm Sector in Ethiopia: Do the Poor Have Time on Their Side?

This paper analyzes rural households’ engagement in nonfarm employment over time using the Ethiopian Rural Household Survey (ERHS) data from 1999 and 2004. It assesses whether poor households are able to access high-return employment over time through the accumulation of capital. The article also examines how high-return rural nonfarm enterprises are affected by different types of shocks.
• Shocks that affect liquidity are more important than shocks that affect labor. Pests or diseases that affect crop and livestock holdings are more likely to trigger movement from high-return rural nonfarm enterprises into low-return ones as they may result in loss of wealth and revenue as well as an increase of cash expenditures, which intensifies liquidity constraints.

• Health-related shocks do not trigger a transition out of high-return rural nonfarm enterprises. On the contrary, the illness of the head of household or spouse decreases the likelihood that they will transition out of such an enterprise.

• For nonfarm employment to serve as a way out of poverty, the poor need instruments to gradually accumulate assets and access high-return activities. Local savings and credit associations in rural Ethiopia seem to play an important positive role.

Income Diversification Patterns in Rural Sub-Saharan Africa: Reassessing the Evidence

Description/objective
This paper uses comparable income aggregates from 41 national household surveys from 22 countries to explore the extent of income diversification among rural households in Sub-Saharan Africa and to look at how income diversification in Sub-Saharan Africa compares with other regions, accounting for differences in development levels.

Type
World Bank policy research working paper

Authors/Global Practice
Benjamin Davis, Stefania Di Giuseppe, and Alberto Zezza; Africa Region Office of the Chief Economist and Development Research Group, Poverty and Inequality Team

Key findings
• In terms of welfare, specialization in nonagricultural income-generating activities stochastically dominates farm-based strategies in all the countries in our African sample.

• When urban integration is low and agricultural conditions more difficult, the preference toward rural nonfarm enterprises is mixed, with households more likely to engage more fully in nonfarm activities in Niger and Malawi but less likely to do so in Uganda and Tanzania.

• While African households are still more likely to specialize in farming compared with households in other regions, once the gross domestic product level is controlled for, the shares of income and participation in nonagricultural activities are not very different from those found elsewhere.

• While the nature of the diversification response will vary from household to household, in each country, African and non-African, greater reliance on nonfarm sources of income is associated with greater wealth.

• Income from crop and livestock activities, as well as from agricultural wage labor, represents a higher share of total income for poorer households in almost all countries.

• The links between certain assets and activities imply that due consideration should be given to those assets or combination of assets that will ensure broad growth in the rural economy. This complexity means that a particular policy is unlikely to fit different situations across countries or even within regions of a given country, and that location-specific policies are needed.
Non-farm Work and Food Security Among Farm Households in Northern Ghana

**Description/objective**
This paper examines the impact of nonfarm work on household income and food security among farm households in the Northern Region of Ghana. We analyze the impact by employing a propensity score matching method that accounts for the self-selection bias.

**Type**
External scholarly paper

**Authors/Global Practice**
Victor Owusu, Awudu Abdulai, and Seini Abdul-Rahman

**Year**
2011

**Country/region**
Ghana

**Key findings**
- Participation in nonfarm work exerts a positive and statistically significant effect on household income and food security status. Income from nonfarm work is crucial to food security and poverty alleviation in rural areas of developing countries.
- While participation rates of females were higher than males, male participation contributed to higher household incomes and better food security status compared with their female counterparts. This is possibly due to the barriers to women’s entry into higher-return rural nonfarm enterprise activities.
- Women appear to be limited to the low-wage activities in the nonfarm sector, resulting in lower earnings with lesser impacts on improving food security.
- Policies should focus on lowering barriers to entry for women. Food safety net policies should pay more attention to the factors that allow for the increased participation of women in higher-earning activities, because they could then build on existing patterns for addressing food security.
- Promising policy measures that can help boost nonfarm work availability include increasing the access of rural households to assets such as financial capital and non-price factors such as education and infrastructure.

Gender and Rural Non-Farm Entrepreneurship

**Description/objective**
Using matched household-enterprise-community datasets from Bangladesh, Ethiopia, Indonesia, and Sri Lanka, this paper analyzes gender differences in rural nonfarm entrepreneurship.

**Type**
World Bank scholarly paper published in *World Development*

**Authors/Global Practice**
Bob Rijkersand and Rita Costa

**Year**
2012

**Country/region**
Bangladesh, Ethiopia, Indonesia, Sri Lanka

**Key findings**
- In Bangladesh, Indonesia, and Sri Lanka, women are less likely to be nonfarm entrepreneurs than men.
- Women’s nonfarm entrepreneurship is not strongly correlated with household composition or with educational attainment.
- In Bangladesh, Ethiopia, and Sri Lanka, female-owned firms are smaller and less productive.
• Differences in output per worker between men and women are overwhelmingly accounted for through sorting by sector and size. They are not due to differences in capital intensity, increasing returns to scale, human capital, or local investment climate characteristics.
• Working on the family farm and wage work, as well as wage work and working for a nonfarm enterprise are substitute activities, while the decisions to work for a family farm and to work in a nonfarm firm are less strongly interdependent, perhaps because they are easier to combine.
• Nonfarm self-employment appears especially important for women heads of household as they are significantly more likely to work in a nonfarm enterprise than other women in all countries.
• The share of children in the household is not significantly negatively correlated with women’s engagement in nonfarm enterprise activity in any country. By contrast, the share of children in the household is significantly negatively correlated with women’s engagement in wage employment in Bangladesh and Indonesia and with women’s engagement in agricultural activities in Ethiopia.
• Household size is not negatively correlated with women’s participation in nonfarm enterprise activity except in Ethiopia. This contradicts the idea that women’s entrepreneurship is constrained by domestic responsibilities. It seems that running a nonfarm enterprise, often household-based, is more conducive to combining domestic duties and being economically active, than is wage work.
• The conditional association between nonfarm entrepreneurship and schooling is weak; especially for women. Education is strongly correlated both with the propensity to be wage employed and with the likelihood of working on a family farm.
• Age-participation profiles in nonfarm enterprise activity are concave for women and insignificant for men, for whom the implied coefficient estimates in Bangladesh even suggest convex age-participation profiles.
• Female-owned firms have significantly lower sales on average than male-owned firms in all surveyed countries. This is partly because they are significantly smaller.
• Sector sorting patterns by gender are very pronounced but vary by country. In Bangladesh, 95 percent of all female-owned firms are engaged in manufacturing, and almost none are trading firms, while 49 percent of all male-owned firms are engaged in trade and only 28 percent are engaged in manufacturing. In Ethiopia, women (75 percent of rural nonfarm enterprises) are overrepresented relative to men (46 percent) in manufacturing, which accounts for the bulk of nonfarm activity. A rural nonfarm enterprise was defined as any income-generating activity (trade, production, or service) not related to the primary production of crops, livestock, or fisheries undertaken either within the household or in any nonhousing units. Any value addition to primary production (i.e., processing) was considered to be a rural nonfarm activity.
• The low productivity of female-run firms in Ethiopia may be partly driven by sorting into different activities, which our crude sector controls do not capture. They may also reflect gender differences in hours worked, as we only observe differences in labor days in Ethiopia. If women combine working in a nonfarm firm with household chores, they may work fewer hours on any given day.
• There is little evidence of gender differences in the returns to human capital, the direct impact of the investment climate on firm performance, or productivity due to firm age and electrification.
Gender and Occupational Choices in Africa: The Role of Time Poverty and Associated Risks

**Description/objective**
The paper proposes a theoretical model that shows women’s choices may be critically constrained by the rigidities governing their time use. These are partly governed by social norms that regard certain tasks as being purely female.

**Type**
External scholarly paper

**Authors/Global Practice**
Renata Serra

**Year**
2009

**Country/region**
World

**Key findings**
- Policies that provide high return work opportunities for women but are oblivious to their overall time constraints may actually deteriorate women’s living conditions.
- There is a need to make household production more visible when addressing the question of increased rural incomes or economic diversification.
- The unequal degree of responsibilities in the household and the genders’ consequent different time constraints drive differential business outcomes between genders.
- Even when barriers that prevent women from entering more profitable off-farm employment are addressed through, for example, microcredit, women may be unable to take advantage of such opportunities if risk considerations and time poverty constraints are strong.
- Risk induces women to enter off-farm activities for pure diversification reasons even when returns are low.
- Inequality among men can be explained by inequality in assets, while inequality among women is more complex and depends on the interplay between asset ownership and the degree to which women are able to negotiate norms governing household production. A shift of responsibilities in household production to other family members, including men, could improve women’s well-being and overall household income.

Destination or Distraction? Querying the Linkage Between Off-Farm Work and Food Crop Investments in Kenya

**Description/objective**
This paper explores the robustness of the relationship between off-farm work and farm input use in Sub-Saharan Africa by applying a range of econometric models to panel data collected in Kenya.

**Type**
External scholarly paper

**Authors/Global Practice**
Melinda Smale, Yoko Kusunose, Mary K. Mathenge, and Didier Alia

**Year**
2016

**Country/region**
Kenya

**Key findings**
- We find a strong, negative linkage between nonfarm work and rates of fertilizer use in maize production, indicating trade-offs in labor allocation and farm investments.
- In the case of nonfarm earnings, the response of fertilizer to additional income is negative at lower income levels but positive at higher levels.
Determinants of Livelihood Diversification Strategies in Eastern Tigray Region of Ethiopia

Description/objective
The objectives of this study were to: (1) identify choices of household livelihood diversification options; and (2) analyze the determinants of livelihood diversification strategies among rural households.

Type
External scholarly paper

Authors/Global Practice
Gebrehiwot Weldegebrial Gebru, Hyacinth EmentaIchoku, and Philip Ogbonnia PhilEze

Year
2018

Country/region
Ethiopia (Saesietsaeda Emba district, Eastern Zone of Tigray)

Key findings
- Households’ likelihood of diversifying into off-farm and/or nonfarm activities were positively affected by the head of household’s level of education in years, access to credit, annual income, membership in cooperatives, land size owned by the household, and access to farm inputs.
- Households’ likelihood of diversifying into off-farm and/or nonfarm activities were negatively affected by the household head’s age, dependency ratio, family size of the household, the head’s access to extension services, distance to market, quantity of livestock owned, and agro-ecology. Large household size does not mean that all the household members are productive. Some household members are physically disabled and mentally disordered due to the past war between the current government of Ethiopia and the military regime of Derg, the Ethiopian–Eritrean war (1998–2002), and other diseases in the study area.

Policy recommendations include:
- The government should support nonfarm livelihood diversification strategies as part of the national job creation objectives instead of solely supporting the inadequate and drought-prone farm income.
- Investing in quality education and increasing access to higher education will help the rural households’ probability of participation in off-farm and nonfarm livelihood diversification activities.
- Farmers should be provided with low-interest credit and entrepreneurship skills training to facilitate engagement in nonfarm activities.
- Intensive work on irrigation and making it accessible to smallholder farmers are of paramount importance to improving incomes and stabilizing livelihoods as a response to drought.
- Expansion of rural–urban roads is vital to link and strengthen the socioeconomic liaison and to foster development between rural and urban populations.
1. Afar Region

*Main economic activities*

The local development priorities in Afar reflect its major economic sectors: (1) livestock and other farming (there is a high prevalence of pastoralist communities); (2) mineral and natural resources (there are extensive salt, gold, and potassium resources); and (3) tourism. Afar is also an important trade corridor connecting Ethiopia to the port of Djibouti, and the current road construction toward Assab and Djibouti could potentially improve local economic development (LED).

**TARGET SECTORS IN AFAR**

<table>
<thead>
<tr>
<th>Urban</th>
<th>Rural</th>
</tr>
</thead>
<tbody>
<tr>
<td>Waste management and recycling</td>
<td>Milk processing</td>
</tr>
<tr>
<td>Cheap material production for construction</td>
<td>Salt production and processing</td>
</tr>
<tr>
<td>Tourism</td>
<td>Apiculture (beekeeping)</td>
</tr>
</tbody>
</table>

**ASAYITA WOREDA**

*Main economic activities*

Like the entire region, there is a high prevalence of pastoralist communities, with the main economic activities of agriculture (crop production and livestock) and trade. The livelihoods related to livestock include selling the animals and their milk, meat, and butter. In urban areas, service, construction, and handcrafting activities are more prevalent. Asayita’s economy has changed significantly in recent years, with various associations establishing economic activities, such as gas stations, packaged water distribution, cattle and goat fattening, and increased construction activities that are providing work for the town’s job seekers. CIGs in rural and urban areas are involved in various economic activities. The focus is on market-oriented animal fattening in rural areas and small retail trading, restaurants, and hairdressing in urban areas.

*Local actors*

Nongovernmental organizations (NGOs) that are active in the woreda include DanChurchAid, Development Expertise Centre, CARE, Save the Children, and KfW Development Bank. Relevant government stakeholders include the Technical Vocational Enterprises Development Office, the Animal and Agricultural Resource Office, and the Cooperatives’ Desk.

*Opportunities and recommendations*

- **Strengthen value chains and business environment.** Value chains should be bolstered, and an enabling business environment should be fostered to encourage the growth of CIGs. Potential approaches include creating CIG unions of small trade businesses to provide a
joint supply of commodities and developing partnerships with wholesalers. CIGs involved in fattening are doing well, but they are confronted with poor value chain conditions and access to the market. Value chains should be incorporated in wider markets by integrating CIGs involved in livestock fattening in trade routes from Chifra to Djibouti and by exploiting Afar’s advantage as a trade route to Djibouti.

- **Expand financial services.** Existing banks and microfinance are unable to meet the needs individuals and small businesses struggling to meet collateral and economic asset requirements in pastoralist communities dependent on livestock for their livelihoods. Financial services are needed that consider community capacities, which would enable CIGs and entrepreneurs to accumulate assets.

- **Foster economic opportunities.** Many respondents asserted that there are a variety of sectors and economic activities that could be promoted to generate community jobs and livelihoods in the woreda that are being overlooked. Sectors with development potential include high-quality hospitality, youth recreation centers, bookstores, libraries, veterinary medicine, and—given the importance of livestock to the area—leather and dairy production.

- **Promote sustainable environmental management.** Given the increasingly devastating impacts of climate change in the woreda, LED should prioritize the reduction of environmental vulnerabilities and the promotion of sustainable economic development.

### BERHALE WOREDA

**Main economic activities**

- The main economic activities in Berhale are agriculture, livestock farming; salt, gold, sulfur, and magnesium mining; and services. The woreda is also known for its honey production, some of which is exported to Saudi Arabia and Djibouti. Salt extraction has been an essential economic sector and natural resource; and the salt association is a vital local actor. Other than the salt business, other successful value chains are almost nonexistent, and most commodities (e.g., clothing, coffee, and grains) are imported from abroad or from other regions in Ethiopia. Economic activities and employment opportunities in the hospitality, metalworking, and construction industries has increased in recent years; and access to social services such as education and health have improved in the woreda.

**Local actors**

NGOs include the Food and Agriculture Organization of the United Nations, DanChurchAid, Swiss Church, COOPI, Save the Children, and Goal Ethiopia. The Regional Development and Protection Programme was implemented for three years, and respondents highlighted the project as a successful example of integrating refugee and host communities.\(^7\) Financial service providers in the woreda are Lion International Bank and the Commercial Bank of Ethiopia.

### Opportunities and recommendations

- **Cope with the conflict in Tigray.** DRDIP staff shared concerns that they will not be able to conduct the planned work with this year’s allocated budget. Therefore, DRDIP beneficiaries in Berhale need additional financial support to cope with the economic impacts of the conflict in Tigray, and planned activities should be adapted to the high inflation and increasing commodity prices.

- **Foster systematic market coordination.** DRDIP should create synergies and linkages through effective public-private dialogues with government and nongovernmental actors, enterprises, and associations playing a

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significant role in Berhale to more systematically address market challenges. To illustrate, Mekane Eyesus operates a nonfarm livelihood project similar to DRDIP in the refugee camp in Berhale that is focused on youth, women, the displaced, the elderly, and unaccompanied minors. A Mekane Eyesus staff member complained of challenges similar to those faced by CIGs, including a lack of market ties among the enterprises receiving their support, which discourages people from engaging in nonfarm livelihoods.

- **Promote promising economic sectors.** Promising sectors that should be introduced or strengthened include block and cement factories for construction, gas stations, and tourism. Tourism is an underdeveloped sector that lacks an adequate hospitality infrastructure despite the many tourist sites located in the woreda. Supporting the development of the tourism industry with DRDIP activities could generate multiplying employment opportunities and contribute to LED.

- **Encourage the extraction of natural resources.** Berhale is rich in resources that, except for salt, have not been appropriately exploited because resource extraction requires technology and expertise that the woreda currently lacks. DRDIP should support the provision of modern technology for the extraction and procession of gold and other resources, which is currently only being done by individual miners who lack adequate tools.

### 2. Benishangul-Gumuz Region

#### Main economic activities
Agriculture remains the most dominant sector in the region. Most of the residents in Benishangul-Gumuz reside in rural areas with significant infrastructure gaps. As a result, the main forms of livelihood are farm activities, including the farming of cash crops such as soybeans, animal rearing, and apiculture (beekeeping). The second most important sector in the region is mining. In recent years, great efforts have been made to attract foreign firms and investments in gold and coal mining because the sector is currently dominated by dangerous and inefficient traditional methods. Nonfarm economic activities are largely based on the service sector. Manufacturing, such as woodworking, metalworking, and agro-processing, are burgeoning sectors, but most nonfarm activities comprise trade, transportation, restaurants, cafes, hotels, and salons—activities that are concentrated in urban areas.

#### TARGET SECTORS IN BENISHANGUL-GUMUZ

<table>
<thead>
<tr>
<th>Urban</th>
<th>Rural</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agro-processing of fruits</td>
<td>Apiculture (beekeeping)</td>
</tr>
<tr>
<td>Bamboo processing</td>
<td>Gold mining</td>
</tr>
<tr>
<td>Information and communication technology centers</td>
<td>Soybean production</td>
</tr>
</tbody>
</table>

#### BAMBASI WOREDA

**Influence of the refugee presence on the economy**
Agriculture is the dominant sector in Bambasi woreda, followed by traditional mining. There are very few opportunities for nonfarm livelihoods, but the most common nonfarm enterprises involve hotels, small retail shops, cafeterias, bakeries, and grinding mills. Bambasi’s economy is also influenced by the presences of refugees. On one hand, this offers opportunities for nonfarm livelihoods through employment with NGOs and international organizations and improved access to basic services and infrastructure, such as schools and hospitals. On the other hand, the presence of refugees has increased pressure on resources and conflict over farming land.
Opportunities and recommendations

- **Improve the agro-processing sector.** Agriculture is the main economic sector in the woreda. DRDIP should focus on supporting agro-processing businesses by leveraging agriculture to bring about a structural transformation in Bambasi. Specifically, through DRDIP, the World Bank should focus on the processing of mangoes and avocado products, which can be exported and thereby improve livelihood opportunities in the woreda. Because mangoes and avocados grow well in this woreda, there is a strong foundation of local expertise that could be scaled up with the proper training and capital investment.

- **Improve entrepreneurial skills.** DRDIP should make a greater effort to improve the entrepreneurial skills of youth and women in Bambasi. Trainings, awareness-raising campaigns, and capacity-building programs should be scaled and accompanied by counseling services. Moreover, DRDIP should scale up market research and business mapping so young people can better understand the local market and develop ideas for high-growth sectors.

- **Develop a better business environment.** Tackling business bottlenecks should be the focus of local government and World Bank cooperation through DRDIP. For example, participants cited poor market information and the rising costs of inputs due to infrastructure gaps as obstacles to business development. Through DRDIP, a greater effort should be made to improve electricity and water supplies, which would enable both the lowering of the costs for businesses and the introduction of certain technologies to enhance access to market information.

- **Increase support to unions and multipurpose cooperatives.** Such organizations are vital because they have the capacity to improve market prices by directly buying from farmers, bypassing brokers in the process. They also support increased market access for farmers. Through DRDIP, The World Bank could work with the unions and cooperatives as key partners in agro-processing development in the area, leveraging their close links with farmers. These organizations could mobilize farmers to attend trainings, develop methods of collective investments among members, and deliver processed goods to market.

**HOMOSHA WOREDA**

*Main economic activities*

Agriculture is the primary economic sector in Homosha, including crop and cereal production, animal rearing, dairy farming, and apiculture (beekeeping). Bamboo farming is a very profitable sector in the woreda, including complementary nonfarm livelihoods, such as construction, that utilize bamboo. Homosha’s second-largest sector is mining, particularly gold, coal, sand, and stone. Nonfarm livelihoods are restricted to services, such as small retail shops, restaurants, and cafes. Technology is centered around agriculture.

*Opportunities and recommendations*

- **Increase community engagement.** Most residents in Homosha are engaged in smallholder farming and tend to be highly risk adverse. A low level of awareness on the benefits of nonfarm enterprises and a low level of capacity to start nonfarm enterprises results in fewer residents willing to make the switch or to diversify their sources of income through nonfarm activities. Through DRDIP, the World Bank should scale up community engagement to raise awareness on the benefits of nonfarm economic activities and provide the skills and tools needed for the residents of Homosha to increase their engagement in nonfarm enterprises. One method for increasing community outreach and the participation of target groups in nonfarm economic activity is to partner with youth associations to organize trainings, savings initiatives, and coaching sessions.
• **Strengthen the agro-processing sector.** Homosha has a comparative advantage in the production of fruit and a strong supply chain for bringing these products to Ethiopia’s central markets. In highlighting this, most participants noted the significant potential of agro-processing. DRDIP should prioritize this type of nonfarm enterprise because agro-processing requires significant capital and capacity. DRDIP could coordinate with farmers unions, providing training and funding to leverage existing networks. Moreover, to bolster the agro-processing sector, the World Bank could take advantage of Homosha’s moderate level of infrastructure, although heavy investments in technology and storage facilities are needed.

• **Improve financial services.** There are no banks in Homosha. Moreover, there is a lack of lending institutions available that correspond with the community’s Islamic religious beliefs. Finance remains one of the greatest challenges pertaining to the development of nonfarm livelihoods. The World Bank therefore needs to work closely with local government bodies, NGOs, and farmer unions to explore creative funding sources in line with the religious beliefs of the community.

• **Encourage trade.** The World Bank could facilitate dialogue between the local administration and unions, eliminating the middleman and brokers who interfere with the supply chain, and provide capacity training to local administrative bodies in charge of trade to ease and digitize the business registration process. DRDIP could work with the local administration of Sherkole and Kumuk woredas to formalize and enhance cross-border trade with Sudan.

• **Enhance productivity of CIGs.** Participants claimed that CIGs were the most beneficial interventions to improve nonfarm livelihoods in the woreda. However, they also highlighted the inefficiencies of certain CIGs, whereby members lose interest and lack motivation, resulting in less frequent meetings and less savings. One way to combat lethargy in CIGs would be to implement more frequent evaluations and to discontinue support to CIGs whose members have lost their motivation.

• **Capitalize on infrastructure.** Homosha has relatively good infrastructure compared with other woredas due to its proximity to Assosa and thereby to NGOs and other development actors. Its electricity is therefore more stable and its roads leading to a large commercial market in Assosa in good condition. DRDIP could capitalize on these strengths and use Homosha as an area to pilot new interventions, such as support for digital enterprises.

**MAO-KOMO WOREDA**

*Main economic activities*

The main economic activity in Mao-Komo is agriculture, including cash-crop farming and animal rearing (livestock and poultry). Apiculture is also widely practiced in this woreda, whose environmental conditions are ideal for keeping bees. Common nonfarm livelihoods include grinding mills; grain trading; handcrafting; metalworking; woodworking; and petty trades such as small retail shops, restaurants, and cafés. While there is an interest in transitioning to nonfarm livelihoods, lack of access to finance presents a major barrier because most households lack sufficient savings to invest in the required inputs for starting a business.

*Key actors*

Because agriculture is the main economic sector in this woreda, there are a host of related key actors, including farmers unions, multipurpose cooperatives, and CIGs. NGOs and international organizations that improve infrastructure have been cited as key actors for LED. Moreover, government offices, such as the Women and Youth Affairs Administration and the Saving and Agricultural Bureau,
have a strong presence in the community. Other important promoters of LED that were cited by participants include the government of Finland, Christian Aid, Farm Africa, GIZ, CSSP (a civil society support program), Bread for Africa, and Green Love Appreciation Development.

Opportunities and recommendations

- **Strengthen village savings and loan associations.** In the absence of banks and lending institutions in Mao-Komo, village saving loan associations are trying to fill the gap. They have two components: one social and one business. The social component promotes discussions with association members to discuss their problems and identify solutions; the business component creates businesses by using village savings and loan associations and is focused on nonfarm livelihoods. Green Love Appreciation Development has been effectively supporting the associations at the local level, and opportunities exist for the World Bank to partner with the organization to develop innovative ways of increasing access to finance in the woreda.

- **Facilitate access to finance and zero interest loans.** Residents of Mao-Komo need a lending institution in their woreda to eliminate the cost of traveling to larger and more commercial towns like Assosa to access finance. Moreover, lending institutions that would thrive in this woreda are ones that provide low to zero interest loans that are compatible with local religious beliefs. Improving access to finance not only has a positive effect on businesses but also positively influences changing gender roles. The World Bank can work with private sector and government actors through DRDIP to facilitate easier access to finance for nonfarm businesses. This could take the form of in-kind assistance through the procurement of certain inputs in lieu of contemporary lending practices in the form of loans.

- **Improve access to renewable technology.** Most of the residents in Mao-Komo do not have access to constant electricity. The World Bank could develop aspects of DRDIP to provide clean and cost-saving technologies such as clean cooking stoves and mini solar-powered grids. This could allow residents to save money, which in turn could increase their savings and allow them to make greater investments in nonfarm opportunities. Moreover, providing residents with such technologies is a cost-effective way to ensure progress toward overall development goals while more sustainable infrastructure interventions are underway.

- **Scale-up apiculture sector.** The World Bank’s DRDIP team could utilize the comparative advantage of the apiculture sector in Mao-Komo and undertake initiatives to scale up the sector by developing the means of processing and exporting honey and by developing training on sustainable apiculture methods in line with the region’s environmental management objectives.

- **Support training and capacity building for women.** Participants noted the success of DRDIP activities in improving the economic participation of women. However, participants—particularly women—noted the need for continuous training and capacity building to effectively change the lingering stereotypes that constrain the economic participation of women. Trainings and capacity-building efforts should be undertaken over a considerable length of time. Moreover, under DRDIP, the World Bank could develop training and capacity building for representatives in charge of education to increase the participation of young girls in school and adapt the curriculum to help young girls bolster their entrepreneurial skills.
3. Gambella Region

Main economic activities
Agriculture remains the most dominant sector in Gambella. The region contains expansive fertile land that attracts large-scale agricultural projects. The region’s rivers—Baro, Gilo, and Akobo—make fishing the second-most dominant activity, but the sector remains underdeveloped, and most engage in traditional fishing practices. Nonfarm livelihoods consist of grinding mills, restaurants, cafes, salons, transportation, and, in large urban centers such as Gambella town, banks. The manufacturing industry is underdeveloped, and substantial opportunities like leather production are underutilized.

Regional and cross-border trade
Regional, interregional, and cross-border trade remain nascent in the region, and there is scant evidence of initiatives to boost it. Private sector actors lament the poor state of infrastructure and market access for both nonfarm and farm enterprises. The resulting unstable and insufficient supply leaves enterprises unable to meet demand or to plan, hampering their ability to get their goods to market, especially perishables. Cross-border movement is an integral part of life in the region, but while cross-border trade offers multiple benefits, it remains underdeveloped in the region and receives little support from governments, NGOs, or the private sector.

TARGET SECTORS IN GAMBELLA

<table>
<thead>
<tr>
<th>Urban</th>
<th>Rural</th>
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<tbody>
<tr>
<td>Leather processing</td>
<td>Fish processing</td>
</tr>
<tr>
<td>Briquette production</td>
<td>Milk processing</td>
</tr>
<tr>
<td>Information and communication technology centers</td>
<td>Gold mining</td>
</tr>
</tbody>
</table>

ABOL WOREDA

Main economic activities
Agriculture remains the main economic sector in Abol. However, unlike other woredas, fishing is the main agricultural activity due to its proximity to the Baro River. As a result, the fishing sector has received support from international organizations such as the United Nations Development Programme (UNDP). As in other Gambella woredas, nonfarm activities are concentrated in urban areas and are mainly related to the service sector, such as small restaurants and cafes, salons, and retail shops. Agro-processing of fish products remains nascent to nonexistent.

Opportunities and recommendations

- **Exploit untapped business opportunities.** Most participants noted the need for the development of the retail sector. Some highlighted the need for a supermarket that could supply a wide range of goods. Other participants stressed the need for stores that could provide digital services or supply electronic goods.

- **Improve government support to small and medium-sized enterprises (SMEs).** Participants highlighted the need for greater support by government bodies to SMEs. Currently, international organizations provide most of the support to SMEs, possibly due to the limited financial capacity of the local administration or the lack of capacity to adequately support them. There is an opportunity for the World Bank, through DRDIP, to build greater synergies with local development actors to ensure that support to SMEs is scaled up and continues after DRDIP activities conclude.

- **Diversify nonfarm livelihoods.** While there are nonfarm enterprises in mostly the urban areas of Abol, they are mostly related to the service sector. There is a need for greater diversification of nonfarm livelihoods to include elements of manufacturing. The processing
and packaging of fish products offers a valuable opportunity to take advantage of vast fish reserves and local expert knowledge to scale up a sector that could provide employment opportunities and kick off a process of structural transformation in the area. The World Bank could build upon UNDP’s work in supporting fish value chains and focus on supporting infrastructure for the processing of fish.

- **Resolve critical infrastructure gaps.** To support sectors with high potential, such as agro-processing, critical infrastructure gaps need to be filled. Participants highlighted the need for more feeder roads across Abol to facilitate increased trade between rural villages and urban centers. Another critical infrastructure gap is the absence of a marketplace. Participants lament the inability to adequately sell their products. The World Bank could include a marketplace in the infrastructure interventions to be implemented in the region.

- **Improve training and capacity building on non-farm enterprises for women and youth.** Both women and youth noted that there were scant opportunities to access information or gain critical skills to engage in nonfarm enterprises. Women are particularly vulnerable to such lack of information channels due to cultural norms that affect their level of education, mobility, and social networks. Therefore, through DRDIP, the World Bank should target training and capacity for education stakeholders in Abol to increase school enrollment among young girls and scale up training on nonfarm enterprises both in terms of duration and target groups reached.

**DIMMA WOREDA**

*Main economic activities*

Mining is the most important economic sector in Dimma, not necessarily in terms of workers employed, but because it has the potential to attract large investments from foreign firms and governments. However, despite some foreign firms operating in the mining sector in the woreda, participants lament low levels of investment by firms in the local community. Further, there have been no local government interventions to ensure greater levels of employment and investment. Dimma, like Mare and Lare, are towns that had been doing well economically due to their proximity to the South Sudan border, which allowed them to benefit from cross-border trade. However, the civil war in South Sudan has weakened trade along these border towns, and COVID-19 has exacerbated movement restrictions, thereby significantly lowering trade even further.

**Opportunities and recommendations**

- **Guide diaspora engagement away from land ownership.** Through the LED platform, the World Bank and its partners could work with the local government to encourage the Ethiopian diaspora to invest in areas other than land ownership, which could boost nonfarm livelihoods by enhancing human capacities, building critical infrastructure such as for green energy, and improving technological take-up.

- **Facilitate forums between government and business.** Participants have cited a disconnect between business enterprises and the local government. The World Bank could facilitate regular forums between both groups to address the needs of businesses.

- **Build local government capacity.** Creating a forum for dialogue between business and government will not be effective if local government bodies are unable to carry out the action points agreed upon during such meetings. The World Bank, through DRDIP, could increase capacity building for government actors, which could also ensure an effective government takeover of DRDIP activities over the long term.
• **Improve infrastructure.** Participants stressed the need to improve infrastructure, not only in Dimma town through improved access to electricity and water but also the roads that connect Dimma to Gambella and other large commercial towns.

• **Remove excessive requirements to access loans.** The requirements to access a loan in Dimma effectively bar SMEs from participating, which deprives them of crucial funds to cope with the decrease in cross-border trade. Moreover, it inhibits SMEs from innovating. The World Bank could advocate for the reform of lending policies to SMEs to remove current bottlenecks.

• **Improve selection process and overall performance of CIGs.** Feedback from participants stressed the fact that, in some cases, the selection processes for CIG members was subject to nepotism by members of the local administration who attempt to have their relatives involved regardless of their merit. Furthermore, to improve CIG performance, the number of members should be reduced. Participants suggested that 15 members was too large of a group to successfully coordinate. Moreover, CIGs should receive follow-up trainings and evaluations to ensure that viable CIGs are not discontinued. Lastly, the financial support given to CIGs should be increased from 150,000 birr to 200,000 to account for the toll inflicted on the economy by COVID-19.

**Opportunities and recommendations**

• **Invest in promising sectors.** Untapped nonfarm business opportunities include the trading of cattle skin and the development of leather products. Moreover, participants highlighted recreational centers as a promising business endeavor but did not frequently mention successful youth associations, except the Neem Tree Association, which opened a recreational center.

• **Improve urban planning.** Participants highlighted the need for better urban planning to facilitate the development of nonfarm enterprises. Businesses cited the lack of a marketplace as an indication of the needs of businesses to be included in the structure of urban areas. The World Bank should consider the development of marketplaces and business hubs under DRDIP activities.

• **Increase support to the agro-processing sector.** Agriculture remains the dominant sector in Gog, and therefore greater support should be given to agro-processing businesses to leverage existing value chains. Participants highlighted the need to boost the milk processing industry and to support firms that can package and transport fish to other regions. Both sectors should be the focus of DRDIP interventions to boost the agro-processing industry in Gog.

• **Expand coordination between government and other development actors.** An increase in the level of coordination between the local government administration and other development actors could increase awareness and improve interventions to boost nonfarm livelihoods. Moreover, the World Bank should assist the local government in facilitating more private-public dialogues to better understand the needs of existing nonfarm enterprises because participants noted a breakdown in understanding between government and the private sector concerning the needs of enterprise owners.

**GOG WOREDA**

**Main economic activities**

Agriculture is the main economic activity in Gog. The primary nonfarm activities involve restaurants, hotels, cafes, and health care. Mining is a prominent sector, but to a lesser degree than in the woredas of Benishangul-Gumuz.
• **Improve access to electricity.** Participants cited a lack of electricity as a significant barrier to the development of nonfarm enterprises. It hampers business expansion and prevents the emergence of businesses that rely heavily on electricity, such as Internet cafes, or that sell products and services that rely on electricity, such as print shops. Without stable access to electricity, the adoption of digital solutions and the emergence of digital enterprises are difficult. The World Bank should focus on supporting the improvement of electrical infrastructure and renewable energies.

**ITANG WOREDA**

*Main economic activities*

The main economic activities in Itang are centered around agriculture, particularly cash crop farming, animal rearing, pastoralism, and fishing. Nonfarm livelihoods among women and youth are limited in Itang as well as in the region’s other woredas. Women are primarily involved in the selling of fruits and vegetables; they are not involved in actual farming, which is traditionally considered an activity for men only. However, women have recently started to engage in commercial farming. Because employment among youth is extremely limited in Itang, most young people have jobs that require significant physical labor, such as porters, construction workers, and day laborers. DRDIP and other similar interventions have improved nonfarm livelihoods in the service sector, such as small restaurants, cafes, and salons.

*Opportunities and recommendations*

• **Strengthen links with the private sector.** Attracting the private sector is crucial to livelihood development and lowering unemployment rates. Participants remarked that the woreda administration could more actively engage with current private sector actors to improve LED. Through DRDIP, the World Bank could initiate quarterly forums that convene government and private sector actors to develop innovative ways for both parties to support each other in advancing nonfarm enterprises in Itang.

• **Improve access to finance.** Increase the number of financial institutions in Itang woreda; expand existing operations of financial institutions to include women, youth, and rural households facing significant challenges; hone the credit application process; and free it of excessive bureaucracy. A more diverse range of assets should be considered when establishing qualifying criteria for credit. The World Bank could play the role of advocate by petitioning financial institutions to pay attention to such concerns and increasing funding to CIGs under DRDIP.

• **Engage with the diaspora.** Attracting Ethiopian diaspora to meet current needs is a worthwhile pursuit, especially less profitable spaces, such as kindergartens and recreational areas. The local government tries to attract members of the diaspora, usually for large-scale farming or mining investments, but there is not a consensus regarding how successful those attempts have been. The World Bank could undertake a study to fill this knowledge gap and provide recommendations to the local government on methods for increasing diaspora investment.

• **Increase the skills training available to women.** Female participants point to the lack of training opportunities for women, which limits their employment opportunities. The World Bank should link with actors who could deliver continuous training and business capacity development to women, particularly young girls. More sustainable changes should be enacted by education stakeholders to alter the curriculum in a way that promotes entrepreneurial skills in young girls at an early age. The World Bank, together with other stakeholders operating in this domain, could spearhead consultative meetings with education stakeholders to engender solutions.
Build greater synergies with other development actors. There are multiple government agencies that are well-functioning bodies, such as the agriculture and trade bureaus, but they are not focused on nonfarm livelihood development. The World Bank should build greater synergies with these better-performing agencies to scale up interventions focused on nonfarm enterprises and develop links for the continuation of some DRDIP activities by local agencies.

4. Somali Region

Main economic activities
LED priorities are focused on improving livestock and agriculture production because most of Somali’s population is pastoralist. The main economic activities in the region are also found in those two sectors. Other relevant sectors include trade—especially cross-border trade—services, and construction. Priorities for LED in those areas are strengthening value chains through infrastructure construction and factories.

<table>
<thead>
<tr>
<th>TARGET SECTORS IN SOMALI</th>
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<tbody>
<tr>
<td>Urban</td>
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<tr>
<td>Manufacturing parts for water irrigation</td>
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<tr>
<td>Glass production</td>
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<td>Leather processing</td>
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<td>Rural</td>
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<td>Milk processing</td>
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<td>Apiculture</td>
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AW BARRE WOREDA

Main economic activities
Aw Barre’s primary economic sectors are livestock, agriculture, trade, service, construction, and—most significantly—traditional livestock farming and agriculture. In the secondary cities of Lefe Isa and Sheder, economic activities are like those common in Aw Barre.

Opportunities and recommendations

Integrate interventions. Given the significant presence of refugee communities in the woreda, DRDIP should strengthen collaboration with NGOs and local civil society organizations operating in refugee communities to develop integrated interventions.

Build on promising sectors. Given the woreda’s vast water resources and suitable land for agriculture and livestock, areas with potential include natural resource conservation and utilization; water bottling; and flour, milk, and meat processing.

Expand financial services. Financial institutions must better cater to the community’s needs with interest-free loans and loan requirements that local entrepreneurs can meet. Comparable to the regional level findings, there is potential to increase the provision of digital finance services for LED and CIGs in Aw Barre because most people in the woreda already use electronic money transfer services such as the ZAAD, Hello Cash, E-bIRR, and Sahay.

Strengthen the business environment. Like recommendations in other woredas, the business environment and LED should be improved by building vocational training centers, awareness-raising, and structural capacity building on nonfarm livelihoods for community members. Other priorities should include improving road and market infrastructure through a continuation of related DRDIP activities; modernizing economic activities by providing required machinery and capacity building; and strengthening value chains and market linkages by collaborating more closely with private stakeholders.

Engage the diaspora. DRDIP should fully exploit the potential of the Ethiopian diaspora to promote LED by linking members with beneficiary entrepreneurs to create market linkages and benefit from their investment capacity to strengthen value chains and
promote modernization. The diaspora make significant investments in nontraditional economic activities and provide aid to local communities in Aw Barre. Before the pandemic, there were frequent investments from the diaspora—the construction sector especially benefited. Stakeholders are also aware of policies to attract diaspora, such as one offering free land to diaspora who invest in nontraditional agriculture.

DOLLO ADO

Main economic activities

Dollo Ado’s economic activities are primarily traditional, including agriculture, livestock, petty trade, and service sectors. The woreda is rich in fertile land and river basins—Dawa and Genale—for agricultural production. Livestock is traded with nearby towns in Somalia and Kenya. The main secondary city is Hilawayn, whose economic activities and livelihoods are very similar to those of Dollo Ado.

Opportunities and recommendations

- Ensure more systematic stakeholder involvement. DRDIP staff argued that meetings with government, humanitarian, and development agencies are not effective because stakeholders do not provide the required inputs. DRDIP should improve coordination with stakeholders while also involving community members and private actors.
- Prioritize the infrastructure component. Phase II of DRDIP should increase its emphasis on roads, modernized farming for improved agricultural productivity to exploit the fertile land, renewable electricity, and the strengthening of technical skills training centers.
- Tap into digital finance technology. Digital banking and mobile communication technologies, which are commonly used in the woreda, have improved access to financial services and market linkages. DRDIP should coordinate with stakeholders to systematically incorporate digital tools in the program to, for example, increase access to simple, interest-free loans that align with the community’s needs, and introduce digital technologies to support savings and the creation of market linkages for CIGs.
- Engage diaspora. Several respondents noted that members of the Ethiopian diaspora have become increasingly present in the woreda as a result of the recent enabling diaspora investment policies. Diaspora are often engaged with modern farming in rural areas. The diaspora could be more systematically engaged if they were to be included in coordination dialogues and connected to CIG and DRDIP programs to create market linkages and build partnerships for technology transfer and employment creation and investments.

KEBRIBEYAH WOREDA

Main economic activities

Livestock, agriculture, and trade are among the primary economic sectors in Kebribeyah. Because it is an agro-pastoralist community, LED priorities include on-farm livelihoods, such as agricultural products and animal husbandry. On-farm livelihood production is hampered by the lack of efficient water irrigation. Off-farm economic activities include trade, retail shops, restaurants, carpentry, metalworking, and construction. Stakeholders claim that refugee communities in the woreda have a positive impact on the economy because they increase demand for agricultural products and other supplies. Due to the woreda’s proximity to the border and the lack of factories and wholesalers to supply goods at a low price, respondents argued that illicit cross-border trade and contraband is the most profitable sector. Most consumable goods are imported illegally from Somaliland towns and sold at a lower price than goods
legally imported by CIG businesses. In addition, some respondents claimed that human trafficking is present in the woreda.

Opportunities and recommendations

- **Promote promising sectors.** Strengthen agricultural production through flour and milk processing factories, honey production, and vegetable products. Sectors that are needed or that could be further improved include bakeries, furniture and glass work, garages, veterinary services, and construction material production.

- **Diversify economic activities.** The nontraditional economic sector should be diversified by developing agriculture processing and creating market linkages. Areas to strengthen in technical and vocational education and training include embroidery, tailoring, electrical work, metalworking, carpentry, and diversification and modernization of animal and farming products. DRDIP should work more closely with technical and vocational education and training centers and support graduates in establishing a business or cooperative engaged in non-farm livelihoods.

- **Expand digital finance services and technology.** Like at the regional level, because some services are already used in the woreda, there is the potential to expand digital finance services and technology for the market system.

- **Promising diaspora links.** The woreda has strong links to diaspora and high inflows of remittances—this should be used more by DRDIP to attract investment in nonfarm livelihoods that contribute to LED and create jobs and market linkages for women and youth in refugee-hosting areas. Many community members receive remittances, which contribute to the economy of the woreda. Diaspora are ready to invest in different economic sectors, such as hotels, restaurants, animal fattening, and meat processing, which create employment and marketing linkages to the off-farm productivities in the area.

- **Expand environmental components by working with local actors, such as Save Ethiopian Environments (SEE) and the Garbage and Sanitation Association, which are creating jobs, particularly for women.** There is increasing environmental degradation in areas where refugees settle, and the increasing number of people cutting trees for firewood has led to massive deforestation and sparked conflicts with host communities. To maintain social cohesion and address the increasing occurrence of conflicts over scarce resources in the woreda, it will be essential to support climate-adaptive markets and lifestyles.