

Rural business establishment and interconnections with natural resources in Halaba, Central Ethiopia

Key messages

- Expanding access to credit through microfinance institutions or government-backed loans is essential to empower marginalized groups, especially women and individuals with low incomes, to participate in business activities.
- Ongoing training and capacity building programs in sustainable agricultural and business practices should be enhanced to help improve the productivity of rural businesses while protecting natural resources. These programs should emphasize water management, soil conservation, and energy-efficient technologies.
- Strengthening connections between rural businesses and both local and international markets will help expand their customer base and secure fair pricing. Multipurpose cooperatives can play a crucial role as intermediaries.
- Investing in rural infrastructure such as roads, irrigation systems, water harvesting systems, and storage facilities is critical to reduce post-harvest losses and boost the efficiency of rural businesses.
- Projects that integrate rural businesses with natural resources and involve local communities should prioritize inclusivity and tailor interventions to specific needs.

This brief outlines key recommendations from research projects aimed at (i) addressing governance challenges that impede the effective establishment of rural businesses, and (ii) ensuring the sustainable integration of rural businesses with natural resources in Halaba in Ethiopia. The studies were supported by projects such as Local-Level Land Degradation Assessment Towards Sustainable Land Management for Improved Livelihoods in the Ethiopian Rift Valley (SMILE-REDAA) and Reducing land degradation and carbon loss from Ethiopia's soils to strengthen livelihoods and resilience (RALENTIR). The brief sets the context for rural employment and businesses, going on to discuss the relationship between rural businesses, natural resources, stakeholders, institutional structures, and start-up activities in Halaba. Following this, the challenges and opportunities of establishing rural businesses are explored. Finally, it presents the implications of successful interventions and offers recommendations for policymakers and other stakeholders to effectively establish rural businesses, with a focus on sustainable natural resource management.



Beekeeping business by RALENTIR beneficiaries (photo: Yitna Tesfaye, Hawassa University, Ethiopia).

Context of rural jobs and businesses

In Ethiopia, 80% of the population resides in rural areas, where 78% of the labor force is employed in agriculture (World Bank 2022). With few off-farm job opportunities available in rural areas (Schmidt and Bekele 2016), there is high pressure on agricultural land resources, with knock-on impacts on forests and water that support the livelihoods of rural people. Although the rural unemployment rate is ~2% (MoANR 2017), many young people have limited access to land and agricultural resources. There is also gender inequality; so unemployment is becoming a serious problem among the youth and women. Therefore, creating rural jobs is a recent priority agenda for the Government of Ethiopia. Several rural businesses have been mainstreamed in growth programs such as the Agriculture Growth Program (AGP), Livestock Master Plan (LMP), Livestock and Fisheries Sector Plan (LFSP), and Sustainable Land Management Program (SLMP).

To promote and expand the setting up of rural businesses mainstreamed in the different development programs and engage young people, women, and the disadvantaged, Ethiopia's Ministry of Agriculture and Natural Resources (MoANR) introduced the Rural Job Opportunity Creation Strategy (RJOCS) in 2017, wherein agriculture (crop and livestock), natural resources, and off-farm activities were identified as the main components to create rural jobs under the entrepreneurship and self-employment pillar of the strategy (MoANR 2017).

In this context, rural business refers to any economic activity in rural areas, often closely tied to the agriculture, forestry, and natural resource sectors. Enterprises can range from small-scale, such as farm-level engagements and artisanal crafts, to more organized ones, such as agricultural cooperatives, livestock rearing/fattening, agro-processing, and eco-tourism (e.g., hunting in enclosures). In rural Ethiopia, businesses are essential to the local economy, providing livelihood opportunities and fostering community development.

The workforce engaged in rural businesses is generally unskilled or semi-skilled, with limited access to modern technologies and markets. As a result, productivity levels are relatively low. Rural businesses rely on natural resources, often causing the degradation of resources; so there are trade-offs between environmental and economic activities (UNDP 2016). Furthermore, rural businesses often face constraints due to poor access to finance, infrastructure, market links, and training (Gebrehiwot and van der Veen 2015; Abate et al. 2016; IFAD 2019). This limits their ability to expand, reach their full potential, or improve efficiency. Despite these challenges, rural businesses are crucial in sustaining livelihoods, providing employment, and contributing to food security and the broader rural economy (Schmidt and Bekele 2016). Therefore, addressing these social, technical, and financial challenges is essential to promote economic diversification and reduce rural poverty and pressure on land resources.

Given this scenario, the SMILE project aims to promote selected rural businesses in Halaba (Figure 1) to balance economic growth with natural resource conservation, ensuring that the businesses contribute positively to both community livelihoods and environmental protection. The project will use training programs to encourage farmers to develop startup ideas, whose feasibility will be evaluated by community delegates. It will fund and follow each business from inception through implementation for the duration of the project. Lessons learned will be shared across the Halaba zone and later expanded to other regions in central Ethiopia.

From the approval of business ideas to their implementation and management, the project aims to answer a key question: Can rural businesses contribute to the sustainable management of natural resources? A total of 80 beneficiaries with the highest ratings will receive startup funding.

Natural resource management and rural business

Rural livelihood/income strategy

Rural livelihood and income strategies are essential to sustain the well-being of rural communities, particularly in areas where agriculture and natural resource management are dominant (Schmidt and Bekele 2016; Bezu and Holden 2014). In regions such as Halaba, rural businesses are critical in providing livelihoods, sustaining natural resources, and fostering economic growth. Women and youth can be drawn to entrepreneurship and self-employment by encouraging their involvement in micro, small, and medium enterprises, tailored to the local environment and economy.

Rural enterprise development is supported by cluster or business community models, which simplify management, provide technical support and enhance value chains. Income strategies for rural households often combine multiple activities, including farming, animal husbandry and non-farm enterprises (e.g. woodworking, metalworking, tailoring, weaving and pottery), to diversify risks and generate sustainable incomes (Table 1).

Natural resources and rural business

Sustainable management of natural resources is crucial to ensure the long-term viability of rural income strategies (Table 1), as rural businesses often rely on natural resources such as land, water, and forests for their operations. There is a two-way interconnection between rural businesses and natural resources. Sustainably managed natural ecosystems open up opportunities to run rural businesses such as beekeeping and livestock fattening and diversify livelihoods (Box 1). On the other hand, integrating viable rural businesses within natural ecosystems supports the sustainable management of natural resources by improving the protection

and engagement of local communities in natural resource management.

However, enhancing the income-generating potential of rural businesses and ensuring healthy interconnection between rural businesses and natural resources require several key interventions. These include building local capacities through targeted training, developing infrastructure such as irrigation systems to improve

crop productivity, roads and storage facilities for distribution, improving market access, increasing access to finance, and developing supportive government policies. Specifically, strengthening market access and linkages ensures fair pricing and opens new income opportunities. Supportive government policies also encourage sustainable resource use, protect land rights, and aid smallholder farmers by creating a conducive environment for businesses to thrive.

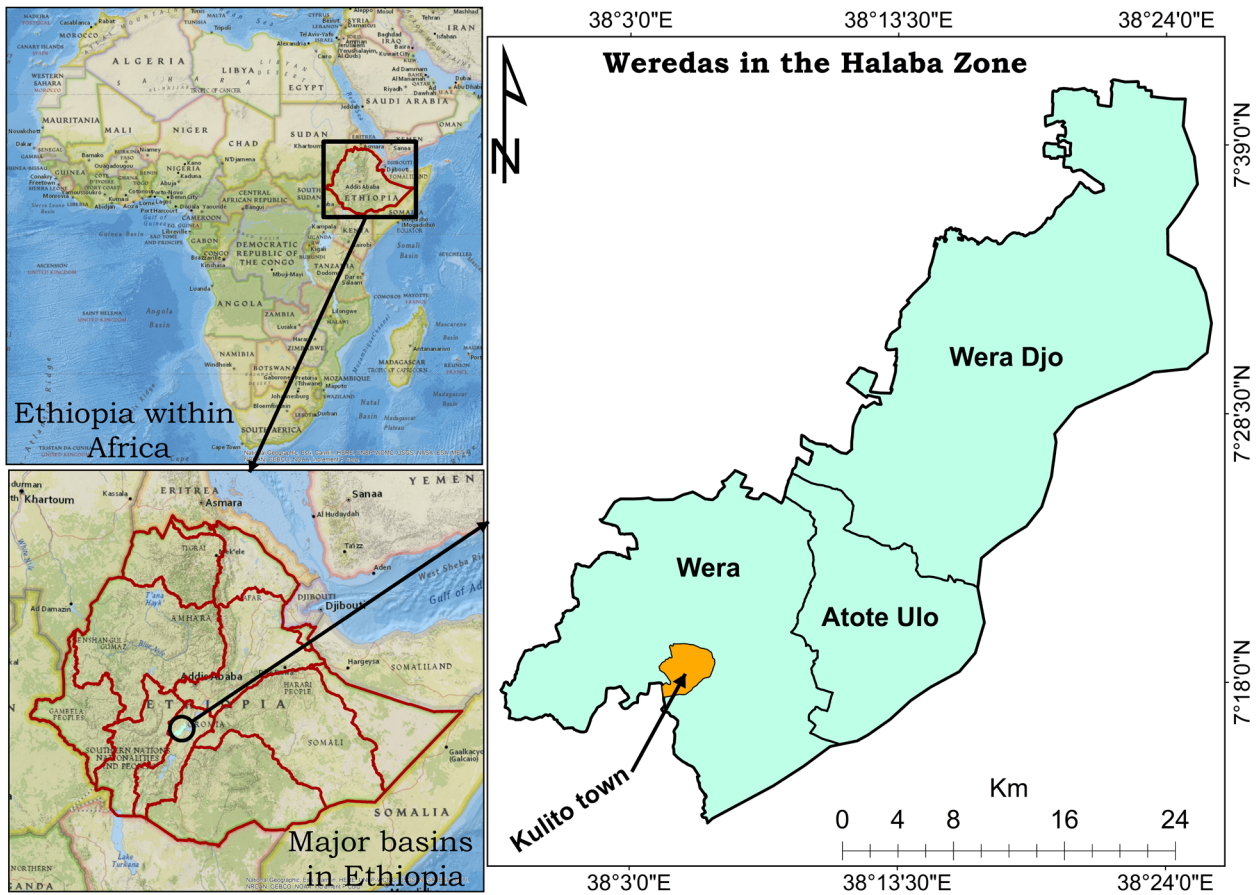


Figure 1. Location of the project sites.

Box 1. The experience of enclosures in the RALENTIR project.

Enclosures are plots of land that have been closed off to protect against intrusion by people and animals, allowing a process of rehabilitation of degraded land (Mekuria et al. 2017). They are important to prevent land degradation and to maintain functioning watersheds. To make enclosures locally more meaningful and ensure that they are not overused, RALENTIR developed three types of interventions (beekeeping and oxen and sheep fattening). Sixty young people benefitted from beekeeping and 30 from oxen fattening while 60 landless women benefitted from sheep/goat fattening. These interventions were designed to address equity concerns over the existing management and use of enclosures and for equitable interventions. Equity has been identified as a key issue in the sustainability of the interventions and the management of natural resources. It was observed that there was no conflict between the beneficiaries. However, as originally designed, group interventions have not been successful, with beneficiaries preferring to work individually. However, all beneficiaries could generate extra income to support their families and many of the businesses are sustainable and are generating greater benefits. For example, the landless women could increase the number of sheep/goats; some could even buy calves. Youth have started producing honey for sale in the market.

Table 1. Case studies of rural businesses, investment required, and impact on natural resources.

Type of rural business	Description	Experience in the country and case study area	Investment requirement	Impact on natural resources
Beekeeping	A vital livelihood strategy offering both economic and environmental benefits. It can easily be integrated into farming practices.	One in 10 rural households practices beekeeping in Ethiopia (Gebewo et al. 2023), and farmers in Halaba engage in it widely.	Relatively low	No impact
Fattening (oxen, sheep, and goat)	Very conducive income-generating activities/livelihood strategy, attractive, and easily adaptable to farming practices.	Widely practiced at household and cooperative levels in different parts of Ethiopia.	Low to high, depending on the size and type of the fattening program. It might be low for sheep fattening and high for oxen fattening.	Has a considerable impact if done as open grazing. Proper management of grazing land and enclosure utilization could minimize impact through a cut and carrying system.
Silk farming (sericulture)	Can be practiced by small-scale farmers and has multiple benefits (socioeconomic, religious, and ecological).	Some experience in four regions of Ethiopia (Sime and Siraj 2020)	Medium investment	Minimum impact
Tree nursery	An excellent means of producing seedlings in rural areas, with no or minimum transport cost to planting areas.	Small-scale nurseries are family businesses in Halaba. There is no information on rural households engaged in this business. Perhaps the major setback is the severe shortage of water. However, it is a potential sector to explore.	Low investment. Farm tools and polyethylene tubes are the major cost items.	Major positive impact
Medicinal plant cultivation	Cultivating medicinal plants like moringa, aloe vera, and other indigenous species for health and income purposes.	Small-scale cultivation is prevalent in parts of Ethiopia, such as Oromia and Southern Nations, Nationalities, and Peoples' Regions (SNNPR), for local and regional markets (Mesfin et al. 2014).	Low investment. Seeds, land, and basic cultivation tools are required.	Minimal impact. Medicinal plants can be grown on marginal lands.
Grass cultivation	Desho grass, elephant grass, and alfalfa provide high-quality animal feed to improve livestock productivity while supporting land restoration efforts. These grasses are nutrient-rich, drought-tolerant, and adaptable to degraded lands, making them ideal for sustainable livestock management in rural areas.	<ul style="list-style-type: none"> • Desho grass: Promoted extensively by the Ethiopian Institute of Agricultural Research (EIAR) for land rehabilitation and fodder production, especially in Wolayta and Sidama regions in southern Ethiopia (Mijena et al. 2024). • Elephant grass: Widely used by smallholder dairy farmers in various places in Ethiopia (Tesfaye 2023). • Alfalfa: Introduced in irrigated areas like the Rift Valley and Southern highlands, it is gaining popularity among dairy cooperatives for its protein-rich content and soil fertility benefits (Kebede et al. 2022). 	<ul style="list-style-type: none"> • Costs include planting materials (seeds, cuttings); land preparation; and potential irrigation setup. • Requires training in planting techniques, harvesting, and processing (e.g., silage and hay preparation). 	<p>Positive impacts:</p> <ul style="list-style-type: none"> • Restores degraded lands by improving soil structure and fertility through deep-rooted grass systems. • Reduces soil erosion and enhances water retention in the soil. • Mitigates overgrazing by providing an alternative feed source, decreasing pressure on natural pastures. • Promotes sustainable farming practices by integrating livestock feeding with land rehabilitation.

Stakeholders and institutional setups for rural businesses in Halaba

In Halaba, diverse stakeholders such as government offices, nongovernmental organizations, the private sector, community-based organizations, local communities, and informal institutions are involved in rural businesses, each with different interests and roles depending on their mission and goal (Table 2). Regarding the institutional setup, the zonal office is split into two departments, the rural subsector and the urban subsector. The *woreda*-level offices usually manage and control the activities at the grassroots level. For effective management and support, each *kebele*-level office has one expert assigned to build capacity and engage at different

levels. Every activity at the *kebele* level is reported to the respective office at the *woreda* and zonal levels¹. The process of engaging with different groups of a community in the rural business starts with identifying young people and women, providing support, and monitoring after the business has been set up (Figure 2).

The institutional setup also includes a council established at the *kebele* level. The council members comprise the Youth and Women Leagues, Safety-Net and Elders' councils, and a financial institution (Omo Bank). The council plays a significant role in selecting, validating, and regulating activities related to the selection, resolving disputes, and managing resources collectively.

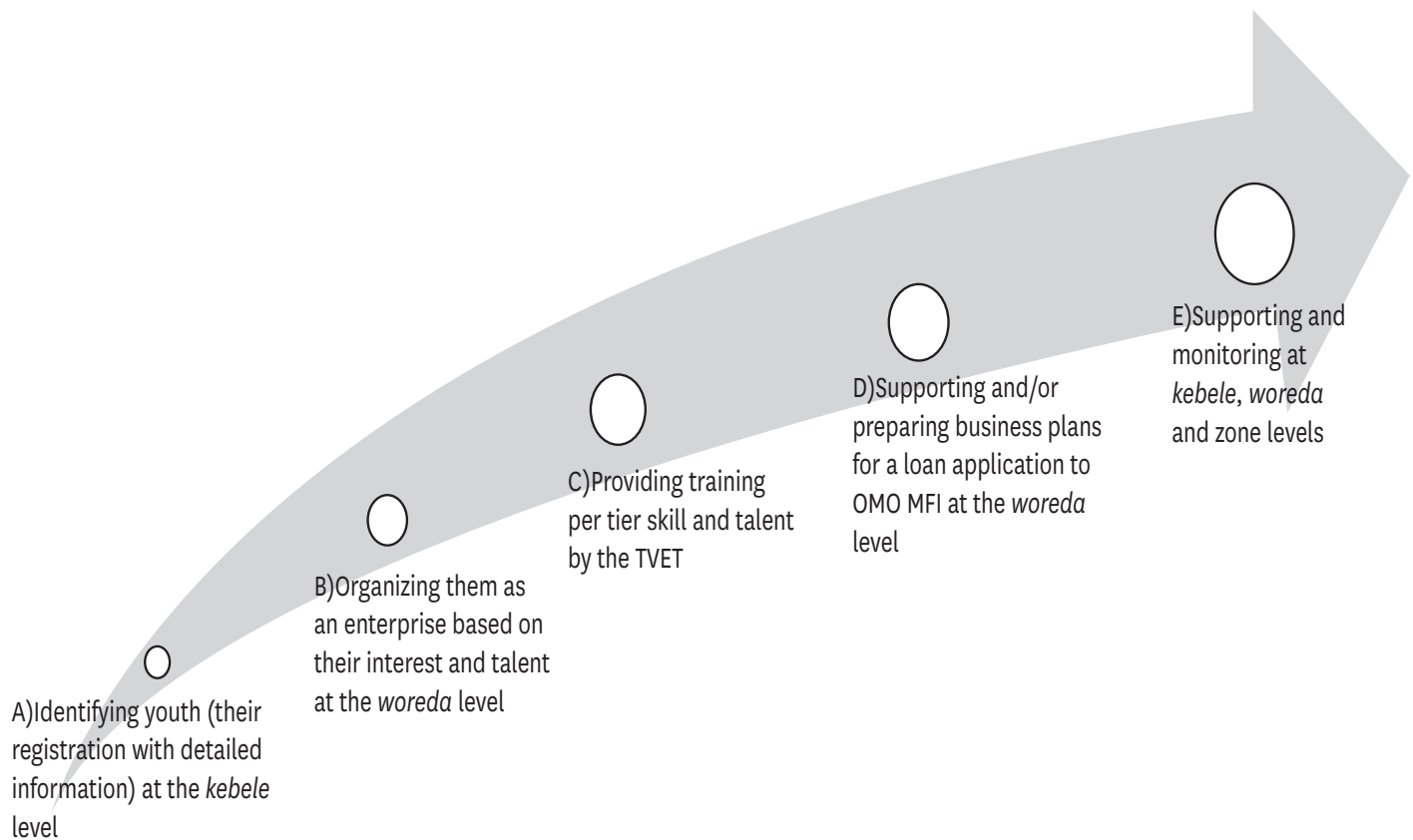


Figure 2. The process of engaging the rural community in rural businesses. TVET refers to Technical and Vocational Education and Training centers, OMO MFI refers to OMO Micro Finance Institute.

¹ *Woreda* is the third level administrative division in Ethiopia (managed by a local government), equivalent to a district and comprising several *kebeles* (the lowest administrative tier). Zone is the second-level administrative division comprising several *woredas*.

Table 2. Institutions and their role in rural businesses in the Halaba zone.

Institution	Stakeholder group	Description	Main roles
Rural Job Opportunity Creation and Enterprise Development Office	Government	This office at the zone, <i>woreda</i> , and <i>kebele</i> levels is responsible for all the operations in setting up rural businesses.	It provides support through policies, subsidies, training, and infrastructure development. It also identifies and documents unemployed youth and women.
Bureau of Agriculture and Natural Resource Management	Government	It facilitates the empowerment and economic development of the community by providing resources to support youth and women in pursuing their chosen fields.	It plays multiple roles: <ul style="list-style-type: none"> • At the <i>kebele</i> level, it is part of the council that selects and groups youth and women. • Provides resources: Allocates land as necessary and oversees land management. • Provides technical support in crop production, natural resource management, and livestock production.
OMO Bank	Private sector/government	The financial service provider, previously a microfinance institution	It provides savings and credit services at the zone and <i>woreda</i> levels. A member of the council at the <i>kebele</i> level, it oversees the process and assists with regulatory criteria to access its services. The main challenges include issuing legal trade licenses to rural businesses and securing collateral.
Halaba Polytechnic College	Government	Provides technical backup wherever needed	It provides tailored, practical training to youth and women before they receive financial services; plays a vital role in education and capacity building; and equips individuals with skills and knowledge to succeed in various technical and agricultural fields.
Agricultural Transformation Institute (ATI)	Government	Supports and works with local businesses to promote sustainable practices and improve market access	It offers technical assistance, financial support, and capacity building. The organizations interact in multiple ways. For example, the agricultural office interacts with the Job Opportunity Creation and Enterprise Development Office on issues related to access to land and management of natural resources.
TILA (or umbrella) project	Government-driven multi-partner platform for testing innovations to create inclusive jobs in Ethiopia	Addresses the needs of women in rural Ethiopia, internally displaced people, with disabilities	It targeted 19,000 women in rural Ethiopia; 5,000 internally displaced peoples and refugees; 2,000 homeless youth; and 5,000 youth with disabilities in five regions. This will be followed by prototyping, testing, and scaling up of innovative approaches nationwide.
Local communities	Local communities		They are directly involved in producing goods and services, from crops to livestock to handicrafts. They also own the natural resources that businesses rely on, making them key stakeholders considering the strong interconnection between rural businesses and natural resources.
Edir, Equib, religious institutions	Informal institutions		These informal institutions have a role in the management and control of rural businesses as well as financial sources (Equib). Informal institutions play crucial roles in managing and supporting rural businesses. Edir fosters communal decision-making and provides financial safety nets during crises, while Equib facilitates savings and access to funds for investments through trust-based pooling systems. Religious institutions guide ethical business practices, resolve disputes, and occasionally provide financial support. These institutions are deeply rooted in local culture, trusted by communities, and cost-effective, vital for promoting resilience, resource management, and sustainable business development in rural areas.

Rural business/startups in Halaba

The number of business startups in Halaba from 2019 (2011 in the Ethiopian calendar) to 2024 (2016 in the Ethiopian calendar) disaggregated by three *woredas* is presented in Figure 3.

There are 48 rural businesses registered in the Halaba zone, of which 15 are in Atote Ulo *woreda*, 21 in Wera *woreda*, and 12 in Wera-Dijo *woreda*. This is very low compared to the population residing in rural areas, indicating the potential to engage more

people. There is a similar distribution of startup businesses in the three *woredas*. However, the number of startups increased from 1 per year in 2019 to 15 per year in 2024 in the three *woredas*.

The rural businesses are categorized into three engagement areas: Services, industrial activities, and agriculture (Figure 4). Agricultural businesses dominate with 16 businesses in Wera, 11 in Wera-Dijo, and 5 in Atote Ulo. Service-based business engagement is highest at 8 in Atote Ulo, followed by 4 in Wera, and 1 in Wera-Dijo.

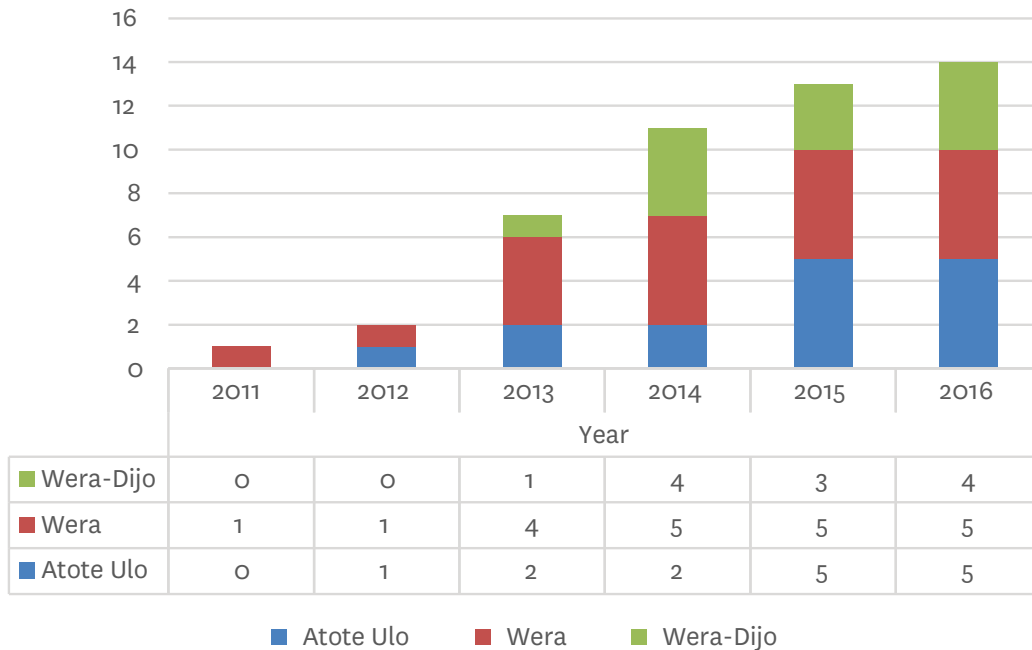


Figure 3. Number of rural businesses in three *woredas* in Halaba zone from 2019 to 2024.

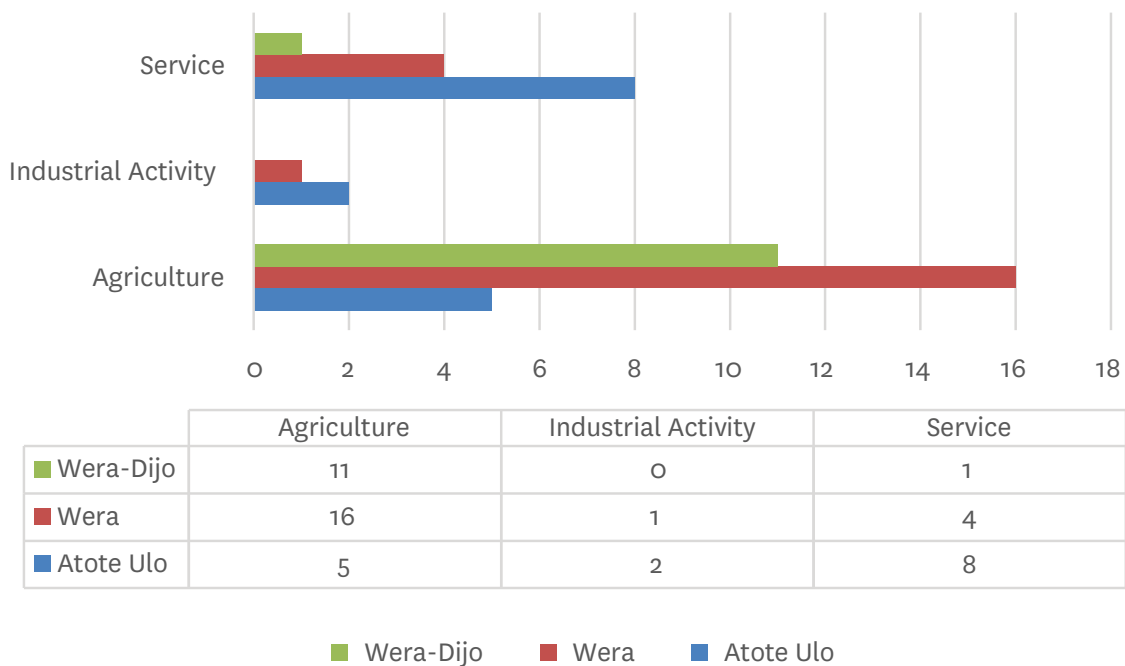


Figure 4. Type of businesses across the three *woredas* in the Halaba zone.

Challenges and opportunities

Key informant interviews and focus group discussions with experts indicated that rural businesses in Halaba face many

significant challenges that hinder their growth and income-generating potential (Table 3). However, there are also multiple opportunities for promoting rural businesses.

Table 3. Challenges to and opportunities for growth in rural businesses in Halaba, identified through key informant interviews and focus group discussions.

Challenges	Opportunities
Limited access to finance restricts their ability to invest in sustainable practices and productivity.	Policy directions and government initiatives: Government initiatives are underway encouraging job creation through startup rural businesses. Institutional and policy support is being given.
Inadequate infrastructure, such as poor roads, limited market access, and linkages, are critical supporting elements hindering successful implementation.	New ATI engagements in capacity building and training: Offering education on sustainable practices can empower rural entrepreneurs to maximize the benefits of natural resources.
Lack of training and education in sustainable resource management leaves many rural entrepreneurs without the skills necessary to maximize the benefits of natural resources.	Engagement of private banks in rural entrepreneurship for improved access to finance: The government is now directing other formal banks (such as Awash Bank, Oromia Cooperative Bank, Abyssinia Bank, and Commercial Bank) to support entrepreneurs in obtaining loans. Wider financial services and credit options can enable rural businesses to invest in technologies that boost productivity and sustainability.
Weak market access and linkages create unfavorable pricing and limit opportunities for income generation.	
Lack of awareness of regulations and policy, including difficulties in obtaining trade licenses, creates additional obstacles.	

Implications for successful interventions

A critical factor affecting the success of rural businesses, particularly in regions such as Halaba, is the choice of business model. Whether the business operates individually or as part of a group can greatly influence its scalability, access to resources, and sustainability. Working in groups allows resources to be pooled (financial, human, or technical), enabling rural entrepreneurs to access better tools, skills, and knowledge, which may be unattainable individually (Box 2). Collaborative efforts also reduce individual risk, providing a safety net during hardships such as poor harvests or market fluctuations. In a group setting, members can split responsibilities, allowing for greater specialization and efficiency. However, group dynamics have challenges related to leadership, accountability, and equitable profit distribution. Individual business models often face challenges such as limited access to capital, market linkages, and training.

In addition, gender and wealth play a significant role in shaping the outcome of interventions. Historically, women and the less wealthy have had limited access to resources, which can hinder their ability to scale or sustain rural businesses. Projects focusing on gender inclusivity and poverty alleviation have shown promise in breaking these barriers, but sustained efforts are needed to ensure equitable access to financing and training.

Furthermore, cooperative businesses often have better access to financial institutions and government support, as group ownership aligns with many rural development programs aimed at improving livelihoods. In Halaba, it was observed that financial providers such as OMO microfinance are not functioning well or meeting the expectations of beneficiaries. Since access to reliable finance is key to running, expanding, and sustaining rural businesses, government and other institutions must address the challenges related to finance (raising and availability).

Box 2. Working modality - Examples from Halaba.

- The RALENTIR project's experience in Halaba revealed the advantages of doing business in a group. The beekeeping and livestock fattening interventions were implemented by forming a group of individuals (five to eight in a group) residing in the same geographical location. Group interventions demonstrated the sharing of skills, medication (livestock care), and harvesting facilities (honey production). However, this was not possible where implementation sites (beehives) were located far from homesteads in enclosures or where one group member was burdened more than the others (for example, in building livestock shade in the livestock fattening intervention).
- The project also showed enhanced interest by individual women and the sustainability of sheep-fattening interventions. Since the project ended, most beneficiaries have continued to work on sheep fattening and others have upgraded their engagement to calf rearing. They have also diversified their livestock type to include goats and donkeys and increased the number of livestock animals from 2 to 4.

- **Targeted financial inclusion initiatives:** Expanding credit access through microfinance institutions or government-backed loans can empower marginalized groups, particularly women and people with low incomes, to engage in business activities.
- **Capacity building for sustainable practices:** Ongoing training and capacity-building programs on sustainable agricultural and business practices can help rural businesses maximize productivity while preserving natural resources. Programs must focus on water management, soil conservation, and energy-efficient technologies.
- **Strengthen market access:** Facilitating strong linkages between rural businesses and markets locally and internationally will help ensure fair pricing and a broad customer base. Multipurpose cooperatives can play a key role in this by serving as intermediaries.
- **Enhance infrastructure development:** Investment in rural infrastructure, including roads, irrigation systems, water harvesting systems, and storage facilities is vital to reduce post-harvest losses and improve the overall efficiency of rural businesses.

In strengthening and enhancing the growth of rural businesses, the following actions are crucial (IFAD 2019; FAO 2024; Gelata and Han 2024):

The rural business scene in Halaba is in its infancy. However, recent policy directions and institutional setups are creating a conducive environment for growth. Given the rich natural resources, conducive landscape, and people's willingness, rural businesses have a high potential for accelerated growth.



Youth training with close support from rural job opportunity creation and enterprise development in Ethiopia (photo: Tirusew Teshale, Hawassa University, Ethiopia).



A member of a rural youth group supporting his livelihood through beekeeping in Ethiopia (photo: Tirusew Teshale, Hawassa University, Ethiopia).

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Project

The “Local-Level Land Degradation Assessment Towards Sustainable Land Management for Improved Livelihoods in the Ethiopian Rift Valley (SMILE-REDAA)” project aims to develop a comprehensive understanding of land degradation by gathering evidence and actionable insights to promote sustainable land management practices. This locally-driven initiative prioritizes enhancing the capacity of local organizations by intervening in Farmer Training Centers (FTCs), schools, and tree nursery establishments, fostering community engagement to ensure long-term sustainability. Additionally, the project implements business models that support the continued success of restoration efforts while enhancing livelihoods, focusing on impactful strategies that drive meaningful change.

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