

Document: EB 2020/131/R.X
Agenda: X
Date: 20 October 2020
Distribution: Public
Original: English

E



Investing in rural people

President's report

Proposed loan and Debt Sustainability Framework grant

State of Eritrea

Integrated Agriculture Development Project

Project ID: 2000002081

Note to Executive Board representatives

Focal points:

Technical questions:

Sara Mbago-Bhunu
Regional Director
East and Southern Africa Division
Tel.: +39 06 5459 2838
e-mail: s.mbago-bhunu@ifad.org

Bernadette Mukonyora
Country Director
Tel.: +39 06 5459 2695
e-mail: b.mukonyora@ifad.org

Dispatch of documentation:

Deirdre Mc Grenra
Chief
Institutional Governance and
Member Relations
Tel.: +39 06 5459 2374
e-mail: gb@ifad.org

Executive Board — 131st Session
Rome, 7-9 December 2020

For: Approval

Contents

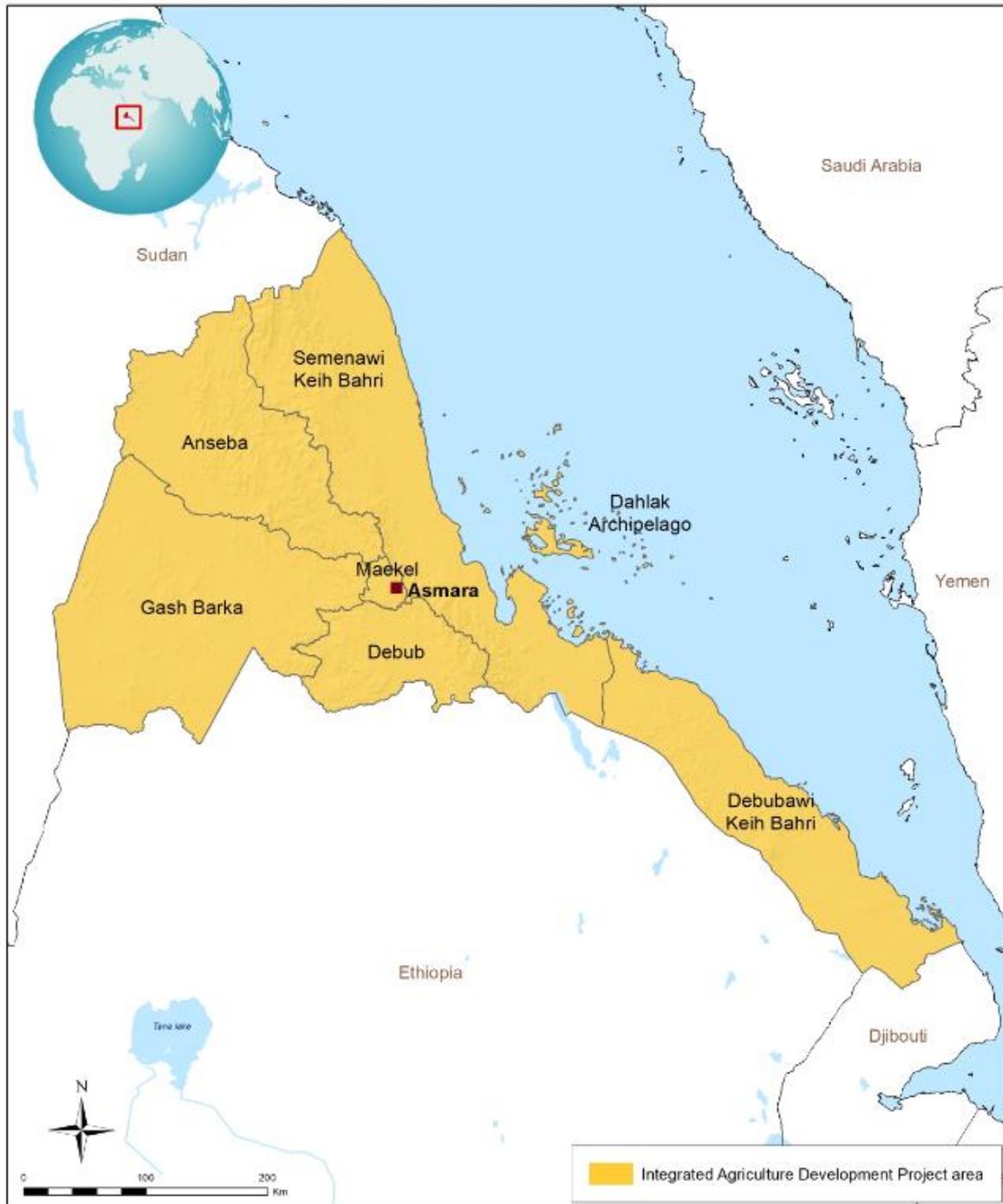
Abbreviations and acronyms	ii
Map of the project area	iii
Financing summary	iv
I. Context	1
A. National context and rationale for IFAD involvement	1
B. Lessons learned	1
II. Project description	2
A. Objectives, geographical area of intervention and target groups	2
B. Components, outcomes and activities	2
C. Theory of change	3
D. Alignment, ownership and partnerships	3
E. Costs, benefits and financing	3
III. Risks	6
A. Risks and mitigation measures	6
B. Environment and social category	7
C. Climate risk classification	7
D. Debt sustainability	7
IV. Implementation	7
A. Organizational framework	7
B. Planning, monitoring and evaluation, learning, knowledge management and communication	9
C. Implementation plans	10
V. Legal instruments and authority	10
VI. Recommendation	10
Appendices	
I. Negotiated financing agreement (to be made available prior to the session)	
II. Logical framework	
III. Integrated project risk matrix	

Project delivery team	
Regional Director:	Sara Mbago-Bhunu
Country Director	Bernadette Mukonyora
Technical Lead:	Zainab Sengalawe
Finance Officer:	Virginia Cameron
Climate and Environment Specialist:	Eric Patrick
Legal Officer:	Aspasia Tsekeri

Abbreviations and acronyms

AWP/B	annual workplan and budget
ESMF	environmental and social management framework
FM	financial management
IADP	Integrated Agriculture Development Project
IFAD11	Eleventh Replenishment of IFAD's Resources
IMF	International Monetary Fund
M&E	monitoring and evaluation
NAP	National Agriculture Project
NPCO	national project coordination office
PSD	Planning and Statistics Division
SDG	Sustainable Development Goal
TA	technical assistance

Map of the project area



The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

Map compiled by IFAD | 05-11-2019

Financing summary

Initiating institution:	IFAD
Borrower/recipient:	State of Eritrea
Executing agency:	Ministry of Agriculture
Total project cost:	US\$46.6 million
Amount of IFAD loan:	US\$7.4 million
Terms of IFAD loan:	Highly concessional
Amount of IFAD Debt Sustainability Framework grant:	US\$29.65 million
Contribution of borrower/recipient:	US\$4.9 million
Contribution of beneficiaries:	US\$4.7 million
Financing gap:	N/A
Amount of IFAD climate finance:	US\$19.4 million
Cooperating institution:	IFAD

Recommendation for approval

The Executive Board is invited to approve the recommendation contained in paragraph 54.

I. Context

A. National context and rationale for IFAD involvement

National context

1. The State of Eritrea is at a turning point in its development trajectory after the signing of a peace agreement with Ethiopia in July 2018, which ended decades of conflict dating back to 1991. In the same year, the United Nations Security Council lifted international sanctions that had been in place for nine years. It is expected that the peace dividend now offers Eritrea the opportunity to prioritize economic and social development, and to enhance international cooperation.
2. Eritrea's real GDP growth dropped from 11 per cent in 2011 to 4.8 per cent in 2016, and picked up slightly to 5.0 per cent in 2019, driven by public and private investments in the mining sector and in port infrastructure. Real GDP is projected to fall to -0.7 per cent in 2020 due to the impact of COVID-19.¹ Agriculture and fisheries contribute only 17.6 per cent to GDP, although the sector employs 65–70 per cent of the workforce.
3. Eritrea's Human Development Index score remains low at 0.43 (the country ranks 182nd out of 189 countries). Its 2019 ease of doing business score placed it 189th out of 190 countries. Private sector participation in the economy is limited due to restrictive economic and financial policies.

Special aspects relating to IFAD's corporate mainstreaming priorities

4. In line with the mainstreaming commitments of the Eleventh Replenishment of IFAD's Resources (IFAD11), the Integrated Agriculture Development Project (IADP) has been validated as:
 - Including climate finance
 - Nutrition-sensitive
 - Youth-sensitive
5. IADP will devote significant resources to addressing climate vulnerability, adopting watershed management as the entry point for investments in climate-smart, productivity-enhancing interventions. The project will also create off-farm jobs for young people and women and promote nutrition-sensitive agricultural practices as well as dietary behaviour change at household and community levels.

Rationale for IFAD involvement

6. Since 1995, IFAD has been one of the few international development entities that has continued to finance agriculture in Eritrea. Earlier IFAD interventions focused on re-establishing the livelihoods of crisis-affected rural households, while more recent projects² intervened in agricultural and fisheries development, with an emphasis on sustainable natural resource management. IADP proposes a package of interventions premised on watershed management as the starting point for agriculture development suited to rural Eritrea's unique agroecological conditions and topography.

B. Lessons learned

7. Main lessons learned from past and ongoing interventions include:

¹ Global Economic Prospects, World Bank, June 2020.

² National Agriculture Programme, Fisheries Resource Management Programme.

- (i) **Access to water is critical to the resilience of farming activities.** IADP will integrate watershed management as the entry point for enhancing productivity and making small-scale farming more resilient.
- (ii) **The lack of agribusiness orientation** hampers the efficiency and sustainability of interventions. IADP will gradually introduce business planning to inform investments.
- (iii) **Institutional capacity gaps** have constrained project implementation in Eritrea. The project will strengthen capacities, particularly in procurement, financial management (FM) and monitoring and evaluation (M&E).

II. Project description

A. Objectives, geographical area of intervention and target groups

- 8. **Project goal and objective.** IADP's goal is to contribute to poverty reduction and food and nutrition security in rural households. The project's development objective is to enhance smallholder agricultural production and productivity in a sustainable and climate-resilient manner and to improve rural livelihoods.
- 9. **Geographical area of intervention.** IADP will be national in scope, targeting all six Zobas (regions), with core interventions implemented in the four inland Zobas. The two coastal regions will mostly be supported through environment and ecosystem protection interventions. Activities, planned to cover approximately 40 per cent of the 36 sub-Zobas, will be phased in according to: (i) capacities of local government agencies to manage additional area/activities, starting with watershed management interventions; and (ii) status of watershed treatment.
- 10. **Target groups.** IADP will directly benefit some 60,000 rural households, i.e. more than 300,000 people, of which 40 per cent will be women and 40 per cent youth. Priority beneficiaries will include: rural small-scale farmers involved in subsistence agriculture; farmers and young people interested in establishing farmers' associations or cooperatives, or available to pilot micro enterprises; women; and youth (18–35 years), including demobilized soldiers.
- 11. **Targeting strategy.** The planning and implementation of activities will be based on a territorial approach. IADP will make use of direct targeting, self-targeting, facilitation (group formation, etc.) and empowerment measures. A social inclusion strategy will be developed, informed by assessments of the needs of women and youth. Methodologies such as the Gender Action Learning System will be employed.

B. Components, outcomes and activities

- 12. IADP has three components:
 - (i) **Component 1. Integrated watershed management.** This component will enable communities to plan and implement integrated land and water resource management in order to: (i) restore the hydrological and ecological functioning of watersheds; (ii) enhance the sustainability of existing land use; and (iii) improve resilience to climate shocks. Interventions will also support the production and dissemination of energy-saving technologies (e.g. cooking stoves, in selected watersheds). The expected outcome will be the strengthened environmental sustainability and climate resilience of poor rural people's economic activities.
 - (ii) **Component 2. Crop and livestock productivity and rural livelihood improvement.** Building on the outcomes of component 1, this component aims to sustainably invest in practices that enhance agriculture and small livestock productivity. It also addresses the post-harvest handling of crops and aims to improve the resilience of farmers to climate change through

climate-smart agriculture. The component will further support piloting micro agroenterprises. Based on viable business plans, these are expected to create about 6,500 jobs for young people. The expected outcome will be increased diversification of livelihoods and the strengthened resilience of communities.

- (iii) **Component 3. Institutional capacity-building and project support services.** This includes: (i) increasing the institutional capacity of the actors (public and private sector/producers' organizations) responsible for overseeing and/or implementing IADP activities; (ii) improving and/or reviewing and updating policies/strategies in selected subsectors to ensure their effective and structured development; and (iii) providing overall coordination to manage IADP efficiently and effectively.

C. Theory of change

13. In line with its development objective, IADP will address the strategic constraints to crop and livestock production. This will be done through sustainable watershed management – the entry point for investments in climate-smart interventions that improve and diversify the diets of target populations. IADP will offer off-farm livelihood opportunities for women and youth, and strengthen the capacity of rural communities and implementing agencies. These investments will sustainably enhance smallholder agricultural production and productivity, and improve rural livelihoods in the targeted areas.

D. Alignment, ownership and partnerships

14. IADP will contribute to the achievement of the following Sustainable Development Goals (SDGs): SDG 1 (no poverty), SDG 2 (zero hunger), SDG 5 (gender equality), SDG 13 (climate action) and SDG 15 (life on land). IADP is also aligned with IFAD's Strategic Framework 2016-2025 and corporate priorities as well as the 2020-2025 country strategic opportunities programme. The project further reflects national priorities, including: increasing agricultural, horticulture and livestock output; and creating farm enterprises that engage in highly productive, profitable agricultural value chains linked to domestic and international markets by 2023 (the Small and Medium Commercial Farmers Strategy, 2019-2023).
15. IADP is aligned with various outcomes of all four pillars of the United Nations Strategic Partnership Cooperation Framework 2017-2021. It should be noted that a new engagement strategy is being elaborated for 2021-2026. IADP implementation will explore the possibility of incorporating relevant elements of this new cooperation framework, once available.
16. IADP will coordinate with IFAD's ongoing portfolio as well as with development partners who support IADP-related initiatives, including the Food and Agriculture Organization of the United Nations, the African Development Bank and potentially the Green Climate Fund's Great Green Wall Initiative.

E. Costs, benefits and financing

17. Project costs are estimated at US\$46.6 million to be disbursed over six years. All three project components count in part as IFAD climate financing. IFAD climate adaptation finance in the project amounts to US\$19.4 million, which represents 52 per cent of total IFAD funding.

Project costs

18. Table 1 summarizes IADP's components and subcomponents' costs by financier.

Table 1

Project costs by component and subcomponent and financier

(Thousands of United States dollars)

Component/subcomponent	IFAD loan		IFAD grant		Beneficiaries		Borrower/recipient		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
1. Integrated watershed management										
1.1 Development & institutionalization of participatory Integrated watershed management plans	-	-	141	90.0	-	-	16	10.0	157	0.3
1.2 Operationalization of watershed management plans	-	-	593	91.2	-	-	57	8.8	650	1.4
1.3 Watershed restoration and water management infrastructure	3 597	19.7	9 413	51.5	4 337	23.8	913	5.0	18 260	39.1
Subtotal	3 597	18.9	10 147	53.2	4 337	22.7	986	5.2	19 067	40.9
2. Crop and livestock productivity and rural livelihood improvement										
2.1 Access to advisory services	-	-	2 480	90.9	-	-	249	9.1	2 728	5.8
2.2 Sustainable access to inputs & technologies for enhanced production and post-harvest management	-	-	6 690	88.3	-	-	890	11.7	7 580	16.3
2.3 Producers' organizations and cooperatives support	-	-	6 412	90.5	-	-	669	9.5	7 082	15.2
Subtotal	-	-	15 582	89.6	-	-	1 808	10.4	17 390	37.3
3. Institutional capacity-building and project support services										
3.1 Institutional capacity-building & policy support	3 339	53.9	1 995	32.2	370	6.0	495	8.0	6 199	13.3
3.2 Project management and South-South and Triangular Cooperation	463	11.6	1 926	48.3	-	-	1 599	40.1	3 989	8.6
Subtotal	3 802	37.3	3 921	38.5	370	3.6	2 094	20.6	10 188	21.8
4. Disaster risk reduction and management										
Total	7 400	15.9	29 651	63.6	4 707	10.1	4 888	10.5	46 645	100

Table 2

Project costs by expenditure category and financier

(Thousands of United States dollars)

Expenditure category	IFAD loan		IFAD grant		Beneficiaries		Borrower/recipient		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Investment costs										
1. Works	4 707	22.7	10 268	49.6	4 707	22.7	1 036	5.0	20 718	44.4
2. Services										
a. Training and workshops	-	-	4 962	95.0	-	-	261	5.0	5 223	11.2
b. Consultancies	-	-	2 475	90.0	-	-	275	10.0	2 750	5.9
Subtotal - services	-	-	7 437	93.3	-	-	536	6.7	7 973	17.1
3. Investment capital	-	-	355	100	-	-	-	-	355	0.8
4. Equipment and inputs										
a. Equipment	1 211	15.3	5 765	72.7	-	-	951	12.0	7 928	17.0
b. Crop and livestock inputs	1 060	13.5	5 825	74.5	-	-	939	12.0	7 823	16.8
Subtotal - equipment and inputs	2 271	14.4	11 590	73.6	-	-	1 890	12.0	15 751	33.8
Total investment costs	6 978	15.6	29 651	66.2	4 707	10.5	3 462	7.7	44 797	96.0
Recurrent costs										
1. Salaries and allowances	-	-	-	-	-	-	1 368	100	1 368	2.9
2. Operations and maintenance	422	88.0	-	-	-	-	58	12.0	479	1.0
Total recurrent costs	422	22.8	-	-	-	-	1 426	77.2	1 847	4.0
Total	7 400	15.9	29 651	63.6	4 707	10.1	4 888	10.5	46 645	100

Table 3
Project costs by component and subcomponent and project year
 (Thousands of United States dollars)

<i>Component/subcomponent</i>	<i>PY1</i>	<i>PY2</i>	<i>PY3</i>	<i>PY4</i>	<i>PY5</i>	<i>PY6</i>	<i>Total</i>
1. Integrated watershed management							
1.1 Development & institutionalization of participatory integrated watershed management plans	144	8	5	-	-	-	157
1.2 Operationalization of watershed management plans	174	164	187	98	28	-	650
1.3 Watershed restoration and water management infrastructure	-	2 417	6 786	6 377	2 680	-	18 260
Subtotal	317	2 588	6 978	6 475	2 708	-	19 067
2. Crop and livestock productivity and rural livelihood improvement							
2.1 Access to advisory services	795	818	406	492	185	33	2 728
2.2 Sustainable access to inputs & technologies for enhanced production and post-harvest management	362	1 702	2 256	2 298	943	19	7 580
2.3 Producers' organizations and cooperatives support	80	701	2 421	2 475	1 405	-	7 082
Subtotal	1 237	3 221	5 083	5 264	2 533	52	17 390
3. Institutional capacity-building and project support services							
3.1 Institutional capacity-building & policy support	716	997	2 618	1 112	372	383	6 199
3.2 Project management and South-South and Triangular Cooperation	920	660	586	655	516	652	3 989
Subtotal	1 637	1 657	3 204	1 766	888	1 035	10 188
4. Disaster risk reduction and management							
Total	3 191	7 466	15 266	13 506	6 130	1 087	46 645

Financing and cofinancing strategy and plan

19. IFAD will provide US\$37.05 million through the IFAD11 cycle. Under the Fund's new Debt Sustainability Framework, Eritrea is eligible to receive 80 per cent of that amount as a grant, and 20 per cent as an optional loan on highly concessional terms.
20. The Government's contribution is estimated at US\$4.9 million, of which US\$3.5 million as tax and duty waivers, in addition to US\$1.4 million as the salaries of some project staff.
21. Beneficiaries will contribute in-kind, notably through labour and construction materials for watershed management and dam construction. Beneficiary contributions are preliminarily valued at US\$4.7 million, or 22.7 per cent of the total value of works under expenditure category 1.

Disbursement

22. IADP will receive IFAD funding over six years. Disbursement will depend on budget execution and timeliness of procurement processes. Judging by ongoing projects, disbursement risk is assessed to be high. Main disbursement categories will be for works, goods, services, inputs and training. Operational procedures for these categories of expenditure, including criteria for providing goods, inputs and equipment to beneficiaries, will be fully clarified in the project implementation manual.
23. Training foreseen in the annual workplan and budget (AWP/B) will need to be supported by training, workshop and meeting plans and benchmarked against lessons to determine effectiveness and efficiency. Recurrent costs represent 4 per cent of the overall project and are mainly financed by the Government in the form of salaries. Support services provided to ensure the project reaches its development goal have been classified as investment costs given the longer-term, institutional capacity-building objective.

Summary of benefits and economic analysis

24. Based on the objective, results framework and component structure, the project is expected to generate the following benefits: increased yields; reduced land degradation and soil rehabilitation; increased resilience to climate change due to

water management and irrigation investments; enhanced food security and rural poverty reduction.

25. The economic analysis shows that IADP is economically viable. The analysis period is 20 years to account for the phasing and gestation of the proposed interventions. The economic rate of return for the overall project is equal to 19.04 per cent and the net present value equals US\$59.9 million. IADP is sensitive to changes in some of the model's variables. The risks factored in the sensitivity analysis include weather variations, potential protracted procurement delays and generally weak implementation capacity, and prolonged impact of the COVID-19 pandemic.

Exit strategy and sustainability

26. **Exit strategy.** IADP's exit strategy is embedded in the strategic approach of working directly with administrative bodies and community leaders at the national, Zoba, sub-Zoba and Kebabi (village) levels. By the fourth year of IADP, the communities and producers' organizations will have taken full responsibility for planning and implementing watershed interventions as well as operating and maintaining production infrastructure. The project will hand over major infrastructure and equipment to the community together with a management plan and comprehensive operations and management training.

III. Risks

A. Risks and mitigation measures

Table 4

Risks and mitigation measures

<i>Main risks</i>	<i>Mitigation measures</i>
Country context. Institutional capacity gaps and inadequate policy framework, and limited participation of private sector in agriculture.	IADP builds on the National Agriculture Plan's (NAP's) foundations and will seek to strengthen capacities and policy frameworks in the implementing agencies of the Ministry of Agriculture. IADP will gradually integrate business planning into project investments.
Environment and climate context. Poor spatial and temporal distribution of water as well as total scarcity of rainfall in Eritrea, with over 90 per cent of the country receiving less than 450 mm per annum.	Component 1 is built around integrated water resources management to restore the hydrologic and ecological functioning of watersheds, enhance the sustainability of existing land uses and improve lands' resilience to climate shocks.
Financial management (FM). Inadequate internal control and financial reporting systems.	FM requirements will be reflected in legal covenants and technical assistance foreseen for first two years.
Procurement. Lack of acceptable national legal and regulatory framework, procurement delays, limited procurement capacity.	IFAD's Project Procurement Guidelines, Procurement Handbook and standard procurement documents will apply, with continuous provision of technical assistance (TA) and training.

Table 5

Overall risk summary

<i>Risk areas</i>	<i>Inherent risk rating</i>	<i>Residual risk rating</i>
Country context	Substantial	Moderate
Sector strategies and policies	Substantial	Moderate
Environment and climate context	High	Substantial
Project scope	Moderate	Low
Institutional capacity for implementation and sustainability	High	Substantial
Financial management	High	Substantial
Project procurement	Substantial	Moderate
Environment, social and climate impact	Moderate	Low
Stakeholders	Low	Low
Overall	Substantial	Moderate

B. Environment and social category

27. Project interventions include: construction of soil and water conservation structures; small-scale irrigation; drought-tolerant crops; forage and livestock breeds; tree planting along hill slopes; rangeland management; and establishment of enclosures to reduce greenhouse gas emissions and provide carbon sinks. The project has been preliminary classified as **environmental and social category B** since the size of the irrigation schemes will not result in any loss of ecosystem services, nor have significant negative implications over a broader area.
28. The project will respect the environmental and social safeguards required by the Government and IFAD. It will abide by the 2017 Eritrean Environmental Protection, Management and Rehabilitation Framework, the 1999 National Environmental Assessment Procedures and Guidelines, and the 2008 Environmental Assessment Procedures and Guidelines for Agricultural Projects. An environmental and social management framework (ESMF) reflecting these requirements with respect to planned project activities, together with a free prior and informed consent implementation plan will guide the project during implementation. The ESMF was developed as part of project preparation.

C. Climate risk classification

29. Based on the analysis documented in the Social, Environmental and Climate Assessment Procedures of IFAD, the project's climate risk is preliminarily classified as **high**. Risks will be mitigated by increasing the ability of the affected communities to adapt to environmental and economic variability and long-term changes. A climate risk vulnerability analysis has indicated the main risk as increased temperatures and extreme temperatures, and reduction in precipitation, which will all be addressed under IADP.

D. Debt sustainability

30. Eritrea has not undergone a debt sustainability analysis from the World Bank or the International Monetary Fund (IMF), but is classified as a low-income country eligible for the IMF's Poverty Reduction and Growth Trust. IMF staff completed an Article IV mission in May 2019, and a report is expected to be published soon. According to the World Bank's Macro Poverty Outlook (spring 2020), total public debt, including external arrears, shrank to an estimated 232 per cent of GDP in 2019 from 291 per cent in 2017, driven by persistent primary surpluses and debt relief. External public debt declined by 10 per cent to 52 per cent of GDP (or US\$1.1 billion) in 2018–2020, mainly due to debt relief by the Abu Dhabi Fund for Development. Meanwhile, domestic debt dropped to 179 per cent of GDP in 2019 (US\$3.8 billion) from 208 per cent in 2018, due to net repayments of Treasury bonds to banks and of central bank advances to pay part of public sector wages. However, the 2020 African Economic Outlook highlights that Eritrea is already at high risk of debt distress and that the latter could culminate in a drop in the sovereign rating and a rise in interest spreads, constraining growth. Given the dominance of state-owned enterprises and their dependence on state financing, spillover effects of sovereign debt on these entities could reduce output.

IV. Implementation

A. Organizational framework

Project management and coordination

31. **Project implementation arrangements.** IADP will to a large extent emulate the existing structures of the NAP, although technical component leads will be introduced in IADP. The project will be implemented within the Government's decentralized institutional framework, comprising the Ministry of Agriculture technical departments at national level, and their decentralized structures, including the branches and units of Zobas and sub-Zobas, as well as Kebabis. The Ministry of Agriculture will be the lead executing agency.

Project coordination framework

32. A national project coordination office (NPCO) will be established under PSD. The NPCO will ensure day-to-day management of the project and will be headed by a project coordinator. The NPCO structure will include technical component leads and the engagement of TA as needed.
33. Zoba project coordination offices will be established in each of the six Zobas to coordinate project implementation. Planning and implementation committees, set up in every Kebabi and headed by the Kebabi administrator, will coordinate planning and implementation of project activities at that level.
34. The national project steering committee of NAP will be re-established under IADP to ensure cross-sectoral coordination as well as strategic oversight of project implementation across the six Zobas. Its main function will be to ensure that the project is implemented within the national policy and strategy framework. It will also provide strategic guidance and resolve critical implementation bottlenecks.
35. Zoba project coordination committees will oversee operations at Zoba level. The committees will meet on a quarterly basis. Chaired by the Zoba governors, they will also include the directors of Zoba administration departments and heads of agriculture divisions. The committees' functions are similar to those of the national project steering committee at national level.

Financial management, procurement and governance

36. **Financial management.** Overall responsibility for FM and procurement will lie with the Administration and Finance Department of the Ministry of Agriculture, while the finance units of the Zoba project coordination committees will be responsible for accounting, FM and procurement at the Zoba level. An assessment of proposed FM arrangements has been undertaken. The risk is assessed to be high at design, due to manual processes and inadequate staff capacity and oversight mechanisms. With the adoption of the mitigation measures, residual FM risk remains substantial at the outset, and will be reassessed during implementation.
37. Adoption of country systems will be limited as there is no integrated FM mechanism through which to report IADP expenditures. TA will be required for at least the first two years of implementation, to ensure: (i) that an appropriate control framework is adopted; and (ii) that finance capacity at NPCO and Zoba levels is built up, including strengthening internal and external audit mechanisms. Agreed FM risk mitigation measures will be reflected in legal covenants of the IADP financing agreement, and detailed procedures will be clarified in the project implementation manual.
38. **Procurement.** While the overall responsibility for procurement rests with the Administration and Finance Department of the Ministry of Agriculture, the NPCO procurement team will be responsible for ensuring compliance with IFAD's Project Procurement Guidelines; Zoba project coordination committees will be responsible for carrying out procurement activities at the Zoba level. Capacity-building interventions will be guided by a capacity needs assessment, with regular implementation support missions and targeted training activities, including support on the use of IFAD's standard procurement documents.
39. **Governance.** While the enforcement of good governance would be the primary responsibility of the Government of Eritrea, all IADP's stakeholders will be made aware of the Revised IFAD Policy on Preventing Fraud and Corruption in its Activities and Operations. IFAD has zero tolerance towards fraudulent, corrupt, collusive or coercive actions in programmes and projects. IADP will also apply IFAD's Framework for Operational Feedback from Stakeholders. Finally, IADP will comply with the IFAD Policy to Preventing and Responding to Sexual Harassment, Sexual Exploitation and Abuse.

Project target group engagement and feedback, and grievance redress³

40. IADP will align with IFAD's Framework for Operational Feedback from Stakeholders and ensure beneficiary engagement in the entire project cycle from start-up to completion. An indicator for tracking beneficiary engagement and feedback has been included in the M&E system.

Grievance redress

41. A project grievance and redress mechanism has been developed in the ESMF and the Social, Environmental and Climate Assessment Procedures of IFAD, and proposes recourse through a community-based route and formal legal procedures. The community-based grievance redress mechanism uses existing traditional structures and also facilitates grievance resolution at higher levels (including courts of law, where necessary).

B. Planning, monitoring and evaluation, learning, knowledge management and communication

42. **Planning.** The M&E team, in close collaboration with PSD, will be responsible for the coordination of programming and preparation of the project's AWP/B. AWP/Bs will be key instruments for implementation and operational control. PSD will consolidate AWP/Bs from all implementing partners, including at the community level. The project will adopt multi-year, results-oriented planning, linked with achievement of its development objective.
43. **Monitoring and evaluation.** PSD will coordinate M&E processes, reporting, and knowledge management. PSD will be responsible for preparing consolidated six-monthly and annual progress reports, conducting outcome surveys and carrying out thematic studies. A baseline study will be undertaken during the first year to provide a benchmark for assessment of outcomes and impact. The survey will include data for tracking progress on mainstreaming themes.
44. **Knowledge management and learning** will serve as the foundation for replication of successes, provide the analytical basis for resolving challenges, and help to adapt activities to changing social and economic circumstances in the target areas. A knowledge management action plan will be prepared to identify knowledge gaps, and document and disseminate knowledge using various communication tools (Ministry of Agriculture newsletter, brochures, websites and radio). South-South and Triangular Cooperation and exchange visits will be integrated into the knowledge management and learning strategy. Knowledge management will also inform the development of policy frameworks for food safety, the seed sector and animal health.
45. **Communication.** IADP will develop a strategic communication plan for communication products targeting specific groups such as the general public and donors to increase awareness of the project and its results. Improved communication will support the project's social inclusion interventions and improve group engagement and feedback.

Innovation and scaling up

46. IADP's key areas for innovation include: advanced irrigation technologies; cooperative development with a focus on promoting community-led agroenterprises for youth; energy-efficient cooking stoves; and community kitchens. Priority areas for scaling up will be: good practices and water use efficiency in irrigation; sustainable land and water management, conservation farming, and soil fertility; and Eritrea's Minimum Integrated Household Agricultural Package approach adapted to IFAD's mainstreaming priorities.

³ See Framework for Operational Feedback from Stakeholders (<https://webapps.ifad.org/members/eb/128/docs/EB-2019-128-R-13.pdf?attach=1>) for further details.

C. Implementation plans

Implementation readiness and start-up plans

47. The project will build on NAP's achievements, including its implementation structure, which will contribute to a seamless transition. Implementation readiness at start-up will include: (i) reappointment of staff, after performance evaluation, in accordance with updated terms of references; (ii) expedited procurement of an FM system and other related software; (iii) ESMF preparation, climate risk and vulnerability assessment upfront, as well as feasibility studies and capacity needs assessment; (iv) recruitment of key TA prior to project start-up.

Supervision, midterm review and completion plans

48. **Supervision.** IADP will be supervised by IFAD and the Government of Eritrea through joint supervision missions.
49. **Midterm review.** This will be undertaken halfway through the project to ensure that IADP is on track to achieving its development objective. The midterm review will also be an opportunity to revisit key design elements (e.g. indicator targets) as required, since IADP's design was finalized under COVID-19 guidelines.
50. **Project completion.** At the end of IADP's implementation, the Government of Eritrea will be required to undertake a project completion review, in close coordination with IFAD. A beneficiary impact assessment will also be undertaken to inform the review.

V. Legal instruments and authority

51. A project financing agreement between the State of Eritrea and IFAD will constitute the legal instrument for extending the proposed financing to the borrower/recipient. A copy of the negotiated financing agreement will be made available prior to the session.
52. The State of Eritrea is empowered under its laws to receive financing from IFAD.
53. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

VI. Recommendation

54. I recommend that the Executive Board approve the proposed financing in terms of the following resolution:

RESOLVED: that the Fund shall provide a Debt Sustainability Framework grant to the State of Eritrea in an amount of twenty-nine million six hundred and fifty thousand United States dollars (US\$29,650,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

RESOLVED FURTHER: that the Fund shall provide a loan on highly concessional terms to the State of Eritrea in an amount of seven million four hundred thousand United States dollars (US\$7,400,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Gilbert F. Hougbo
President

Negotiated financing agreement

(To be made available prior to the session)

Logical framework

Results hierarchy	Indicators				Means of verification			Assumptions
	Name	Baseline	Mid-term	End target	Source	Frequency	Responsibility	
Outreach								
	Number of Households receiving project services Estimated corresponding number of household members - C.I. 1.a Persons receiving services promoted or supported by the project (disaggregated by age and gender)- C.I. 1.b – 40% women; 40 % youth (18-35 years)	0 0	25 000 125 000	60 000 300 000	Annual Consolidated Project Report – beneficiary database	Baseline Midterm End-line	PSD NPCO	-The outreach of the delivery of services, inputs, tools and equipment is increased and diversified
Goal								
To contribute to poverty reduction, and food and nutrition security of rural households in the targeted areas	● Indicator 1: Food deficit at the national level reduced (%) ⁴	38 ⁵	30	22	MOA Annual Report	Baseline Midterm End-line	PSD NPCO	- The implementation of the peace deal provides a conducive environment for business and agribusiness development - COVID-19 situation recedes and project operations & proceed normally or guidelines for COVID-19 implemented
	● Indicator 2: % households reporting an increase in household asset index ***	0	15	30	Annual Outcome surveys			
Project Development Objective								
Enhancement of smallholder agricultural production and productivity and improvement of rural livelihoods, in a sustainable and climate-resilient way	● Indicator 3: % increase in national annual agricultural output in the project target areas ⁶	0	15	40	Outcome Survey	Baseline Midterm End-line	PSD NPCO	-The implementation of the peace deal provides a conducive environment for business and agribusiness development - Climatic conditions are conducive for production
	● Indicator 4: New jobs created (2.2.1)	0	2 500	6 500				
Component 1: Integrated Watershed Management								
Outcome 1: Strengthened environmental	● Indicator 5: % of households reporting reduced water shortage vis-à-vis production needs (1.2.3) ***	0	30	70	Survey	Annual outcome surveys	NPCO	- Timely completion of procurement processes and construction of water-related infrastructure

⁴ Ministry of Agriculture data - specific reference to cereals. Considering 10 year average

⁵ 2019 data

⁶ Strategic crop, fruits, vegetables and livestock products – comparing With and Without project

Results hierarchy	Indicators				Means of verification			Assumptions
	Name	Baseline	Mid-term	End target	Source	Frequency	Responsibility	
sustainability and climate resilience of poor rural people's economic activities	● Indicator 6: % of households reporting adoption of environmentally sustainable and climate-resilient technologies and practices (3.2.2)**	5	15	40		Baseline Midterm End-line		- Communities adopting climate resilient soil and water management practices - Investments informed by watershed management plans
Outputs: 1.1: Climate resilient & sustainable management 1.2: Irrigation production is promoted	● Indicator 7: No. ha brought under climate resilient and sustainable management practices (3.1.4)	0	4 000	10 000 ⁷	Project M&E Reports	Annual outcome surveys	NPCO, ZPCO, Project implementing agencies	- Gov. will assign staff & O&M recurrent budget
	● Indicator 8: No. ha of land under irrigated crop production (1.1.2)	0	645	1915		Baseline Midterm End-line		
Component 2: Crop and Livestock Productivity and Rural Livelihood Improvement								
Outcome 2: Increased diversification of livelihoods and resilience of communities	● Indicator 9: % of women reporting improved quality of their diets-1.2.8) ****	0	30	80	Survey	Annual outcome surveys	NPCO	- Inputs and technologies are effectively disseminated to farmers in a timely manner - Nutrition education is effectively delivered to households - Beneficiaries successfully organised into groups & producer organisations providing services to their membership
	● Indicator 10: % of persons reporting adoption of new/improved inputs, technologies or practices (1.2.2) ***	0	20	40		Baseline Midterm End-line		
	● Indicator 11: % of persons engaging in new livelihood opportunities derived from the project ⁸ ***	0	30	80				
Outputs 2.1 Improved access to advisory services, inputs and livelihood support 2.2 knowledge on nutrition enhanced 2.3 Strengthened POs skills for collective services and market linkages	● Indicator 12: Number of persons trained in production practices and/or technologies (1.1.4)***	0	10 000	22 000	Project M&E Reports	Annual Baseline Midterm End-line	NPCO	- Agricultural and nutrition extension is effectively delivered to households - Timely completion of procurement processes
		0	10 000	22 000				
	● Indicator 13: Number of persons trained in off-farm livelihood opportunities ***	0	3 000	6 000				
	● Indicator 14: Number of households provided with targeted support to improve their nutrition (1.1.8) ***	0	2 000	5 000				
		0	50	120				
● Indicator 15: Number of rural producer organizations supported (2.1.3) ***								

⁷ An average of 3 integrated watershed management plans are expected to be developed and implemented per Zoba.

⁸ Ref. EFA – including berbere processing, beekeeping, sesame processing, tools workshops, service provision

Results hierarchy	Indicators				Means of verification			Assumptions
	Name	Baseline	Mid-term	End target	Source	Frequency	Responsibility	
Component 3: Capacity Building & Project Support Services								
Outcome 3: Institutional capacity and performance to sustainably deliver services to the targeted beneficiaries enhanced	• Indicator 16: % Cumulative project disbursement targets met	0	60	100	Assessment	Baseline Midterm End-line Annual outcome surveys	NPCO, ZPCO, Project implementing agencies	- Realistic planning processes by the Government and timely execution of procurement activities - Grievance redress and consultation platform set-up - Feedback culture adopted by the beneficiaries and communities
	• Indicator 17: % of government staff reporting enhanced skills from the project interventions **	0	30	70				
	• Indicator 18: % of HH reporting they can influence decision-making of local authorities and project-supported service providers (SF.2.2) ***	0	30	60				
	• Indicator 19: % of HH satisfied with project services (SF.2.1) ***	0	30	60				
Outputs 3.1 Staff trained on project management	• Indicator 20: Capacity needs assessment undertaken and implementation plans developed	0	2	4	Annual project reports	Annually Baseline Midterm End-line	NPCO, ZPCO, Project implementing agencies	- Government leadership - Consultation platform set-up
	• Indicator 21: % of NPCO and ZPCO staff supported with training and capacity development initiatives **	0	70	90				
3.2 Knowledge management, learning and policy engagement promoted	• Indicator 22: Number of policy-relevant knowledge products completed (Policy 1)							

** Indicator to be disaggregated by gender and age / *** indicator to be disaggregated by gender, age and sector / **** Indicator to be disaggregated by age

Integrated project risk matrix

Risk Categories and Subcategories	Inherent	Residual
Country Context	Substantial	Moderate
Political Commitment	Moderate	Low
<p>Risk(s): If the peace treaty between Ethiopia and Eritrea does not hold, the country may remain in isolation, and further divert from the current development trajectory. This may impact on the Country's ability to invest in agriculture and other development sectors, and mobilisation of counterpart funds</p>		
<p>Mitigations:</p> <ul style="list-style-type: none"> • IADP will support investments that promote economic and social empowerment of the rural communities to enhance their resilience • Apply IFAD's guidelines for accounting for in-kind contribution to fully capture the contribution of the Government and beneficiaries, in lieu of counterpart funds 		
Governance	High	Substantial
<p>Risk(s): Insufficient accountability and transparency due to weak financial internal controls; gaps in financial reporting and lack of national legal regulatory framework for procurement to curb fraud and corruption. Inclusion of women and youth in decision making remains a challenge due to socio-cultural and generational norms</p>		
<p>Mitigations:</p> <ul style="list-style-type: none"> • TA will be provided to build capacity in Financial Management and put in place internal control framework • IFAD's Project Procurement Guidelines, Procurement Handbook and standard procurement documents (SPDs) shall be used; • AFDB has just initiated a project to support the Government in the preparation of a framework for Public Procurement • SECAP and specific quotas for the inclusion of women and youth. IADP also includes self-targeting activities that are attractive to these social categories (women and youth). • An ESMF has been prepared which presents guidance on Free, Prior and Informed Consent (FPIC) 		
Macroeconomic	Substantial	Moderate
<p>Risk(s): The Gross Domestic Product (GDP) of Eritrea relies heavily on services (58.9 per cent) and industry (23.5 per cent). Agriculture and fisheries contribute only 17.6 per cent, although the sector employs 65-70 per cent of the population. The agriculture sector continues to underperform, and is unable to meet the food demands of the population. Agriculture and fisheries provide only a minor contribution to economic growth due to persistent low productivity, lack of investments and vulnerability to frequent droughts. The 2019 Ease of Doing Business score of Eritrea is 23.1 and ranks Eritrea 189th out of 190 countries. Private sector participation in the economy is constrained by various economic and financial parameters. Consequently, Eritrean agriculture has difficulties to compete in the international markets combined with restricted cross-border movements of capital, goods and services.</p>		
<p>Mitigations:</p> <ul style="list-style-type: none"> • IADP will support investments that promote economic and social empowerment of the rural communities to enhance their resilience • IADP will also focus on addressing demand from local markets and import substitution 		

Risk Categories and Subcategories	Inherent	Residual
<ul style="list-style-type: none"> • IADP will gradually integrate business planning to inform investments • The resumption of relations with Ethiopia and neighbouring countries may promote intra-regional trade on agriculture commodities 		
Fragility and security	Substantial	Moderate
Risk(s): Negative impact of emergencies on the economy and livelihoods - COVID-19 & Desert Locust		
Mitigations: <ul style="list-style-type: none"> • IADP includes an un-costed component to address any potential disasters and emergency situations arising from the project. • IFADs Rural Poor Stimulus Facility (RPSF) will address short-term disruptions to food supply chains, to ensure that beneficiaries are in a position to absorb project interventions • Reallocations under NAP are contributing to address the Desert Locust emergency. The Government is also exploring biological pesticides, and developing technology to convert the desert locust into animal feed. 		
Sector Strategies and Policies	Substantial	Moderate
Policy alignment	Substantial	Moderate
Risk(s): -Limited coordination across sectors, -Enabling environment may not be conducive for the realization of the Small and Medium Commercial Farmers Strategy (SMCFS) with the goal to create by 2023 farm enterprises that engage in highly productive, profitable agriculture value chains linked to domestic and international markets.		
Mitigations: <ul style="list-style-type: none"> • Continuous engagement with GoSE on coordination on watershed management activities by FREMP and NAP when they converge in Zobas, and within the context of the UNCT • IADP is supporting the development of key policy frameworks that are critical to the implementation of the SMCFS including the translation of policies into regulations for the food safety and certification protocols; seed sector development policy; cooperative proclamation, animal health legislation; enabling conditions for engagement in market-oriented production and nutrition sensitive agriculture. 		
Policy development & implementation	Substantial	Moderate
Risk(s): Despite policy level aspirations for the development of a productive and profitable agriculture sector and a very strong commitment by Government to the country's development agenda, there are significant systemic gaps at the institutional and policy levels e.g. appropriateness of procedures and regulatory frameworks to guide the implementation of rural development projects (e.g. national procurement framework, limited technical and institutional capacities at all levels, inadequate financial management and M&E systems which impact on the ability to quantitatively demonstrate development impact.		
Mitigations: <ul style="list-style-type: none"> • Capacity needs assessment, which will inform capacity development interventions and the provision of specialised technical assistance. Partnerships with ASARECA, Africa Capacity Building Foundation and FAO will be explored. • Analysis of economic sustainability and value for money to underpin new investments; • Strengthen M&E systems to demonstrate viability or inadequacies of different policies/strategies. 		

Risk Categories and Subcategories	Inherent	Residual
• AFDB has just initiated a project to support the Government in the preparation of a framework for Public Procurement		
Environment and Climate Context	High	Substantial
Project vulnerability to environmental conditions	High	Substantial
<p>Risk(s): Given the poor spatial and temporal distribution of water as well as total scarcity of rainfall in Eritrea, with over 90 percent of the total area receiving less than 450 mm per annum, soil moisture deficiency remains to be the single most important physical production related risk factor to ensure food security in the country The project takes place in the context of land degradation and over exploitation of woody biomass</p>		
<p>Mitigations: • Component 1 is built around integrated water resources management (IWRM) as the planning unit. It will finance activities required to plan and implement IWRM to restore the hydrologic and ecological functioning of watersheds, enhance the sustainability of existing land uses and, improve its resilience to climate shocks. • a high level of awareness by government and regular programs of community level terracing and afforestation, which will also be reinforced by project activities</p>		
Project vulnerability to climate change impacts	High	Substantial
<p>Risk(s): The climate risk of the Project is preliminarily classified as “high”. Climate change and increased climate variability are severely affecting Eritrea, through its significant impact on crop and livestock production, upland fish farming and rural livelihoods Based on trends, it is likely that most of the project sites will be exposed to at least one season of very low rainfall over the life of the project</p>		
<p>Mitigations: • The climate risks will be mitigated by increasing the ability of the affected communities to adapt to environmental and economic variability, and long term changes. As per IFAD requirements, a detailed desk-based Climate Risk Analysis will be undertaken during the pre-implementation, including details of mitigating actions. • Some of the climate smart technologies to be promoted include: a) rainwater harvesting; b) drought tolerant and early maturing crop varieties; c) drought tolerant forage and agroforestry fodder species; d) watershed conservation and management; e) afforestation ;f) mangrove rehabilitation and conservation; g) solar and other forms of renewable energy sources, and energy saving approaches etc • The project introduces an innovative approach to targeting, that takes into account the agro-ecological conditions and overall environment and climate suitability to the proposed interventions</p>		
Project Scope	Moderate	Low
Project relevance	Moderate	Low
<p>Risk(s): A national programme may result in resources (financial and technical), spread too thinly, which may negatively impact implementation and affect the achievement of the development objectives.</p>		
<p>Mitigations: • Phased implementation based on Zoba capacities, state of the watershed treatment and findings of the NAP impact assessment will be applied</p>		

Risk Categories and Subcategories	Inherent	Residual
<ul style="list-style-type: none"> • Targeting Strategy will take into account agro-ecological suitability, beneficiary capacities, preference and prioritization • Active contribution of local and national key institution partners 		
Technical soundness	Moderate	Low
Risk(s): Limited capacities may impact on the implementation of the innovative technical aspects of the project including remote sensing, sprinkler irrigation, agribusiness approaches		
Mitigations: <ul style="list-style-type: none"> • Capacity needs assessment coupled with specialised technical assistance and on-the-job training • Farmer field schools approach will be adapted to include business planning • Phasing of project interventions to simplify the project component structure 		
Institutional Capacity for Implementation and Sustainability	High	Substantial
Implementation arrangements	High	Substantial
Risk(s): Institutional Capacity gaps to implement innovative technical aspects of the project		
Mitigations: <ul style="list-style-type: none"> • Capacity needs assessment • Provision of specialized international technical assistance. • Institutional capacity development at all levels, with training of young staff, as well as investments in equipment and systems. 		
M&E arrangements	High	Substantial
Risk(s): Weak M&E systems and capacities to consolidate, analyse data and report on outcomes. Different reporting systems across the Zobas		
Mitigations: <ul style="list-style-type: none"> • Specialised Technical Assistance • Participation in PRIME training of project staff • Development of project-level M&E manuals and standardized approaches across Zobas • Focus on outcome surveys 		
Procurement	Substantial	Moderate
Legal and regulatory framework	Substantial	Moderate
Risk(s): <ul style="list-style-type: none"> • Lack of acceptable national legal and regulatory framework ; • Lack of standard bidding documents ; • Weak contract administration and management; • Limited public access to procurement information also due to very weak ICT systems. 		
Mitigations: <ul style="list-style-type: none"> • Lack of acceptable national systems means IFAD's Project Procurement Guidelines, Procurement Handbook and standard procurement documents (SPDs) shall be mandatory; • a highly competent, qualified and dedicated team will ensure compliance with procurement monitoring; • enable IFAD-financed projects to operate on a separate platform to government or for IFAD to ensure government's systems are upgraded. 		

Risk Categories and Subcategories	Inherent	Residual
Accountability and transparency	High	High
Risk(s): <ul style="list-style-type: none"> • The Government of Eritrea has to date not confirmed the existence of a procurement complaints mechanism; • Transparency.org assigns a low country corruption perception index score (23); • lack of a 2-tiered system to handle complaints, a debarment system and an independent and competent local authority responsible for investigating corruption allegations. 		
Mitigations: <ul style="list-style-type: none"> • IFAD can strongly encourage government through policy dialogue to address these shortcomings; • All procurement entities, as well as bidders, suppliers, contractors, consultants and service providers, shall observe the highest standard of ethics during the procurement and execution of contracts financed under IFAD funded Projects, in accordance with paragraph 84 of the Procurement Guidelines. The Revised IFAD Policy on Preventing Fraud and Corruption in its Activities and Operations shall apply to all projects, vendors and third parties, in addition to the relevant national anticorruption and fraud laws. Adoption of IFAD's Standard Procurement Documents will mitigate the identified risk. 		
Capability in public procurement	Moderate	Low
Risk(s): <ul style="list-style-type: none"> • Overall, capacity of the procurement team is low; • World Bank templates for ICB, NCB and shopping are being used; • There is no indication that legal and regulatory framework documents are readily available to procurement staff. 		
Mitigations: <ul style="list-style-type: none"> • Provision of regular training and Technical Assistance; • support on preparation of bidding activities in compliance with IFAD's requirements; • Government commitment to the recruitment of qualified project staff; • With the use of IFAD's SPDs, the quality of documents should improve and be compliant with IFAD's requirements 		
Public procurement processes	Moderate	Low
Risk(s): <ul style="list-style-type: none"> • Procurement methods are consistent with IFAD Guidelines. However, the choice of procurement methods should be revisited where national market conditions warrant it; • While ICBs are advertised on UNDB, bidding documents for other procurement methods are shared with bidders in soft copy via a USB pen, but they are only available at the MoA offices; • Procurement plans are of low quality; • Lack of secure storing capacity; • Minutes of bid opening are not sent to bidders; • Contacts are entered into after bid validity has expired. • Contract awards are notified only to participating bidders and publicly advertised. 		
Mitigations: <ul style="list-style-type: none"> • With the use of IFAD's SPDs and the Procurement Handbook, the quality of documents should improve and be compliant with IFAD's requirements; • MoA should publish all bidding documents on their website; • The use of IFAD's procurement tools will mitigate many of the risks associated to Procurement Planning and Contract Administration; • It is recommended that adequate and secure archiving space is guaranteed for both bids and securities; 		

Risk Categories and Subcategories	Inherent	Residual
<ul style="list-style-type: none"> • Project should have access to advertising on the Eritrean Government's website; • It is highly recommended that government hold bidders responsible for the performance of contracts and cash in performance bonds/guarantees. 		
Financial Management	High	Substantial
Organization and staffing	Substantial	Moderate
Risk(s): <ul style="list-style-type: none"> • Capacity gaps of finance staff at NPCO level • Weak capacity of finance staff at zoba level • Lack of clarity on IFAD's procedures 		
Mitigations: <ul style="list-style-type: none"> • Full-time, qualified, finance staff assigned on basis of agreed TORs • Finance team composed of full-time financial controller, chief accountant and accounts assistant • Selection of financial controller for IFAD approval • Capacity building at start-up • CIPFA FM training to be provided • Specialised technical assistance, implementation support by IFAD • Agreed training plan implemented from start-up 		
Budgeting	Substantial	Moderate
Risk(s): <ul style="list-style-type: none"> • Delays in AWPB submission and approvals • Weak budgetary control practices • Low budget execution 		
Mitigations: <ul style="list-style-type: none"> • Timeliness of AWPB submission monitored • Adoption of automated budget monitoring and commitment tools • Mandatory quarterly reporting on budget execution 		
Funds flow/disbursement arrangements	High	Substantial
Risk(s): <ul style="list-style-type: none"> • Low disbursements due to NPCO financial reporting capacities • Delays in financial reporting and submission of returns at zoba level; irregular/ delayed bank reconciliations 		
Mitigations: <ul style="list-style-type: none"> • AWPB execution and procurement processes closely monitored by NPCO and IFAD • Quarterly submission of withdrawal applications • Mandatory quarterly interim financial reports • Close monitoring of zoba financial reporting and bank reconciliations by NPCO finance team • Adoption of IFAD's client portal (ICP) 		
Internal controls	High	Substantial
Risk(s): <ul style="list-style-type: none"> • Weak internal controls leading to ineligible expenditure • Inadequate segregation of approvals • Inadequate internal audit mechanisms 		
Mitigations: <ul style="list-style-type: none"> • Internal control framework assessed through TA • Segregation of duties ensured through adequate staff complement (at least 3 full-time finance staff at NPCO) • PIM finalised and adopted at start-up; training workshop on procedures for all NPCO and concerned zoba staff • Budgetary monitoring, management accounting & reporting procedures monitored through interim financial reports 		

Risk Categories and Subcategories	Inherent	Residual
<ul style="list-style-type: none"> External audit reviews of internal controls, Management Letter recommendations Scope of internal audit agreed annually - risk-based program of work; internal audit reports available to IFAD; reporting on follow-up to audit recommendations Internal controls assessed through IFAD supervisions 		
Accounting and financial reporting	High	Substantial
Risk(s): <ul style="list-style-type: none"> Weak financial reporting; delays with data inputs, management and IFAD not provided with timely financial information required for business decisions Inaccurate financial reporting due to manual processes Weak budget monitoring systems leading to budget overruns Procurement of accounting software delayed Failure to report accurately on in-kind contributions 		
Mitigations: <ul style="list-style-type: none"> Training on IFAD's financial reporting requirements Training on international accounting standards Adoption of accounting software at start-up, PIM updated to reflect software work-flows Automated generation of financial reports, including withdrawal applications and SOEs Procurement of accounting software: legal covenant Bidding documents for accounting software prepared prior to start-up; processes launched at signature of financing agreement Cross-support to NPCO by finance staff of ongoing projects Procedure for calculating and recording in-kind contributions to be documented in PIM at start-up 		
External audit	Substantial	Moderate
Risk(s): <ul style="list-style-type: none"> Delays in audit submission Quality of audit work not meeting IFAD's requirements and best practice international standards 		
Mitigations: <ul style="list-style-type: none"> Selection of auditor to be based on quality as well as cost (QCB) IFAD no objection to audit TOR and selection of auditor 		
Environment, Social and Climate Impact	Moderate	Low
Biodiversity conservation	Moderate	Low
Risk(s): There are pressures on biodiversity due to population pressures. There are protected natural reserves.		
Mitigations: There is a high level of inherent agro-biodiversity in production systems across Eritrea and the project intends to build on this for dietary diversity among other reasons Project land use planning will ensure awareness of and avoidance of areas of potential overlapping of project areas with protected areas of their immediate dispersal/buffer areas.		
Resource efficiency and pollution prevention	Low	Low
Risk(s): The traditional production systems of Eritrea are resource optimizing and use minimal external inputs, including few if any inorganic fertilizers, pesticides or herbicides. In any case import costs make this prohibitive for the target group but the project should not exclude for high value crops		

Risk Categories and Subcategories	Inherent	Residual
<p>Mitigations: Project will explore the options of natural integrated pest management Green manuring will be practiced, while being cognizant of potential competing demands for these same materials A ESMF will include materials on banned substances in terms of pesticides and herbicides, which are in any case will controlled by MoA/Regulatory Services</p>		
Cultural heritage	Low	Low
<p>Risk(s): There is little reason to believe that the project areas would be exposed to or put at risk any protected cultural heritage artifacts</p>		
<p>Mitigations: SECAP2020 will be made available to the PMU at both central and zoba levels</p>		
Indigenous Peoples	Low	Low
<p>Risk(s): Eritrea does not recognize the concept of 'indigenous peoples' however there are various ethnic groups.</p>		
<p>Mitigations: The project targeting strategy has a focus on the vulnerable in each project area, which in turn is selected on the basis of multiple and explicit criteria.</p>		
Community health and safety	Substantial	Moderate
<p>Risk(s): There will be water retention structure rehabilitation and/or construction, the exact dimensions of which are still to be determined but are expected to be under IFAD SECAP thresholds</p>		
<p>Mitigations: The project will ensure that technically competent persons (engineers) participate in the identification of sites and that any construction is approved according to government regulations applicable and that the same will be clearly documented. These structures will be inspected upon each supervision by a qualified team member</p>		
Labour and working conditions	Substantial	Moderate
<p>Risk(s): The long standing national requirement of community labour contribution for several weeks a year might represent a risk but a larger risk of triggering IFAD labour related safeguards is the potential of conscript (universal national service) labour being used unremunerated or inadequately remunerated in infrastructure related activities either by contractors and/or as a government contribution</p>		
<p>Mitigations: The project is not expecting to invest heavily in infrastructure development, which significantly reduces exposure to this safeguard risk The government position is that national service is universal and that persons are deployed in a range of jobs throughout the civil service and economy The government has signed the relevant international treaties and regularly exchanges with ILO. IFAD will engage with ILO to potentially field joint technical assistance if relevant to this project Labour risk issues are also detailed in the ESMF</p>		

Risk Categories and Subcategories	Inherent	Residual
Physical and economic resettlement	Low	Low
Risk(s): No activities anticipated to trigger IFADs very strict thresholds for economic or in particular physical resettlement		
Mitigations: n/a		
Greenhouse gas emissions	Low	Low
Risk(s): The nature of the production system leaves no reason to believe that there will significant risks of GHGs apart possibly from small livestock.		
Mitigations: Improved fodder will reduce the already low level of GHGs. No deforestation or additional biomass burning will result from project activities		
Vulnerability of target populations and ecosystems to climate variability and hazards	Moderate	Low
Risk(s): Note: this refers to the risk from the project in terms of inadvertently exacerbating the vulnerability of the population by promoting maladaptive practices.		
Mitigations: A detailed climate risk study will be prepared, which will cover both the risks from the climate to the population and from the project to the population in terms of climate vulnerability		
Stakeholders	Moderate	Low
Stakeholder engagement/coordination	Moderate	Low
Risk(s): Project Steering Committee (PSC) not meeting as planned Harmonization between NPCO and Zoba PCOs – financial management, M&E, implementation		
Mitigations: <ul style="list-style-type: none"> • Dialogue with GoSE on PSC; • Government has adapted the PSC approach, with the Minister Agriculture holding regular steering meetings with NPCO, complemented by joint field visits of with other Ministers and Zoba Governors • Deployment of participatory tools in AWPB preparation, implementation and monitoring 		
Stakeholder grievances	Low	Low
Risk(s): Potential grievances around water infrastructure and diversion of water upstream		
Mitigations: <ul style="list-style-type: none"> • Undertake stakeholders' feedback sessions. • Government implements a bottom-up approach in the identification of investments, hence there is free and prior consent of the communities • Implementation of IFAD's Framework for Operational Feedback from Stakeholders: Enhancing Transparency, Governance and Accountability 		