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Report No: PAD568

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT

IN THE AMOUNT OF SDR 71.8 MILLION  
(US\$110 MILLION EQUIVALENT)

TO THE

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

FOR A

PASTORAL COMMUNITY DEVELOPMENT PROJECT III

NOVEMBER 15, 2013

Agriculture, Rural Development, and Irrigation (AFTAI-3)  
Sustainable Development Department  
Country Department 3  
Africa Region

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## CURRENCY EQUIVALENTS

(Exchange Rate Effective September 30, 2013)

Currency Unit = Ethiopian ETB (ETB)  
ETB 18.92 = US\$1  
US\$ 1.4084 = SDR 1

FISCAL YEAR  
July 8 – July 7

## ABBREVIATIONS AND ACRONYMS

APL	Adaptable Program Loan
ARTP	Agricultural Research and Training Project
BDS	Business Development Service
BoFED	Bureau of Finance & Economic Development
CAP	Community Action Plans
CDD	Community Driven Development
CDP	Community Development Plan
CIF	Community Investment Fund
CLP	Community Livelihood Plan
COSOP	Country Strategy and Opportunity Paper (IFAD)
CPAR	Country Procurement Assessment Report
CPC	Community Procurement Committee
CPMC	Community Project Management Committee
CPS	Country Partnership Strategy
CSR	Civil Service Reform Program
DA	Development Agent
DPSIP	Disaster Preparedness Strategic Investment Plans
DRM SPIF	Disaster Risk Management Strategic Program and Investment Framework
EFY	Ethiopian Fiscal Year
EIAR	Ethiopian Institute for Agricultural Research
EIFTRI	Ethiopian Inclusive Finance Training and Research Institute
EMCP	Expenditure Management and Control Program
EPRDF	Ethiopian People's Revolutionary Democratic Front
ESIA	Environmental and Social Impact Assessments
ESMF	Environmental and Social Management Framework
ESMP	Environmental and Social Management Plans
ETB	Ethiopian ETB
F/PTC	Farmer/Pastoral Training Centers
FAO	Food and Agriculture Organization of the United Nations
FCA	Federal Cooperative Agency
FM	Financial Management
FPCU	Federal Project Coordination Unit
FPPA	Federal Public Procurement and Property Administration Agency

FREG	Farmer-Research-Extension Group
F/PRG	Farmer/Pastoralist-Research Group
FRG	Farmer-Research-Group
FY	Fiscal Year
GDP	Gross Domestic Product
GoE	Government of Ethiopia
GTP	Growth and Transformation Plan
HABP	Household Asset Building Program
HDI	Human Development Index
HEW	Health Extension Worker
IBEX	Integrated Budget and Expenditure Database
IBRD	International Bank for Reconstruction and Development
ICB	International Competitive Bidding
IDA	International Development Association
IFAC	International Federation of Accountants
IFAD	International Fund for Agricultural Development
IFR	Interim Financial Reports
IGA	Income Generating Activity
INTOSAI	International Organization for Supreme Audit Institutions
IPF	Investment Project Financing
IPSAS	International Public Sector Accounting Standards
IRR	Internal Rate of Return
ISA	International Standards of Auditing
JICA	Japan International Cooperation Agency
JRIS	Joint Review and Implementation Support
KDC	Kebele Development Committee
KM&L	Knowledge Management and Learning
KPI	Key Performance Indicators
M&E	Monitoring and Evaluation
MDG	Millennium Development Goal
MIS	Management Information System
MoFA	Federal Ministry of Federal Affairs
MoFED	Federal Ministry of Finance & Economic Development
MoU	Memorandum of Understanding
MFI	Micro Finance Institution
MST	Mobile Support Team
MTR	Mid-term Review
NBE	National Bank of Ethiopia
NCB	National Competitive Bidding
NNCB	National Nutrition Inter-sectoral Coordination Body
NNP	National Nutrition Program
O&M	Operations and Maintenance
OCSSCO	Oromiya Credit and Savings Share Company
OFAG	Office of the Federal Auditor General
OP	Operational Policy
ORAF	Operational Risk Assessment Framework
PAD	Project Appraisal Document
PBS	Protecting Basic Services
PCDP	Pastoral Community Development Program

PEFA	Public Expenditure and Financial Accountability
PFM	Public Finance Management
PIM	Project Implementation Manual
PMP	Pest Management Plan
PPA	Public Procurement and Property Administration Agency
PRA	Participatory Rapid Appraisal
PRM	Pastoral Risk Management
PSCAP	Public Sector Capacity Building Support Program
PSNP	Productive Safety Net Program
PTSA	Parents Teachers Students Association
RARI	Regional Agricultural Research Institute
RCBP	Rural Capacity Building Project
RLP	Rural Livelihoods Program
RPCU	Regional Project Coordination Unit
RPF	Resettlement Policy Framework
RPLRP	Regional Pastoralist Livelihood Resilience Project
RSC	Regional Steering Committees
RuFIP	Rural Financial Intermediation Program
SACCO	Savings and Credit Cooperatives
SBD	Standard Bidding Documents
SMFSC	Somali Microfinance Share Company
SNNP	Southern Nations Nationalities and Peoples
SNNPR	Southern Nations Nationalities and Peoples Region
SoE	Statement of Expenditures
SPG	Specific Purpose Grant
TA	Technical Assistance
UN	United Nations
UNDP	United Nations Development Program
USAID	United States Agency for International Development
US\$	United States Dollar
VSLA	Voluntary Savings and Loans Associations
WDC	Woreda Development Committee
WoCP	Woreda Office of Cooperative Promotion
WoFED	Woreda Office of Finance and Economic Development
WoMSEDA	Woreda Micro and Small Enterprise Development Agency
WoPD	Woreda Office of Pastoral Development
WTC	Woreda Technical Team
WUA	Water Users Association

Regional Vice President:	Makhtar Diop
Country Director:	Guang Zhe Chen
Sector Director:	Jamal Saghir
Sector Manager:	Tijan M. Sallah
Task Team Leader:	Laketch Mikael Imru

**ETHIOPIA**  
**Pastoral Community Development Project III**  
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**PAD DATA SHEET**

*Ethiopia*

*Pastoral Community Development Project-3*

**PROJECT APPRAISAL DOCUMENT**

*AFRICA*

*AFTAI 3*

Report No. PAD568

<b>Basic Information</b>			
Project ID	Lending Instrument	EA Category	Team Leader
P130276	Investment Project Finance	B - Partial Assessment	Laketch Mikael Imru
Project Implementation Start Date		Project Implementation End Date	
December 12, 2013		December 31, 2018	
Expected Effectiveness Date		Expected Closing Date	
April 1, 2014		December 31, 2018	
Joint IFC			
No			
Sector Manager	Sector Director	Country Director	Regional Vice President
Tijan M. Sallah	Jamal Saghir	Guang Zhe Chen	Makhtar Diop
Borrower: Federal Ministry of Finance and Economic Development, Federal Democratic Republic of Ethiopia			
Responsible Agency: Ministry of Federal Affairs			
Contact:	Seid Omer	Title:	Coordinator, FPCU
Telephone No:	00251911444357	Email:	oseidhaik@yahoo.com
<b>Project Financing Data(US\$M)</b>			
<input type="checkbox"/> Loan	<input type="checkbox"/> Grant	<input type="checkbox"/> Other	
<input checked="" type="checkbox"/> Credit	<input type="checkbox"/> Guarantee		
<b>For Loans/Credits/Others</b>			
Total Project Cost (US\$M): 210.20			
Total Bank Financing (US\$M): 110.00			
<b>Financing Source</b>		<b>Amount(US\$M)</b>	
BORROWER/RECIPIENT/COMM CONT.		15.20	
International Development Association (IDA)		110.00	

International Fund for Agricultural Development (IFAD)	85.00
<b>Total</b>	<b>210.20</b>

### Expected Disbursements (in USD Million)

Fiscal Year	2014	2015	2016	2017	2018	2019			
Annual	7.00	14.00	23.00	23.00	28.00	15.00			
Cumulative	7.00	21.00	44.00	67.00	95.00	110.00			

### Project Development Objective(s)

To improve access to community demand-driven social and economic services for pastoralists and agro-pastoralists of Ethiopia.

### Components

Component Name	Cost (USD Millions)
1. Community Driven Service Provision	69.1
2. Rural Livelihoods Program	25.9
3. Development Learning & Knowledge Management	2.7
4. Project Management and M&E	11.6
5. Unallocated	0.7

### Compliance

#### Policy

Does the project depart from the CAS in content or in other significant respects?	Yes [ ]	No [X]
Does the project require any waivers of Bank policies?	Yes [ ]	No [X]
Have these been approved by Bank management?	Yes [ ]	No [ ]
Is approval for any policy waiver sought from the Board?	Yes [ ]	No [X]
Does the project meet the Regional criteria for readiness for implementation?	Yes [X]	No [ ]

#### Safeguard Policies Triggered by the Project

	Yes	No
Environmental Assessment OP/BP 4.01	X	
Natural Habitats OP/BP 4.04	X	
Forests OP/BP 4.36		X
Pest Management OP 4.09	X	
Physical Cultural Resources OP/BP 4.11	X	
Indigenous Peoples OP/BP 4.10	X	
Involuntary Resettlement OP/BP 4.12	X	



Safety of Dams OP/BP 4.37		X	
Projects on International Waterways OP/BP 7.50		X	
Projects in Disputed Areas OP/BP 7.60			X
<b>Legal Covenants</b>			
<b>Name</b>	<b>Recurrent</b>	<b>Due Date</b>	<b>Frequency</b>
Memoranda of Understanding (MoU) for managing the Rural Livelihood Program (RLP)		2-Jun-2014	
<b>Description of Covenant</b>			
The Recipient shall ensure that Memoranda of Understanding for the management of the Rural Livelihoods Program have been duly executed not later than sixty (60) days after the Effective Date between: (a) MoFA and (i) the federal Cooperatives Agency; and (ii) the Ethiopian Institute for Agricultural Research; and (b) the Regional Pastoral Development Bureau or Commission or regional president's office with (i) Regional Agricultural Research Institutions; and (ii) academic institutions as appropriate, all in form and substance satisfactory to the Association.			
<b>Name</b>	<b>Recurrent</b>	<b>Due Date</b>	<b>Frequency</b>
Submission of first year annual work plan (including 4th quarter of FY2014)		01-May-2014	
<b>Description of Covenant</b>			
The Recipient shall furnish to the Association for its approval the first 15 month Annual Work Plan and Budget referred to in Section I.B.2 of Schedule 2 of the Financing Agreement not later than May 1, 2014			
<b>Name</b>	<b>Recurrent</b>	<b>Due Date</b>	<b>Frequency</b>
Appointment of woreda coordinator and woreda/MST finance officers,		01-Jul-2014	
<b>Description of Covenant</b>			
The Recipient shall appoint not later than ninety (90) days after the Effective Date: (i) a Woreda Project coordinator and a finance officer in the Woreda offices of Pastoral Development and Finance and Economic Development to coordinate implementation, assure smooth flow of funds, monitor performance, and prepare timely and quality reports (financial, procurement and performance on activities); and (ii) a finance officer in each Mobile Support Team to support and mentor Woreda finance officers, all with qualifications, experience and terms of reference satisfactory to the Association;			
<b>Name</b>	<b>Recurrent</b>	<b>Due Date</b>	<b>Frequency</b>
Training of all accountants and finance officers		01-Aug-2014	
<b>Description of Covenant</b>			
The Recipient shall ensure that training for all accountants and finance officers is completed within one hundred twenty (120) days after the Effective Date.			
<b>Conditions</b>			
<b>Name</b>			<b>Type</b>
Adoption of Project Implementation Manual (PIM)			Effectiveness

<b>Description of Condition</b>			
Recipient has adopted a PIM including, inter alia, detailed Project implementation arrangements and institutional roles and responsibilities, detailed implementation schedule, financial management and reporting, procurement, monitoring and evaluation, and procedures for implementation of the Safeguards Instruments for the Project, all in form and substance satisfactory to the Association"			
<b>Team Composition</b>			
<b>Bank Staff</b>			
<b>Name</b>	<b>Title</b>	<b>Specialization</b>	<b>Unit</b>
Laketch Mikael Imru	Senior Rural Development Specialist	TTL	AFTAI-3
Louise Scura	Sector Leader		AFTSN
Meena Munshi	Senior Economist	CDD	AFTAI-3
Frew Tekabe	Nutrition Specialist	Nutrition	AFTHE
Berhanu Legesse	Senior Public Sector Management Specialist	Woreda Planning	AFTP2
Melaku Gebremichael	Senior Social Protection Specialist	Social Protection	AFTSP
Fikru Tesfaye	Consultant	Rural Livelihoods	AFTSP
Edward Felix Dwumfour	Senior Environment Specialist	Environmental Safeguards	AFTEN
Chukwudi H. Okafor	Senior Social Development Specialist	Social Safeguards	AFTCS
Meron Tadesse Techane	Financial Management Specialist	Financial Management	AFTFM
Shimelis W. Badisso	Senior Procurement Specialist	Procurement	AFTPC
Zoe Kolovou	Lead Counsel	Legal	LEGAM
Jose C. Janeiro	Senior Finance Officer	Finance	CTRLA
Gelila Woodeneh	Communication Officer	Communication	AFRSC
Hawanty Page	Senior Program Assistant	Operations support	AFTAI-3
Juvenal Nzambimana	Senior Operations Officer	Operations support	AFTAI-1
Tesfahiwt Dilnessa	Team assistant	Facilitation	AFCE3
<b>Non Bank Staff</b>			
<b>Name</b>	<b>Title</b>	<b>Office Phone</b>	<b>City</b>
Wolday Amha	Consultant, Rural Finance		Addis Abeba, Ethiopia
Renate Kloppinger-Todd	Consultant, Rural Finance		Arizona, USA
Gamini Batuwitage	Consultant, CDD		Colombo, Sri Lanka
Renjit S. Cheror	Consultant, CDD		Kerala, India
Beatrice Sabana	Consultant, RLP		Nairobi, Kenya

Sissay Tilahun	Consultant, RLP		Addis Abeba, Ethiopia
Demmelash Alem	Consultant, Public Finance		Addis Abeba, Ethiopia
Worku Yehualashet	Consultant, Public Finance		Addis Abeba, Ethiopia
Ingrid Mollard	FAO, M&E		Washington, DC USA
Gianluca Capaldo	FAO, Economist		Rome, Italy
Esayas Nigatu	FAO, Consultant		Addis Abeba, Ethiopia
Norman Messer	IFAD, Snr. Technical Advisor		Rome, Italy
Robson Mutandi	IFAD, Country Director		Addis Abeba, Ethiopia
Abebe Zerihun	IFAD, Country Program Officer		Addis Abeba, Ethiopia
Hanneke Vermeulen	IFAD, Junior Program Officer		Addis Abeba, Ethiopia
Chiara Romano	IFAD, Gender Consultant		Addis Abeba, Ethiopia

### Locations

Country	First Administrative Division	Location	Planned	Actual	Comments
Federal Democratic Republic of Ethiopia					

### Institutional Data

#### Sector Board

Agriculture

#### Sectors / Climate Change

Sector (Maximum 5 and total % must equal 100)

Major Sector	Sector	%	Adaptation Co-benefits %	Mitigation Co-benefits %
Agriculture, fishing, and forestry	General agriculture	35		
Agriculture, fishing, and forestry	Irrigation and drainage	15		
Water, sanitation and flood protection	General water, sanitation, flood protection	15		
Health and other social services	Other social services	15		
Public Administration, Law, and Justice	Sub-national government administration	20		

Total	100
<input type="checkbox"/> I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.	
<b>Themes</b>	
Theme (Maximum 5 and total % must equal 100)	
Major theme	Theme %
Public sector governance	Decentralization 20
Social dev/gender/inclusion	Other social development 15
Rural development	Rural policies and institutions 15
Rural development	Rural services and infrastructure 35
Rural development	Other rural development 15
Total	100

## 1. STRATEGIC CONTEXT

### A. Country Context

1. **Ethiopia is a large and diverse country.** It is located in the Horn of Africa and is a land-locked country with an area of 1.1 million km<sup>2</sup>—about the size of Bolivia. Its bio-physical environment includes a variety of contrasting ecosystems, with significant differences in climate, soil properties, vegetation types, agricultural potential, biodiversity and water resources. Ethiopia is a country of many nations, nationalities and peoples, with a total population of 91.7 million (2012)<sup>1</sup>. Only 17 percent of the population lives in urban centers, the great majority of them in Addis Ababa. At a current annual growth rate of 2.6 percent, Ethiopia's population is estimated to reach 130 million by 2025, and is projected by the United Nations (UN) to be among the world's top ten, by 2050. Ethiopia is vulnerable to terms of trade shocks from international food and fuel prices, and to large domestic weather-related shocks as the 2011/12 East Africa drought demonstrated.

2. **Ethiopia has a federal, democratic government system,** established in the early 1990s, with nine autonomous states ('regions') and two chartered cities<sup>2</sup>. Decentralization of governance to the regional and district (*woreda*) levels has been actively pursued, intensively since 2003. The Ethiopian People's Revolutionary Democratic Front (EPRDF) has been in power in Ethiopia since 1991. EPRDF comprises four regionally-based parties from the four major regions (Amhara, Oromiya, Southern Nations Nationalities and Peoples Region (SNNPR)), and Tigray). The long-serving Prime Minister, Meles Zenawi, (from Tigray) died in August 2012, and was succeeded by Hailemariam Desalegn (from SNNPR) who has pursued largely the same policies. The next national elections are scheduled for 2015.

3. **Ethiopia has experienced strong economic growth over the past decade.** Economic growth averaged 10.7 percent per year in 2003/04 to 2011/12 compared to the regional average of 5.4 percent. Growth reflected a mix of factors, including agricultural modernization, the development of new export sectors, strong global commodity demand, and government-led development investments. Private consumption and public investment have driven demand side growth, with the latter assuming an increasingly important role in recent years. On the supply side, growth was driven by an expansion of the services and agricultural sectors, while the role of the industrial sector was relatively modest. More recently annual growth rates have declined slightly, but still remain at high single-digit levels. Growth in the export of goods has also moderated in recent years and a decline was observed in 2012/13 for the first time since 2008/09. There have been bouts of high inflation in recent years and, while inflation is currently much lower, keeping it down remains a major objective for monetary policy.

4. **Ethiopia is one of the world's poorest countries, but has made substantial progress on social and human development over the past decade.** The country's per capita income of US\$370 is substantially lower than the regional average of US\$1,257 and among the ten lowest

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<sup>1</sup> Source: United Nations. According to the Ethiopian Central Statistical Agency, the population is 82.6 million.

<sup>2</sup> The Regions are Afar, Amhara, Benishangul-Gumuz, Gambella, Harari, Oromiya, Somali, SNNPR (Southern Nations, Nationalities and Peoples), and Tigray. The chartered cities are Addis Ababa and Dire Dawa.

worldwide<sup>3</sup>. Ethiopia is ranked 173 out of 187 countries in the Human Development Index (HDI) of the United Nations Development Program (UNDP). However, high economic growth has helped reduce poverty, in both urban and rural areas. Since 2005, 2.5 million people have been lifted out of poverty, and the share of the population below the poverty line has fallen from 38.7 percent in 2004/05 to 29.6 percent in 2010/11 (using a poverty line of US\$0.6/day). However, because of high population growth the absolute number of poor (about 25 million) has remained unchanged over the past fifteen years. Ethiopia is among the countries that have made the fastest progress on the Millennium Development Goals (MDGs) and HDI ranking over the past decade. It is on track to achieve the MDGs related to gender parity in education, child mortality, HIV/AIDS, and malaria. Good progress has been achieved in universal primary education, although the MDG target may not be met. The reduction of maternal mortality remains a key challenge.

**5. The Government of Ethiopia (GoE) is currently implementing its ambitious Growth and Transformation Plan (GTP; 2010/11-2014/15),** which sets a long-term goal of becoming a middle-income country by 2023, with growth rates of at least 11.2 percent per annum during the plan period. To achieve the GTP goals and objectives, GoE has followed a “developmental state” model with a strong role for the government in many aspects of the economy. It has prioritized key sectors such as industry and agriculture, as drivers of sustained economic growth and job creation. The GTP also reaffirms GoE’s commitment to human development. Development partners have programs that are broadly aligned with GTP priorities.

**6. The World Bank Group’s Country Partnership Strategy (CPS, FY13-16)** builds on the progress achieved by Ethiopia in recent years and aims to help GoE address structural transformation and assist in the implementation of the GTP. The CPS framework includes two pillars. Pillar One, “Fostering competitiveness and employment”, aims to support Ethiopia in achieving: (i) a stable macroeconomic environment; (ii) increased competitiveness and productivity; (iii) increased and improved delivery of infrastructure; and (iv) enhanced regional integration. Pillar Two, “Enhancing resilience and reducing vulnerabilities”, aims to support Ethiopia in improving the delivery of social services and developing a comprehensive approach to social protection and risk management. Good governance and state building form the foundation of the CPS. In line with the GTP, gender and climate change have been included as cross-cutting issues to strengthen their mainstreaming across the portfolio. The programs of IFC and MIGA are well aligned with the CPS framework, contributing mainly to the strategic objectives under Pillar One.

## **B. Sectoral and Institutional Context**

**7. Overview of the Sector:** Pastoralism in Ethiopia relates to both an economic livelihood system that is based primarily on extensive livestock production, and to the characteristics of communities that live in the arid and semi-arid lowlands of Ethiopia. Pastoralist households can be categorized into three groups: (i) the comparatively wealthy who hold substantial livestock assets; (ii) households with small herds and flocks and who, to some extent, depend upon cropping, petty trading or sale of their labor (“agro-pastoralists”); and (iii) those who are gradually abandoning pastoral livelihoods. Various factors affect success of pastoralists to grow

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<sup>3</sup> Gross National Income, World Bank Atlas Method.

their livestock production systems. The most important of these are access to good rangeland as well as mobility, access to markets, access to services (e.g., animal health care), and severity of climatic shocks.

8. An increase in demand for livestock in both domestic and regional markets in neighboring countries such as Somalia, Djibouti, Kenya, and the Sudan has been driving changes in pastoralist livelihood systems. Most particularly, there has been an increase in commercialization of livestock resulting in a consolidation of herds.<sup>4</sup> This has in turn implied that, while some pastoral households have been able to improve their livestock-based livelihoods, others have been unable to maintain their traditional livelihoods as viable undertakings. As a result, a growing segment of the traditionally pastoralist population is dropping out of pastoralism, some into destitution. As a community, pastoralists have, in the past, been economically, socially and politically sidelined due to inadequate attention from policy makers. Although significant improvements have been achieved over the last ten years, pastoralists remain under-served in terms of basic social services.

9. **Key Challenges:** Development issues faced by pastoralists include: (i) weak government institutions and limited public participation in local decision-making processes; (ii) poor access to social services; (iii) dependence on extensive livestock production with poorly developed support services, and uneven access to markets; (iv) long-term environmental degradation; (v) vulnerability to recurring droughts exacerbated by climate change; (vi) increasing competition for natural resource use; and (vii) constrained mobility due to new settlements and large scale development schemes.

10. **GoE Strategies on Pastoralism:** The GoE's approach to development in pastoral and agro-pastoral areas is two pronged. The short term strategy emphasizes: (i) reduction in pastoralists' vulnerability to climate shocks; (ii) improving their capacity to respond to climate change; and (iii) the provision of appropriate basic infrastructure and services for both humans and animals which is in line with pastoralists' way of life.<sup>5</sup> GoE strategies related to pastoralism are articulated in various policy documents including the GTP. The GTP builds on earlier poverty reduction strategy papers acknowledging that pastoral communities are under-served and emphasizes institution building as well as the provision of social services and infrastructures to these under-served communities. It also emphasizes the development of livestock production and other pastoral resources; and targeted interventions to promote food security in pastoral and agro-pastoral areas as well as in other food insecure areas of the country. For the long term, the GoE seeks to facilitate the gradual and voluntary transition of pastoralists towards permanent settlement particularly through the development of both small and large scale irrigation infrastructure, improvement in human capital, development of market networks, development of financial services, and investment in road infrastructure and communication networks.

11. **Implementation of Strategies:** In 2003, the GoE initiated the Pastoral Community Development Program (PCDP), a long-term program designed to empower communities, woreda (district) and regional (sub-national) governments to better manage local development in pastoral

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<sup>4</sup> See Aklilu, Y. and Catley, A., Mind the Gap, Commercialization, Livelihoods and Wealth Disparity in Pastoralist Areas of Ethiopia, December, 2010.

<sup>5</sup> Letter of Sector Policy presented by the Ministry of Federal Affairs to the World Bank, May 4, 2013.

and agro-pastoral areas. The program aims to develop relevant institutions serving pastoralist communities and to establish effective models for investment in delivery of public services (social and economic) that engages pastoralist more centrally in their own development processes. It also seeks to improve and diversify the livelihoods of pastoral households and promote community-based disaster risk management. Concurrently, the GoE has been emphasizing basic service delivery, including health, education, water supply and agricultural services in its budgetary allocations, and more recently, has begun to target interventions to promote food security within pastoral and agro pastoral areas including transfers to food insecure households and investment in water resources development. The GoE has also been investing in large scale water resources development and helping pastoralists to settle along perennial rivers.

12. The World Bank and the International Fund for Agricultural Development (IFAD) have provided support for successful implementation of the GoE's strategy for pastoral development through two phases of a 15-year series of operations. The program was approved by the Bank's Executive Board on May 20, 2003. It aims to support the development of pastoral and agro-pastoral communities in Ethiopia through a community-based development process that includes a Community Investment Fund (CIF), a Rural Livelihood Program (RLP), and support to participatory disaster risk management. It also supports policy studies and applied research, knowledge management and networking to enhance relevant stakeholders' capacities to engage in policy dialogue on pastoral issues.<sup>6</sup> PCDDP-3 is proposed as the third and final phase in this series of operations that had envisaged support to remote pastoral communities starting with an exploratory and limited engagement and, over time, building towards scaled up interventions.

**13. Rationale for World Bank and IFAD Support:** Even though significant achievements have been registered to date (elaborated further in Annex 6), there remains a strong rationale for the Bank and IFAD's continued involvement in support of pastoral communities within Ethiopia. This rationale can be considered from four perspectives:

- (a) *There is a strong demand from pastoral communities for continued support:* Pastoral communities and local governments have demonstrated their appetite for and capacity to implement PCDDP interventions beyond expectations. From an equity perspective, continuing with a 3<sup>rd</sup> series allows the benefits of the Program to be extended to the majority of pastoral communities in the country. Continued funding in the sector is paramount to keep the momentum of the community demand driven approach to enable pastoral communities, who subsist in a changing developmental context within the Ethiopian lowlands (due to irrigation development, expansion of commercial agriculture, mineral exploration and settlement programs) to be empowered to proactively engage with developments affecting them.

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<sup>6</sup> PCDDP has sought to address pastoralists' development issues identified in paragraph 7 by building capacity of government institutions, promoting public participation in local decision-making processes and enhancing access to basic social services through the CIF. While it does not directly support improved livestock production and development of livestock markets, PCDDP has helped targeted pastoralist households (through the RLP) to improve their livelihoods by enhancing access to finance and providing technical support on their investments. Moreover, the CIF funds veterinary and extension services as well as investments in natural resource development including small scale irrigation and rangeland management – where this is a priority of beneficiary communities. PCDDP's component on pastoral risk management has contributed to addressing some issues of vulnerability to recurring droughts.



- (b) *There is a need for consolidating gains from PCDP-1 and PCDP-2:* The Bank's support of pastoral communities in Ethiopia has sought to increase access of these under-served communities to public services as well as to generate widespread ownership of local development initiatives. Local development is a long term process that involves grassroots institution building, strengthening decentralized government administrative functions, investing in public service delivery and social mobilization to engage beneficiary communities more centrally in their local development. Through the PCDP Program, such a community-driven process has been promoted among a few pastoralist communities. Achievements now need to be consolidated, scaled up and integrated within the GoE's mainstream processes for planning, investment and delivery of services.
- (c) *PCDP is a key component of the World Bank and IFAD's strategies for Ethiopia.* The Bank's Country Partnership Strategy (CPS) emphasizes broad-based economic growth and inclusive service delivery (incorporating all sections of Ethiopian society) as key elements of sustained growth, reduction of vulnerabilities and good governance. IFAD's Country Strategy and Opportunity Paper (COSOP) identifies investment in pastoral community in Ethiopia as one of its main pillars of engagement in Ethiopia. PCDP-3 is identified in the Bank's CPS as the principal instrument for achieving its objectives among pastoral communities. PCDP-3 also supports the CPS foundational objective of good governance and state building by promoting participation in local decision making processes for underserved communities through its emphasis on pastoral communities and its community demand driven (CDD) approach. PCDP-3 will also contribute to the World Bank's corporate goal of shared prosperity by reaching out to largely under-served and vulnerable communities.
- (d) *The Bank's and IFAD's unique role:* The Bank and IFAD are well placed to draw upon global experience and successful innovations in CDD approaches in support of livelihoods and social service delivery, and to advise the GoE on adapting these to the Ethiopian context. This excellent partnership allows alignment and harmonization of intervention in the sector which reduces transaction costs, provides assistance with one voice in practice and spirit of the Paris Declaration on development aid.

### **C. Higher Level Objectives to which the Project Contributes**

14. The GoE's development strategy, as articulated in the GTP, has four broad objectives: (i) maintaining at least an 11 percent average real growth in the Gross Domestic Product (GDP); (ii) expanding access to and ensuring quality of education and health services, and thereby achieving MDGs in the social sector; (iii) establishing suitable conditions for sustainable nation building through the creation of a stable, democratic and developmental state; and (iv) ensuring the sustainability of growth by realizing all the afore mentioned objectives within a stable macroeconomic framework.<sup>7</sup> PCDP-3 will contribute directly to the second and third objectives through the provision of basic social services to underserved pastoral and agro-pastoral communities. Additionally, by supporting the development and active engagement of grassroots institutions in local development as well as by promoting participation of pastoral and agro-pastoral communities in local decision-making processes and oversight of public services and

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<sup>7</sup> FDRE, Growth and Transformation Plan 2010/11 – 2014/15, November 2010, Addis Abeba.

infrastructure (through its CDD approach) it will support the establishment of suitable conditions for sustainable nation building. PCDP-3 also contributes to the objective of maintaining a high GDP growth rate by helping to strengthen the economic livelihoods of pastoral communities and their integration into the national economy.

15. PCDP-3 also supports a number of strategic objectives of the Bank's CPS, including increasing access to and quality of infrastructure (roads, water and sanitation); promoting natural resource development, and increasing access to quality health and education services. It also contributes to the foundation pillar of good governance and state building.

## **2. PROJECT DEVELOPMENT OBJECTIVES**

### **A. Project Development Objective**

16. The Project Development Objective (PDO) for PCDP-3 is *to improve access to community demand-driven social and economic services<sup>8</sup> for pastoralists and agro-pastoralists of Ethiopia*. It is expected to contribute to improved livelihoods of pastoralists and agro-pastoralists in terms of growth and stability of incomes, improvements in their health, nutrition and education status, as well as greater empowerment and decision-making authority in local development initiatives.

### **B. Project Beneficiaries**

17. The primary target population of the Program is the pastoral and agro-pastoral population of Ethiopia living in the arid and semi-arid areas of the country. The pastoralist population in Ethiopia is estimated to be 12 million. PCDP-1 reached a population of 600,000 and an additional 1.3 million in PCDP-2. In its first two phases, PCDP has thus reached cumulatively 1.9 million beneficiaries of which 42 percent are women and 58 percent men. PCDP-3 is expected to reach a further 2.6 million pastoralists in a maximum of 113 pastoral and agro-pastoral woredas of the Afar, Somali, Oromiya, and SNNP National Regional States. The Program, over its 15 year implementation period, will have covered most pastoral and agro-pastoral woredas in the country and provided improved access to public services and supported the livelihoods of about 4.5 million pastoralists and agro-pastoralists. It will also have introduced community demand driven models of service delivery that will benefit and be applied throughout all pastoral and agro-pastoral districts (woredas) in the country.<sup>9</sup> PCDP-3 will seek to reach different groups within pastoralist communities: including population groups relying on traditional livelihood systems based on mobility of livestock, those whose livelihood systems are being changed, as well as under-served groups such as women and youth.

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<sup>8</sup> Social and economic services are defined to include: preventive and primary health care, 1st cycle primary education, veterinary services, rangeland management (including micro- and small-scale irrigation), water supply, market place development, rural roads, agricultural/livestock advisory services, support to innovation; and, savings and loan services.

<sup>9</sup> PCDP-3 will cover all pastoral and agro-pastoral woredas with a few exceptions; i.e., woredas that were part of PCDP-1, that are not physically accessible, that are affected by conflict or exhibit high risks of conflict. The Bank will also develop modalities for engaging in woredas where various programs external to PCDP (including the GoE's commune program) may result in serious social tensions. Also, the GoE has decided that PCDP-3 would not expand into the 6 pastoral/agro-pastoral woredas in the Gambella National Regional State as this would over-stretch implementation capacity.

### C. PDO Level Results Indicators

18. The PDO will be measured according to the additional access to public services and increase in financial and economic services that is due to PCDP-3, and the extent to which this expansion in service delivery is in line with communities' demands. PDO indicators are:

- number of people in project kebeles with access to selected public services;<sup>10</sup>
- proportion of households in target communities who are members of Savings and Credit Cooperatives (SACCOs);
- number of people undertaking viable Income Generating Activities (IGAs)<sup>11</sup> supported by a business plan; and
- percent of male and female household heads<sup>12</sup> in targeted project kebeles who report that available services address their priority needs.

## 3. PROJECT DESCRIPTION

### A. Project Components

19. The Project will consist of four components: (i) Community Driven Service Provision; (ii) Rural Livelihoods Program (RLP); (iii) Development Learning and Knowledge Management; and (iv) Project Management and Monitoring and Evaluation (M&E).

**Component 1: Community Driven Service Provision:** (US\$136.7 million including US\$69.1 million from IDA, US\$53.4 million from IFAD, and US\$14.2 million from beneficiaries).

20. Component 1 will have three sub-components: (i) Community Investment Fund (CIF), (ii) support to institutionalizing the CDD approach, and (iii) community level self-monitoring and learning.

21. CIF: PCDP-3 will support community sub-projects in targeted pastoral and agro-pastoral kebeles (sub-districts) to build demand-driven social and economic infrastructure. It will provide investment funds that together with community contributions will help expand and improve service delivery and build infrastructure for local development. Investments will be identified, prioritized, implemented and monitored by beneficiary communities who will also be responsible for procurement and financial management of sub-projects. The sub-component will comprise an investment fund and related technical support to promote broad participation and community decision-making in local development. Investments will be based on a three step consultation process that will include: (i) an initial sensitization and social mapping process to identify traditional organizations and engage with different elements of pastoralist societies including the poor and vulnerable that are often neglected in local development processes; (ii) situation analysis and articulation of development vision for the kebele at the sub-kebele level (i.e., in relatively small groups); and (iii) development of a community development plan at the kebele

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<sup>10</sup> This is measured by three proxy indicators in the results framework (a) # children enrolled (minus drop outs) per year in PCDP constructed schools, (b) # households within 1.5 km radius of a PCDP constructed water points, and (c) # people attended by health workers with a package of health, nutrition and reproductive health services in PCDP constructed health post per year.

<sup>11</sup> IGAs are defined to include new income generating activities and strengthening of existing production systems.

<sup>12</sup> Household head is defined to include the household head and spouse.

with representatives, including women, from different community groups as well as the prioritization of sub-projects and development of community action plans for the CIF.<sup>13</sup>

22. Institutionalizing the CDD approach: In order to strengthen the CDD process and ensure its institutionalization, PCDP-3 will build community institutions that can engage in planning and resource mobilization, implement small public investment projects, and participate in the oversight of service delivery. The sub-component will also help Woreda Finance and Economic Development Offices (WoFEDs) to integrate PCDP's experience of planning with communities within the GoE's regular planning and budget development processes. GoE policy requires decentralized planning and enhanced community participation in planning for public services. However, this is not yet fully realized on the ground, particularly in the pastoral areas where local government capacity is weak. PCDP-1 and PCDP-2 have provided practical experiences in implementing an approach that engages pastoral/agro-pastoral communities in their own local development including prioritizing service delivery, implementing sub-projects and monitoring performance. PCDP-3 will support the woredas to replicate this experience within regular GoE processes.

23. Community level self-monitoring and learning: Under this sub-component, PCDP-3 will develop a community level monitoring and learning system by: (i) introducing simple monitoring formats to be used by beneficiary communities to track project milestones, results and budget use, and to identify implementation problems and best practices; (ii) facilitating periodic structured learning fora at the kebele and sub-kebele levels that would be chaired by community leaders and facilitated by volunteers from the community and project staff; (iii) facilitating periodic structured learning fora at the woreda level with participation by selected facilitators of the sub-woreda learning fora; and (iv) training of community leaders and volunteers on managing relevant information and promoting learning from such information. It will also develop the kebele centers as information sharing and learning hubs.

**Component 2: Rural Livelihoods Program (RLP):** (US\$45.9 million including US\$25.9 million from IDA and US\$20.0 million from IFAD).

24. Component 2 will assist pastoralist/agro-pastoralist households to improve their economic livelihood systems by promoting enhanced access to financial services (through the promotion of SACCOs) and supporting improved advisory services that will enable them to identify viable investment opportunities, technically support them to strengthen and/or diversify their production systems and encourage innovation. Component 2 will have 3 sub-components: (i) promotion of new pastoral SACCOs, (ii) identification and development of livelihood opportunities, and (iii) promotion of adaptive research and innovative practices.

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<sup>13</sup> Various fundamental concerns such as rangeland management, risk mitigation in the face of droughts, nutrition, livelihood development, appropriate education, development of water resources, will be supported by PCDP-3. Given the many important development issues facing pastoralist and agro-pastoralists, the project leaves it up to them to prioritize their most critical problems. PCDP-3 will build capacity of local government agencies, local community institutions and mobile teams to ensure that target communities think through appropriate solutions to prioritized development problems, but the project will not predetermine areas of intervention. Nevertheless, it is likely that rangeland management and natural resource development will emerge as a key area of interventions.

25. Promotion of new pastoral SACCOs: Financial penetration in Ethiopia's pastoralist and agro-pastoralist areas is extremely low as high transaction costs due to low population density and mobility of pastoralists, high risks associated with pastoral communities' vulnerability to weather shocks, and limited physical infrastructure such as roads, and telecommunications have limited the opportunities for financial sector growth. Nevertheless, the experience of PCDP-1 and 2 has shown that there is significant scope for enhancing access to finance among the program's target communities through the promotion of financial cooperatives (as discussed further in Annex 8). SACCOs play a catalytic role in engaging pastoral communities in new income generating activities by promoting cash-based savings and increasing access to credit. They also provide communities with additional confidence to actively engage in broader development endeavors. The fact that the majority of SACCO members are female, furthermore, provides for social and economic empowerment of women in pastoral societies that traditionally tend to overlook them. PCDP-3 will therefore build on social mobilization aspects of the CDD approach to promote the establishment of pastoral SACCOs as a way of supporting pastoralists' livelihoods and further advancing community driven local development. PCDP-3's support to the establishment of pastoral SACCOs will be guided by the IFAD financed Rural Financial Intermediation Project II (RuFIP-2) as well as by the manifold experiences gained during PCDP-2. Specific interventions will be informed by the strategy for financial cooperatives that is being developed through a twinning arrangement of the Federal Cooperative Agency (FCA) and the Irish League of Cooperative Unions and are expected to include: (i) social mobilization and financial education; (ii) organization support to prospective SACCOs; (iii) leadership and skills training to executives and personnel of newly established SACCOs; (iv) physical capacity building; (v) Technical Assistance (TA) and consultations to develop simple financial products appropriate to pastoralists and agro-pastoralists; (vi) provision of a carefully managed savings leverage grant provided as seed capital to a registered SACCO on the basis of clear eligibility criteria and a grant agreement which will include the purposes/activities for which the grant can be used. Funding so provided will be used for on-lending to members as per the by-laws of the cooperative with oversight by Woreda Cooperative Promotion Offices which conducts periodic supervision and audits of SACCO accounts. The project's M&E system will include reporting on use of the savings leverage fund to monitor that it is on lent for the agreed purposes /activities.<sup>14</sup> A cooperative accountant and/or promoter will be hired by the project and placed in the WoCP.

26. Identification and development of livelihood opportunities: Increase access to financial services will only result in improved livelihoods if it is accompanied by effective use of finances. Thus, Component 2 will also help selected pastoralist and agro-pastoralist households to develop innovative, income diversifying business activities and/or to strengthen existing productive activities. Given that there are an increasing number of pastoralists that are falling out of pastoralism, particular attention will be given to the needs of such households to ensure that they do not fall into poverty and destitution. Interventions will include: (i) TA to relevant woreda offices and staff at kebele level to identify potential IGAs (both new activities and investments to

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<sup>14</sup> This support is, however, predicated on complementary capacity building and support to woreda level cooperative support structures, particularly the Woreda Cooperative Promotion Offices (WoPCs) to ensure that they provide second generation support to SACCOs established through PCDP-3. It is expected that RuFIP-2 will provide such support. At mid-term of PCDP-3, achievements regarding RuFIP-2 support to WoCPs will be assessed and a determination made on whether PCDP-3 should engage in capacity building for WoCPs to ensure that they have sufficient capacity to effectively support SACCOs after its closing.

strengthen existing productive activities) based on consultation with targeted households and technical and market analyses; (ii) training to extension staff so that they can more effectively provide advice to selected households on the development and implementation of IGAs; (iii) TA and training to help selected households organize into common interest groups and/or cooperatives so that they can better access input and output markets; and (iv) support to the public extension and veterinary services based on a design for service delivery applicable to pastoral communities to be developed in the first quarter of PCDP-3 implementation.

27. Promoting adaptive research and innovation: A review of the PCDP-2's RLP found that most beneficiary households engage in low value, low income activities. One reason is that they lack access to new ideas or technology. To encourage the adoption of new technologies and thus increase productivity and returns on household investments, PCDP-3 will support innovative solutions to specific production or business problems identified by the communities it would be working with support from research institutions. Towards this end, the third sub-component under Component 2 will provide: (i) support to the establishment of farmer/pastoralist-research groups to bring together pastoralists and researchers to *inter alia* undertake adaptive research trials, introduce inputs/equipment associated with new technologies, support on-farm seed production particularly for animal fodder and nutrition rich crops for human consumption; and (ii) an innovation fund to finance proposals from farmer/pastoralist-research groups. The size of the fund will be determined by the nature of the problems to be addressed but will not exceed ETB 4,000 (US\$210) per member of a group or ETB 100,000 (US\$5,250) per group.

**Component 3: Development Learning and Knowledge Management** (US\$4.7 million, including US\$2.7 million from IDA and US\$2.0 million from IFAD).

28. Component 3 comprises a set of interventions to complement community level development (on which the first two components focus) with policy dialogue, strategic thinking around pastoralist development issues and enhanced transparency and learning within the Project. The Component will have two sub-components: (i) policy consultations and knowledge management, and (ii) communication and internal learning.

29. Policy consultation and knowledge management: Through engagement with pastoral communities over a ten year period, PCDP has gained significant experience and knowledge on pastoral development. Such knowledge can be used to inform policy dialogue<sup>15</sup> and formulation of strategic approaches for pastoral development if enhanced by further study to enrich experience with evidence and if effectively disseminated to relevant stakeholders. Component 3 will therefore include a sub-component to undertake studies and consultation around policy implementation issues, support program development as appropriate, and provide a platform for pastoralist groups to engage in policy dialogue linked to community learning under component 1.3. The analytical agenda will be informed by lessons from PCDP-1 and 2 and will also include issues emerging from PCDP-3 implementation as informed by its monitoring and evaluation activities as well as community learning events. Component 3 will also support pastoral resource units and multi-media information sharing channels for effective exchange of knowledge and information.

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<sup>15</sup> Dialogue will focus on more effective implementation of the GoE's policies.

30. The sub-component will: (i) finance studies on pastoralist development issues and multi-stakeholder discussion fora that will use the outcomes of the studies to inform better implementation of relevant GoE policies; (ii) provide TA, as appropriate, to support the development of programs that include pastoral issues; (iii) support federal and regional pastoral resource units; (iv) help MoFA manage a website on pastoralism in Ethiopia where relevant information, research outputs and activities on pastoral development will be posted; and (v) provide support to pastoral groups that would empower them to better express their aspirations and concerns in policy dialogue.

31. Communication and internal learning: the second sub-component under Component 3 will enhance transparency within the project and promote effective implementation through internal learning. Activities are outlined in the communications strategy in Annex 10.

**Component 4: Project Management and M&E** (US\$20.6 million including US\$11.6 million from IDA and US\$9.0 million from IFAD)

32. Although PCDP-3 implementation will be carried out through relevant government offices at the federal, regional and woreda levels (see paragraphs 49-54), its implementation and oversight will be supported by project coordination units and support teams. A brief summary of project management structures is provided below.

33. At the federal level, a Federal Project Coordination Unit (FPCU) located in MoFA will be responsible for overall management of the Program including annual planning, fiduciary management and safeguards compliance, communication, M&E and reporting, liaison with stakeholder groups at federal level and regional project coordination units, capacity-building, mobilization of technical backstopping and addressing implementation bottlenecks as they arise.

34. At regional level, the Pastoral Development Bureaus or Commission will house the Project's Regional Project Coordination Units (RPCUs). RPCUs will coordinate implementation and reporting on regional activities and oversee project-funded Mobile Support Teams (MSTs) will provide hands on support to woreda and kebele level implementation – covering three to four woredas each. Depending on the number of irrigation or roads sub-projects approved under the CIF, PCDP-3 will provide TA to Regional Water Resources Bureaus and/or Regional Rural Roads Authority to ensure effective reviews of infrastructural designs.

35. At the woreda level, a woreda coordinator and a finance officer will be placed in the woreda offices of Pastoral Development and Finance & Economic Development respectively to coordinate implementation, assure smooth flow of funds, monitor performance, and prepare timely and good quality reports (financial, procurement and performance on activities).. The decentralized nature of implementation implies that the role of woreda leadership is critical for effective implementation of PCDP-3. Component 4 will include sensitization of woreda leadership.

36. M&E activities will include regular monitoring of implementation performance, independent process monitoring (including *inter alia* regular assessments of community level

planning and review of the effectiveness and quality of capacity building efforts), outcome/impact evaluations at midterm and end of project, and annual thematic studies.

## B. Project Financing

37. PCDP-3 is a 5-year Investment Project Financing (IPF) of US\$210.2 million consisting of US\$110 million in IDA credit, US\$85 million in IFAD credit, a US\$1 million GoE contribution and a US\$14.2 million contribution from beneficiary communities. PCDP-3 is the third and final project in a 15-year series of operations intended to build effective support structures for pastoralist livelihood systems in the Ethiopian lowlands.

### Component Cost Table

<i>Project Components</i>	<i>Project cost</i>	<i>Financing</i>				<i>Comm.</i>	<i>%IDA Financing</i>
		<i>IDA</i>	<i>IFAD</i>	<i>GoE</i>			
1. Community Driven Service Provision	136.7	69.1	53.4	0.0	14.2	49%	
2. Rural Livelihoods Program	45.9	25.9	10.0	0.0	0.0	56%	
3. Development Learning & Knowledge Management	4.7	2.7	2.0	0.0	0.0	56%	
4. Project Management and M&E	20.6	11.6	9.0	0.0	0.0	56%	
<b>Total Baseline Costs</b>	<b>207.9</b>	<b>109.3</b>	<b>84.5</b>	<b>0.0</b>	<b>14.2</b>	<b>52%</b>	
Unallocated	2.3	0.7	0.6	1.0	0.0		
<b>Total Project Costs</b>	<b>210.2</b>	<b>110.0</b>	<b>85.0</b>	<b>1.0</b>	<b>14.2</b>	<b>52%</b>	
<b>Total Financing Required</b>	<b>210.2</b>	<b>110.0</b>	<b>85.0</b>	<b>1.0</b>	<b>14.2</b>	<b>52%</b>	

## C. Series of Operations

38. The objective for the 15 year Program is to sustainably improve livelihoods of pastoralists living in the arid and semi-arid Ethiopian lowlands as reflected by growth and stability of incomes; improved health, nutrition and education outcomes resulting from increased access to social and public services; enhanced social relations, institutions and natural environment that facilitate standards of living; and, reduced vulnerability to disasters.<sup>16</sup> Over time, activities have been expanded, both “vertically” and “horizontally” as summarized in the table below.

### Evolution of the PCDP Series of Operations

<i>Phase</i>	<i>Objectives</i>	<i>Basic Feature</i>
<b>PCDP-1 2003 – 2008</b>	<ul style="list-style-type: none"> <li>• Target 1/3 of pastoral and agro-pastoral woredas for community development.</li> <li>• Establish and test a Community Investment Fund (CIF).</li> <li>• Establish and pilot community-based pastoral risk management</li> </ul>	Identification and piloting of community based processes and institutional mechanisms

<sup>16</sup> As provided in the Project Appraisal Document (PAD) for PCDP-1, with slight modification to reflect higher level result of increased access to social and public services.



<i>Phase</i>	<i>Objectives</i>	<i>Basic Feature</i>
<b>PCDP-2 2008 – 2013</b>	<ul style="list-style-type: none"> <li>mechanisms.</li> <li>Support further definition of the GoE’s pastoral development strategy.</li> <li>Target up to 2/3 of pastoral and agro-pastoral woredas for community development (note that funding for PCDP-2 only allowed targeting of 1/2 the pastoral and agro-pastoral woredas).</li> <li>Enhance pastoral livelihoods (through expansion of credit and savings cooperative systems to pastoral areas).</li> <li>Expand community-based pastoral risk management mechanisms to all pastoral and agro-pastoral woredas</li> <li>Expand pastoral development networking</li> </ul>	Expansion of community development and pastoral risk management systems
<b>PCDP-3 2013 – 2018</b>	<ul style="list-style-type: none"> <li>Target most pastoral and agro-pastoral woredas for community development; and, work on institutionalizing the interventions.</li> <li>Deepen CDD approaches and support pastoralists’ income generating activities more holistically.</li> <li>Expand knowledge generation and dissemination, and internal learning at all levels.</li> </ul>	Full geographic scale up; consolidation and institutionalization of community development approaches

39. PCDP-1 and 2 introduced models for participatory local development within a limited area and expanded target communities’ access to basic social and economic services. They also supported interventions in pastoral risk management and in engaging relevant stakeholders in policy dialogue on pastoral issues. PCDP-3 will scale up PCDP interventions geographically, deepen CDD modalities focusing on greater inclusiveness and downward accountability and formulate a developmental vision by communities and more in-depth discussion of development problems and their solutions. It will also focus on institutionalizing new approaches through a strong program of capacity building of community institutions and local government and interventions to integrate the CDD process within woreda level planning processes. PCDP-3 will continue to promote the establishment of pastoral SACCOs and will support the development of livelihood initiatives in a more holistic manner. The evolution of the Program and the relationship of PCDP-3 with the first two phases in the series of operations are discussed in detail in Annex 6.

#### **D. Lessons Learned and Reflected in the Project Design**

40. The design and preparation of PCDP-3 is informed by lessons drawn from the implementation of PCDP-1 and PCDP-2 and other similar initiatives financed by development partners to support pastoralists’ livelihoods in Ethiopia. The main lessons and experiences that have been incorporated in the design of PCDP-3 include the following:

41. *When communities are empowered with decision making authority and access to resources, they can effectively manage investments.* Pastoral communities have demonstrated that they are able to plan for and effectively implement investment sub-projects. There are, however, some challenges in implementing the CDD approach that require further attention. These relate to ensuring: (a) broad participation, particularly of women, (b) effective facilitation of community discussions, (c) downward accountability of community institutions, (d) community level learning from experiences of the local development process, and (e)

strengthening linkages with similar initiatives (e.g., planning for public works under the Productive Safety Nets Program (PSNP)).

42. *The CDD approach is relevant for local development in Ethiopia's pastoral/agro-pastoral areas.* The development approach in which communities are actively engaged in project identification, development and implementation is greatly valued by both beneficiary communities and local authorities. Nevertheless, the experience with both PCDP-1 and PCDP-2 implementation of community investment funds, while underscoring the readiness of pastoral communities to engage in their own development, suggests the need for support that is external to the community. Such support is required in terms of helping communities address implementation difficulties, providing required technical expertise (e.g., in the design of roads and irrigation infrastructure) as well as providing innovative options for solutions to identified development problems.

43. *Initiatives by communities and local government need to be complemented by adequate implementation/oversight support:* financial management, procurement and technical capacity constraints coupled with the decentralized nature of the Program's interventions and high staff turnover are significant challenges to the effective implementation of project activities and attainment of objectives. There is therefore a need for continuous staff training and adequate allocation of resources to enable the FPCU, RPCUs, and MSTs to provide effective support to beneficiary communities and woreda implementing agencies. Direct support to enhance implementation capacity among government implementing agencies and to promote social accountability measures at the community level are also required.

44. *There is a need for a holistic approach to support livelihood development:* Many initiatives are underway to support the strengthening and diversification of pastoral households' livelihoods, including PCDP's support to grassroots financial institution building. Even though pastoral communities in Ethiopia do not have a tradition of saving in cash, members, and especially women, have eagerly availed themselves of the opportunity to save on an ongoing basis, to utilize credit in a responsible manner and to strengthen their community-based institution. However, the experience of PCDP-2 has shown that significant awareness raising and financial literacy training is required to take the first step. Additionally, continuous accounting and capacity-building support is required for some period of time. Also, while access to finance is a key determinant of livelihood development/diversification, particularly among the poorer households, it is only one among many factors that such households face as they seek to increase incomes. Constraints include *inter alia* lack of new ideas and knowledge on income generating activities, new technologies, and value addition, particularly to increase shelf life of products for better marketing options as well as limited access to production inputs and markets.

45. *Vulnerability to recurring droughts is a key challenge but should be addressed within a comprehensive pastoral risk management (PRM) strategy.* Community based early warning systems and risk management strategies play an important part in reducing pastoralists' risks but are only one aspect of the disaster preparedness-mitigation-response-recovery continuum. The GoE has developed a comprehensive Disaster Risk Management Strategic Program and Investment Framework (DRM SPIF) for both pastoral and sedentary communities. PRM activities are best carried out within the framework of the DRM SPIF.

46. *The role of Woreda Development Committees (WDC) is critical to the success of implementation:* The experience with all decentralized projects and programs in Ethiopia, including PCDP1 and PCDP-2, underscores the importance of the active engagement of woreda leadership in the implementation of woreda and kebele level activities. Yet, there are frequent changes among woreda leaders. There is therefore a need for continuous sensitization of the woreda leadership and office heads as well as regular experience sharing among woredas so that WDCs that fall behind can learn from those that are more familiar with the Project's procedures and implementation modalities.

47. *PCDP provides opportunities for promoting improved nutrition among pastoral/agro-pastoral communities:* Nutrition awareness can be incorporated more explicitly in community discussions of their local development issues. This has been a missed opportunity in the past and PCDP-3 will include a focus on nutrition as follows:

- (a) In depth discussion of communities' development problems, should include a consideration of under-nutrition. Engaging health extension workers (who are trained on *inter alia* essential nutrition action) in the community level planning process should help promote the consideration of nutrition issues during CAP development;
- (b) The project's support to diversification and strengthening of pastoralists' livelihood systems should include identification of investment opportunities related to improving household nutrition as well as financial and technical viability. Similarly, PCDP-3 support to the promotion of innovative practices should be geared towards both improved productivity and improved household nutrition;
- (c) Support to policy implementation studies can include investigation into nutritional status of pastoral households and what drives under-nutrition.

48. *Gender:* Encouraging active participation by women in community discussions is a challenge. Women are easily marginalized during group discussions and even though they may attend community consultations, they tend not to be vocal and their roles especially in decision making are limited. This is in part due to rigid social structures within pastoralist societies that assign women to very limiting roles. Furthermore, pastoralist women's own predisposition to engage in public fora is constrained by high opportunity costs (given a heavy work load) and a general lack of self-confidence. It is therefore important to proactively mainstream the targeting of women in community consultations as well as to address their constraints in engaging with the process, e.g., training to women leaders, separate focus group discussions for women, including women as role models in project teams.

#### **4. IMPLEMENTATION**

##### **A. Institutional and Implementation Arrangements**

49. PCDP-3 will be implemented by existing GoE structures and community institutions supported by the project. Implementation will be decentralized with beneficiary communities assuming primary responsibility for executing most project activities. Annex 3 provides a detailed discussion of PCDP-3 implementation arrangements.

50. At the Community Level: implementation of the project's core activities, particularly CIF sub-projects and RLP interventions will be through community based institutions and teams; i.e., community groups, sub-kebele facilitation teams, frontline service providers, community project management and procurement committees, and community audit committees. The Kebele Development Committee (KDC), as the developmental arm of the GoE's lowest level administration structure, will provide general implementation oversight and will liaise with and coordinate support from MSTs, the woreda, other implementing agencies and implementers of other complementary interventions (including NGOs). Successful implementation of the Project's core interventions will depend on strong community-based institutions. The Project will build on existing community structures and, where necessary, establish new institutions.

51. At the woreda level, woreda sectoral offices will provide technical support to community institutions, assist the implementation of CIF and RLP activities, and facilitate community consultations. Relevant woreda offices (education, health, water resources development, pastoral development or agriculture, cooperative development, micro-enterprise development (if available), rural roads, and women and youth affairs) will assign a dedicated focal person to engage in the project. Focal persons will form a Woreda Technical Committee (WTC) that meets at least on a monthly basis to plan coordinated visits to project kebeles. Woreda Offices of Pastoral Development (WoPD) will coordinate the activities of the WTC.<sup>17</sup> A Woreda Project Appraisal Team with membership from the WoPD, WoFED and sectoral offices but separate from the WTC (so that its members have no facilitation responsibilities under the project and can maintain a certain measure of independence) to appraise and review sub-projects. The WoPD will be supported by a project coordinator (funded by the project). Project funds will be managed by WoFEDs who will be assisted by a project accountant. Woredas will, furthermore, be assisted by project-funded MSTs covering three to four woredas each. The functions of the MSTs (and all project funded implementation support or coordination functions) are discussed in Annex 3.

52. A committee of high level woreda officials, the WDC, comprised of the woreda administrator (or his/her deputy), sectoral office heads, the head of WoFED, and representatives of NGOs and/or Microfinance Institutes where they are available—will have oversight of PCDP-3 activities within each project woreda. The WDC will approve all sub-projects proposed by kebeles, manage fund flows, monitor implementation, and ensure timely reporting on implementation progress.

53. At the regional level, Regional oversight and leadership for project implementation in the four project regions will be provided by a Regional Steering Committees (RSC) composed of heads of all relevant sectors, the head of the Bureau of Finance & Economic Development (BoFED) and led by the Pastoral Development Bureaus/Commission. The RSC will meet quarterly to review performance, endorse the quarterly progress reports and provide guidance on project implementation. At the beginning of the fiscal year, it will endorse the annual plan. If the regional arrangements are such that the Pastoral Development Bureau does not have sufficient authority to readily call heads of Bureaus for steering committee meetings, it will act as the

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<sup>17</sup> For some specialized support such as capacity building of the extension and veterinary services, market and technical analyses of livelihood opportunities, SACCO promotion, and research input for adaptive research within pastoralist-research groups, preparing designs for irrigation and road infrastructure, technical support will be managed by relevant regional bureaus coordinated through RPCUs.

secretary to the RSC and the RSC will instead be led by the head of the Bureau of Agriculture who also serves as the regional vice president. The RSC will be supported by the RPCU. In addition to its support to the RSC, the RPCU will provide implementation support to woredas, coordinate regional functions and oversee MSTs.

54. At the Federal level, MoFA will assume overall responsibility for project implementation supported by the FPCU. MoFA will sign memoranda of understanding with the FCA, EIAR and Regional Sectoral Bureaus to agree on respective roles and responsibilities. While most PCDP-3 interventions will be implemented by community based institutions with support and oversight from their respective woredas, there are some exceptions as follows:

- (a) Woreda level activities (e.g., support to integrated woreda planning and budget development, various capacity-building initiatives, training of trainers, etc.) will be carried out by the most appropriate woreda sectoral office or WoFED;
- (b) Promotion of pastoral SACCOs (Comp 2.1) will be implemented through Woreda Cooperative Promotion Offices under the oversight of the FCA and Regional Cooperative Promotion Bureaus;
- (c) Support to the identification, selection and development of viable livelihood options (Comp. 2.2) will be implemented by the WoPD and, if available, Woreda Micro and Small Enterprise Development Agencies (WoMSEDA)—under the oversight and technical support of Regional Bureaus of Agriculture or Pastoral Development. TA and capacity building to the WoPD and WoMSEDA will be outsourced;
- (d) Promotion of participatory adaptive research and innovation (Comp. 2.3) will be implemented through research stations, technology production centers or relevant academic institutions (who would be members of the woreda technical committee). The sub-component will be overseen by the Ethiopian Institute for Agricultural Research (EIAR) and/or Regional Agricultural Research Institutes (RARIs); and
- (e) Component 3 on Development Learning & Knowledge Management will implemented mostly at the federal and regional levels coordinated by the Knowledge Management Officers in the FPCU and RPCUs.

55. ***Fund flow and accounting:*** The institutions that will use PCDP-3 project funds are: (a) FPCU and RPCUs in Afar, Somali, Oromiya, and SNNPR, as well as 30 MSTs; (b) a maximum of 113 woredas and about 900 kebeles; (c) EIAR, RARIs, their research stations and selected academic institutions; and (d) Federal and Regional Cooperative Agencies/Bureaus. Funds will flow to implementing institutions and communities through the FPCU to the 4 RPCUs and the WoFEDs within each project woreda. In the case of activities implemented by EIAR and FCA, MoFA will sign a memorandum of understanding with these institutions. Each implementing entity will also be responsible for all accounting and reporting functions under the overall control of the FPCU. FPCU will be responsible for the overall consolidation and submission of IFRs to the World Bank. In addition, finance officers in MSTs also have a role in facilitating the financial reporting of the woredas.

56. The flow of funds to communities will be overseen by the WDCs. The WDC approves an operating budget for KDCs, sub-project to be funded through the CIF, innovative grant proposals

to F/PRGs and savings leverage grants to SACCOs under the RLP. Once approved, funds for community sub-projects/activities will flow from WoFEDs to communities in appropriately sized and phased tranches as is determined in the PIM. A new tranche will be released upon the utilization of a determined percentage of previous advances. The WoFEDs will oversee all financial transactions of the project at the woreda and provide support to communities to manage and account for funds. The PCDP financial management officer placed within the WoFEDs will account and report on expenditures to the WDC and MST supporting the particular woreda. WDC and MST will in turn report to RPCUs which will report to FPCU.

57. The FPCU will be responsible for overall fiduciary management of the Project. It will be responsible to release funds against agreed plans, disburse funds to all implementing levels and co-ordinate monitoring and financial reporting for the project as a whole. The RPCUs will be responsible for supporting, coordinating and overseeing the financial functions of the woreda offices as well as the Regional Cooperative Agencies/Bureaus and RARIs in their respective regions. The RPCUs supervise MSTs in their respective regions and would receive the necessary financial reports on woreda expenditures from them.

## **B. Results Monitoring and Evaluation**

58. PCDP-3's M&E system will (a) assess and document timely progress towards outputs, outcomes, and intermediate results as agreed in the annual work plans; (b) identify implementation gaps and challenges for proactive corrective actions; and (c) document and incorporate lessons learned into project implementation. The system will generate, aggregate and systematically record information/data from various levels (regions, woredas, kebeles and sub-kebeles as well as qualitative and quantitative surveys) related to PCDP-3 outcome indicators/results, implementation progress and performance, and project characteristics. It will analyze such data to evaluate impacts and outcomes, track progress, identify implementation bottlenecks for quick resolution, and monitor how well agreed-upon processes are being carried out.<sup>18</sup>

59. *Evaluation of outcome and impact:* Achievement of PCDP-3 results will be measured by a set of qualitative and quantitative indicators (see Annex 3: Results Framework). A rapid survey was conducted during preparation to determine preliminary baseline values for the indicators of the results framework and to establish targets along the life of the project. A more detailed baseline survey is planned for the first year of the PCDP-3 implementation followed by a midterm survey and evaluation in FY 2017 and a final survey and evaluation in FY 2019. These evaluations will be complemented by yearly thematic assessments (including technical audits of infrastructure, cost-benefit analysis of investments, evaluation of woreda planning, etc.) and case studies on topics jointly agreed by the FPCU, World Bank, and IFAD. The themes of the studies will be determined by the FPCU, IFAD and the World Bank on a yearly basis.

60. *Monitoring of inputs, outputs and processes.* Monitoring implementation performance, including tracking of inputs and outputs, will rely on the M&E system for PCDP-2 with some refinements. The project will focus on keeping the system simple and interactive allowing regular reporting and learning by stakeholders at all levels. Community members will take the lead on monitoring activities and progress at the kebele level. Nevertheless, some independent

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<sup>18</sup> An M&E manual describing the M&E system, procedures and tools will supplement the PIM.

assessments will also be undertaken by project teams and external consultants such as assessments of the adequacy of community level planning; effectiveness and quality of capacity building efforts; use of savings leverage funds by SACCOs, and adjustments to woreda level planning in areas such as bottom-up participation, transparency and accountability, environmental and social safeguard management.<sup>19</sup> Findings from such monitoring will be shared with PCUs, the woreda technical committees and at community learning fora. Monitoring data will be entered into an MIS, which will be used as an important source of information for quarterly and annual reports by regions and the FPCU. The MIS will be web-based to enable widespread accessibility by project staff and government partners over the internet and will record information on characteristics of project kebeles as well as performance regarding PCDP activities.

61. *Safeguards monitoring:* Throughout implementation, PCDP-3 is required to carry out safeguard monitoring to ensure that the Project brings intended benefits, while ensuring that potential adverse environmental and social impacts are avoided or minimized. Safeguard monitoring will include environmental and social performance reviews by a local consultant contracted to visit a sample of Project woredas each year to assess compliance with safeguard instruments, determine lessons learnt and provide guidance for improving future performance. Reporting formats will also include indicators on safeguards.

62. *Participatory M&E and internal learning.* PCDP-3 will promote participatory M&E and learning by (i) introducing simple and visual monitoring formats to be used by beneficiary communities to track project milestones—focusing on results—and budget use and to identify implementation problems and best practices; and (ii) facilitating periodic structured discussion fora at the kebele level that would be chaired by community leaders and facilitated by trained community members as well as MST staff. The community discussion fora would draw on information from regular community monitoring, social audits and feedback from the woreda level. The KDC that also oversees the development of CDPs, CAPs and CLPs will be responsible for coordination of community monitoring activities. Simple tools to encourage community monitoring of activities will improve transparency and accountability in local decision-making processes and help deepen community participation, generate local solutions to implementation problems as they arise, and improve the quality of the project activities/investments.

63. *Reporting Mechanisms:* PCDP-3 will have four levels of reporting discussed in detail in Annex 6. Reports will be shared among entities at four levels (federal, regional, woreda and kebele levels), in accordance with the Government's decentralized policy.

### **C. Sustainability**

64. *Community Driven Service Provision:* Sustaining investments made by communities to enhance service delivery depend on woreda governments taking over and operationalizing CIF sub-projects once they are completed. The experience under PCDP-1 and PCDP-2 has been that most sub-projects implemented with the CIF (over 80 percent) have been successfully completed and handed over to woreda administrations. Woredas have in turn provided the necessary

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<sup>19</sup> Taking into account views of executing institutions and perception of communities.

manpower and operational budgets to extend associated services. Sustaining the CDD approach will depend primarily on capacity-building and community ownership. Once communities acquire the knowledge, awareness and necessary skills to develop the CDP, CAPs and CLPs in which priority investments are identified as well as to implement and maintain sub-projects, it is likely that the CDD approach will be taken forward, provided that financing is available. Financing for local development in pastoral and agro-pastoral areas will continue to rely on central government and donor funding for the foreseeable future. Given fiscal decentralization in Ethiopia, such funding is managed primarily by woreda governments that have already demonstrated their support for community driven local development. PCDP-3 will emphasize the integration of the CDD approach within woreda development plans to ensure the sustainability of the approach. PCDP-3 financing (through the CIF) is intended to serve as a catalyst for woredas to engage local communities in the decisions regarding the use of all public funding. Under PCDP-3, woredas will be asked to dedicate a portion of their capital funds to be used in accordance with the CIF to link the regular woreda planning process to the CIF.

65. *Rural Livelihoods Program.* It is proposed that the RLP should promote the establishment of new community-managed financial cooperatives. At the close of the Program, such cooperatives will still be in their early stages of development and would have limited capacity and scale of operation. There will be a need, therefore for continued support for the evolution of pastoral SACCOs into mature financial institutions with capacity to meet the requirements of their communities. PCDP is not well placed to provide support for the development of pastoral SACCOs into mature financial organizations since it is not specifically focused on rural financial intermediation. Nevertheless, it will develop strong linkages with RuFIP-2 that has accumulated competence and experience in this area. RuFIP-2 will also work towards the establishment of SACCO unions in pastoral areas and in building capacity within Regional Cooperative Agencies/Bureaus and WoCPs that are expected to provide, over the longer term, the necessary support to the pastoral SACCOs. The RLP will also strengthen the capacity of the pastoral extension service so that it can continue, beyond the implementation period of the Program, to support pastoral households to identify and invest in viable and innovative IGAs and/or strengthen their existing productive activities.

66. *Development Learning and Knowledge Management:* PCDP’s knowledge management and learning activities will be sustained as the GoE takes over initiatives for evidence based dialogue and learning on pastoralist issues.

## 5. KEY RISKS AND MITIGATION MEASURES

### A. Risk Ratings Summary Table

<i>Risk Category</i>	<i>Rating</i>
<b>Stakeholder Risk</b>	Moderate
<b>Implementing Agency Risk</b>	
- Capacity.	High
- Governance	Moderate



<i>Risk Category</i>	<i>Rating</i>
<b>Project Risk</b>	
- Design	High
- Social and Environmental	Substantial
- Program and Donor	Low
- Delivery Monitoring and Sustainability	Low
<b>Overall Implementation Risk</b>	Substantial

## **B. Overall Risk Rating Explanation**

67. PCDP-3 is implemented in remote and underserved areas where implementation, fiduciary, and safeguards management capacity is weak. Added to this, remoteness of project woredas poses difficulties in terms of providing support and supervision. Moreover, pastoral and agro-pastoral communities are known to have complex social relations, are prone to conflicts and are located in the arid and semi-arid regions of the country where the environment is fragile. This increases the social and environmental risks associated with the Project. Being a third project in a series of operations, PCDP-3 can, however, rely on mitigation measures that have been well tested and found to be effective – although requiring continued attention. Implementation capacity built under the first two phases of the program, particularly in terms of familiarity with the CDD approach also contribute to mitigating some risks.

68. In addition to the risks discussed above, the World Bank and IFAD face a reputational risk associated with the resettlement in pastoralist areas, concurrent to the project, through *inter alia* the GoE’s commune program. While PCDP does not directly contribute to the commune program and the GoE does not plan to extend the commune program any further, strategic investments including irrigation development, commercial agriculture and mining are likely to still be carried out in pastoral areas, affecting PCDP-3’s beneficiary communities. Resettlement may therefore continue albeit on a much smaller scale. The World Bank is undertaking an independent assessment to examine the situation where pastoral communities have been resettled due to the commune program or other developments. The assessment will provide further guidance on how best to engage in cases where problems emerge. The PCDP-3 PIM will be revised to reflect any further agreements in this regard. Given the above considerations, the overall risk of PCDP-3 is rated as substantial.

## **6. APPRAISAL SUMMARY**

### **A. Economic and Financial Analysis**

69. The economic and financial analysis conducted as part of project preparation suggests that the proposed interventions are economically and financially feasible. As a CDD project, it is not possible to pre-determine actual investments. Therefore, analyses were carried out based on a typology of PCDP-3 investments within a community which include water points for human and livestock consumption, health posts and investment in roads as well as investments in new

IGAs under the RLP. Internal Rate of Return (IRR) on each investment is significant: (a) 12 percent for roads; (b) about 20 percent for water points; (c) 20 percent for health posts; and (d) about 20 percent on IGA.

70. *The overall cost-benefit analysis* for the project, also based on the typology of PCDP-3 investments indicated above, suggest an Economic Internal Rate of Return (EIRR) of 16 percent. The project’s incremental benefits relate to (i) reduced transportation costs, increased volume of produce marketed and post-harvest loss reduction due to road construction; (ii) financial savings derived from improved access to water points and primary health care (reduction in health costs and lost time due to illnesses), and (iii) increased returns on economic activities among selected members of the project’s target communities. While the economic analysis is based on these benefits, it must be noted that this is rather conservative as the returns on PCDP-3 investments are far larger and a significant portion of benefits are not readily quantifiable. Such benefits relate to improved local governance and empowerment of marginalized communities, the creation of an enabling environment for strengthening pastoralists’ livelihoods, and investments that result in intrinsically immeasurable benefits related to increased enlightenment and improved cognitive powers due to better health, education and nutrition.

71. *A sensitivity analysis* has been carried out to assess the effect on the EIRR of variations in benefits and costs and for and a lag in the realization of benefits. The results remain robust despite an increase in cost by 10 percent or a fall in the total estimated benefits by 10 percent. A lag in the realization of benefits by one year renders reduces the EIRR to 10 percent. However, in light of the conservative cost-benefit analysis, the overall net discounted benefits remain positive.

Sensitivity Scenarios	IRR
base scenario	16%
Costs+10%	13%
Benefits +10%	20%
Benefits -10%	12%
1 year lag in benefit	10%

72. *Fiscal impact:* the recurrent financial implications of the project as per the typology of community investments used for this analysis are: (a) Rural Roads: operational and maintenance costs of rural roads constructed by PCDP are mainly associated with labor and will be covered directly (in-kind) by beneficiary communities; (b) Water points: a typical water point developed by PCDP will have an annual maintenance/operation cost of about US\$3,000; assuming that a water point would be used by about 600 persons out of which 120 would be required to pay a fee for operation and maintenance (the others being children), users would need to contribute about US\$26 per year per household to ensure sustainability of the water point. Thus, a fee of about 3¢ or about 0.50 ETB per use would need to be charged. The management and maintenance of water points will be assured by Water User Associations. (c) Health posts: The maintenance and operation/running costs for health posts will be charged to the woreda budget and will consist of (i) maintenance costs estimated to be about 5 percent of the effective construction cost starting from the 2<sup>nd</sup> year of the project; and (ii) operating costs (health

specialist, medicines, etc.) starting from the 3<sup>rd</sup> year. The total annual costs charged to the woreda budget per each health post will be about US\$16,200 as per year. This suggests that even if all the CIF was used for the construction of health posts, the fiscal implication on the woreda government's budget would be around 0.3 percent of the budget typically allocated to health services at the woreda level. A detailed discussion of the economic analysis together with data tables is kept in the Project Files.

## **B. Technical**

73. PCDP-3 is designed to engage pastoral communities in their own local development by making local institutions and development processes more inclusive, participatory, accountable, and responsive to the needs of pastoralists and agro-pastoralists. The design builds on experiences under PCDP-1 and PCDP-2 and incorporates local and international lessons to include design elements that (i) maintain a focus on communities with a strong participatory planning process; (ii) channel funding directly to communities (with the oversight of the woreda government (WDC) and through a local government office (WoFED)); (iii) include grassroots institution building to promote collective action and capacity to prioritize, plan and implement; (iv) promote active community involvement in the implementation of public investment projects and oversight of associated services; (v) promote the engagement of communities in monitoring progress in local development initiatives; (vi) strengthen mechanisms for downward accountability at all levels; and (vii) include capacity building for local government institutions for effective backstopping and technical support from woreda offices.

74. The PCDP-3 design, which seeks to deepen the CDD approach to expanding service delivery, enhances broad ownership of public services by pastoralists. Thus pastoralist/agro-pastoralist households are likely to make better use of services and to mobilize funding (including through greater willingness to pay for services) for the running of services and the maintenance of physical facilities. It will also strengthen the application of well-designed, financially viable livelihood opportunities – both in terms of strengthening livestock production systems as well as diversifying into new IGAs. Operational manuals for both the CIF and RLP will reflect the above and address key challenges of the CDD approach as follows:

*75. Heterogeneity of pastoral communities:* Community discussions will be carried out at the sub-kebele level and within focus group discussions (among groups that are easily overlooked such as women, mobile community members, and vulnerable groups) to reach diverse groups within target communities (see Section VI E. Social for further discussion on this issue).

*76. Community level decision-making:* PCDP-3 will provide space for community decision-making by (i) declaring available resources upfront to give communities greater say over the number, scale and type of sub-projects supported by PCDP-3 (with flexibility to invest in one large or multiple small sub-projects as they see fit up to an annual ceiling); (ii) supporting systems (e.g., a functional complaints redress system and regular feedback to kebeles – and from kebeles to sub-kebeles – on woreda level decisions) that ensure woredas respect community action plans and would only deviate from such plans according to pre-determined rules and criteria; and (iii) allowing communities to put aside a small percentage of the CIF for atypical

investments/expenditures<sup>20</sup> that they may want to undertake which would broaden their options beyond the current patterns of local development that are applied throughout the country.

77. *Support from local governments:* The Project will develop clear procedures for appraisal and approval of community sub-projects by woreda governments. Also, community consultations will include a process whereby KDCs seek the support of woreda sectoral offices in identifying solutions to development problems identified at sub-kebele levels. In doing so, they will discuss each development problem separately to ensure in-depth discussions beyond the standard menu of local level service delivery options dictated by current local development strategies. Solutions will be translated into a set of sub-projects (including a small amount dedicated to atypical investments/expenditures) and final priorities will be determined through a voting process. While woreda technical teams engage in discussion, voting will be limited to community representatives.

78. *Linking communities to formal institutions:* PCDP-3 will build on existing institutions and traditional systems to promote community driven development. As PCDP-3 focuses on institutionalizing local development approaches (following the CDD approach) into regular GoE processes, methodologies will be developed for incorporating the CDD approach into the regular planning and budget development process as well as for promoting community oversight of public services without creating new structures.

### **C. Financial Management (FM)**

79. The FM arrangements for PCDP-3 (discussed in Annex 3 in detail), follow the government's Channel 2 fund flow mechanism whereby funds from donors flow directly to the sector ministry in this case, MoFA and are overseen by the same Ministry. The project will use its own FM Manual, which will describe its budgeting, accounting, internal control, fund flow, financial reporting and auditing aspects. The manual will also outline the relationship between all implementing agencies and service providers and indicate how community contributions to the project will be accounted for. The FM Manual that is already in use for PCDP-2 will be revised to include new features of PCDP-3 such as the introduction of WoFEDs, RCAs and RARIs as implementing agencies as well as the establishment of new MSTs and inclusion of additional WoFEDs as the Project scales up. The update will be finalized before project effectiveness.

80. PCDP-3 will use the Report based disbursement, which depends on the submission of Interim Financial Reports (IFRs) with two quarters expenditure forecast to the Bank and replenishment of project accounts accordingly. The IFR will be consolidated and submitted by the FPCU to the Bank. Given that the scope of PCDP-3 covers close to 113 woredas, this method of disbursement is believed to avail the necessary funds to the project at the required time. In addition, due to the recruitment of MST accountants who will oversee 3-4 woredas as well as the revision of the FM

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<sup>20</sup> Examples are technical support that communities may perceive a particular need for (e.g., engineering support for supervision of construction activities); introduction of innovation in service delivery (e.g., innovative use of ICT such as solar panels to provide light in the night to alternative basic education for children who cannot attend school during daytime); and improving quality of services associated with earlier sub-projects by meeting contingencies in service provision.

manual which clearly indicates reporting requirements with simplified reporting formats, the financial reporting aspect of the project is expected to meet the required standard.

81. PCDP-3 will build on and strengthen FM arrangements of PCDP-2. Action plans towards this are prepared (see Annex 3). All implementing agencies (including WoFEDs for woreda level transactions) will be responsible for maintaining the project's records and documenting all financial transactions occurring in their offices. They will follow double entry accounting system on a modified cash basis. Based on the accounts of the implementing agencies, the FPCU, all RPCUs and MSTs will generate financial reports for the Project. At the community level, each project kebele will have a community audit committee that will maintain a simple accounting book, which shows the amount of money received and expenditures made for CIF subprojects. All the supporting documents from the community will be submitted to the respective WoFED along with regular financial reports.

82. PCDP-3 will also build on the country's Public Financial Management (PFM) system. Several aspects of the PFM system function well, such as the budget process, budget classification system, and compliance with financial regulations. PCDP-3 will also benefit from the country's internal control system, which provides sufficiently for the separation of responsibilities, powers, and duties. It also benefits from the effort being made to improve the internal audit function. PCDP-3 funding will be proclaimed as part of the GoE budget and annual action plans and budgets harmonized with the budget calendar.

83. The conclusion of the FM assessment is that the FM arrangements meet the IDA's requirement as per OP/BP 10. The FM risk for the project is rated 'substantial' without mitigating measures but is expected to reduce once implementation starts and the risk mitigating measures proposed are implemented.

#### **D. Procurement**

84. Procurements under the PCDP-3 will be carried out in accordance with the World Bank's *Guidelines: Procurement under IBRD Loans and IDA Credits* (January 2011); *Guidelines: Selection and Employment of Consultants by World Bank Borrowers* (January 2011); and provisions stipulated in the Legal Agreement. In light of this, the World Bank has reviewed the competitive bidding procedures of the Federal Government of Ethiopia and has determined that contracts for goods and works other than those to be procured under International Competitive Bidding (ICB) may follow the Borrower's procurement procedures, subject to provisions outlined in Annex 3. Contracts for consultancy services shall be carried out in accordance with the provisions of the Consultants Guidelines and the provisions stipulated in the legal agreement.

85. The last Country Procurement Assessment Report (CPAR) of 2010/11 identified lack of procurement capacity as a major weakness in Ethiopia's public sector procurement system. This has also been confirmed for PCDP through a procurement management capacity assessment of the FPCU and the PDOs of Oromiya and SNNPR. Lack of procurement capacity and limited support provided to communities in this area remains a major bottleneck for the smooth implementation of PCDP-3. PCDP-3 is therefore rated as high risk in the area of procurement. Mitigation measures are presented in Annex 4.

86. MoFA has been implementing PCDP-1 and PCDP-2 following a CDD approach. This has provided opportunities for community participation in procurement, the experience with which has been exemplary and can be used as a model for other community-based projects financed by the Bank and other Development Partners. The experience with MSTs which have been established *inter alia* to support community procurement is also a model to be emulated in similar projects. However, it is also recognized that procurement under PCDP has encountered some challenges that raise the following concerns for PCDP-3:

- a. Weak procurement capacity is a major risk for the implementation of the Program;
- b. High level of staff turnover has been a major feature in the area of procurement contributing to the procurement risks;
- c. PCDP's central procurement unit (within the FPCU) has, at times, been constrained to adequately carry out federal level procurements and to provide the necessary support to RPCUs; and
- d. Weak procurement capacity within MSTs coupled with high staff turnover at this level has a major effect on the quality and effectiveness of procurement which is carried out at community level.

#### **E. Social (including Safeguards)**

87. Over centuries, pastoral communities have devised complex social arrangements which have enabled them to share access to natural resources, manage conflicts and ensure mobility of households and herds across long distances. PCDP-3 strives to build on and work with such indigenous social systems. It also supports participatory development through the CDD approach. The Project is therefore expected to contribute to several social development outcomes, including: (i) improved living conditions of pastoral communities; (ii) increased capacity of beneficiary communities to manage their own development in an equitable, and inclusive fashion; (iii) improved social accountability; and (iv) better management of conflicts as promoting broad community participation in local development (including natural resource development) allows cooperation rather than conflict where competition for scarce natural resources are shared and managed through complex informal institutions. Community participation also helps to strengthen existing conflict management processes.

**88. Social Assessment and Consultation:** The preparation of the project relied on the consultation with key stakeholders and the design was also based on social assessment in which stakeholders were consulted on issues concerning their socio-economic characteristics, assessing the potential social impacts on vulnerable and underserved groups, determining how relationships between stakeholder groups will affect or be affected by the project and identifying expected social development outcomes and actions proposed to achieve those outcomes. The social assessment indicates that the PCDP program strives to build on and work with underserved areas and supports participatory development through the CDD approach, paying particular attention to those segments of pastoralist society that are traditionally underserved (women, youth and other vulnerable groups) by making sure that their voices are fully heard and their interests are reflected in the CDPs, CAPs, CLPs and in all project activities. The main social challenges highlighted include: (i) gender disparities in access to livelihood and educational opportunities; (ii) remote nature of pastoralist communities and limited access to

social services, especially education, health services, etc.; and (iii) recurring conflicts over natural resources, particularly over water management and land tenure arrangements. The following have been adopted as part of the solution: (i) the project's community consultations and community level planning processes are designed to be socially inclusive, incorporating the voices of different sections of pastoral societies; (ii) any impacts on access to natural resources will be managed carefully building on traditional community level grievance redress mechanisms and community consultations on managing access; and (iii) appraisal of sub-projects at the woreda level will take into consideration their social dimensions and members of the woreda appraisal team will be provided with specific training in this regard.

**89. Addressing diversity (including gender disparity and targeting vulnerable groups):** Pastoral communities are diverse. Each kebele can include community members that are broadly categorized into: (a) mobile communities who make their living from herding livestock (cattle, goats, sheep and camels) that move around in search of pasture and water sources for their livestock but also leave behind in central locations some household members such as the elderly, the sick, women with infants, etc.; (b) agro-pastoralists that combine herding with crop production and trade, with some, but not all, able bodied members moving around with the herds; and (c) households that have dropped out of pastoralism. The needs and vulnerabilities of these three groups differ significantly and it is important that these differences are reflected in community discussions. Similarly, women, youth, the poor and ethnic minorities tend to be easily overlooked in community discussions and decision making processes—given the particular social structures of pastoral societies. PCDP-3 will mainstream targeting of such groups into the community planning processes. During the initial sensitization process (step 1 of the consultation process), communities would be expected to agree on ethical principles that would include giving priority to the needs of their most vulnerable members (including women). This would be complemented by a social mapping exercise that would identify different social groupings (including the different categorization of pastoralists, women and youth groups, etc.) that the planning, prioritization and targeting processes would directly engage with. The Project will furthermore include training on social mobilization and facilitation skills to ensure broad and active participation and careful selection of representatives to decision-making fora and within community based institutions. A special effort will be made to address women's constraints in engaging with the Project; e.g., training to women leaders, separate focus group discussions for women, including women as role models in project teams.

**90. OP/BP 4.10:** A screening by the Bank to identify whether people meeting the criteria for OP 4.10 are present in the project area has confirmed that the vast majority of people in the project area do have the characteristics associated with populations defined under OP/BP4.10. The Ethiopian Constitution recognizes the presence of different socio-cultural groups, including historically disadvantaged and underserved communities, pastoralists, and minorities, as well as their rights to their identity, culture, language, customary livelihoods, socioeconomic equity and justice which also meet the OP/BP 4.10 criteria. The project has conducted an enhanced social assessment in each of the four Regions in which it will be operational: Afar, Somali, Oromiya and SNNPR. The assessments assessed key socio-economic factors that require consideration, including identifying vulnerable and historically underserved groups that could potentially be excluded from the project. The findings of the SA, the process used in fostering free, prior, and informed consultations leading to broad community support for the project, and provision of

grievance redress, addressing any adverse impacts, culturally appropriate benefit sharing, monitoring, evaluation, and reporting during implementation relating to vulnerable groups, have been included in the project as social risk mitigation actions and benefits (see Annex 11).

91. **OP/BP 4.12:** The PCDP-2 did not trigger OP4.12 even though investment interventions included small infrastructural subprojects. Instead, any sub-project that, upon screening as per the Environmental and Social Framework (ESMF), was found to result in involuntary resettlement would be placed within a negative list. It was expected that this would be insignificant as any land acquisition issues or potential reduced access to natural resources would be managed through traditional arrangements. However, the context in which pastoralists and agro-pastoralists in Ethiopia live has been changing and, as a result, their traditional social relationships have also been evolving over time. It is therefore decided that PCDP-3 should trigger OP/BP4.12 as a precautionary measure and a Resettlement Policy Framework has been prepared and was disclosed on October 4, 2013 in country and October 9, 2013 at the Infoshop.

92. The potential social risks, corresponding mitigation measures, grievance redress mechanisms, and benefit sharing arrangements are outlined and included in the Annex 11.

#### **F. Environment (including Safeguards)**

93. PCDP-3 is directly focused on promoting sustainable livelihoods of pastoralists and agro-pastoralists through improved management of natural resources under both the CIF and RLP. The CIF will support investments in, for example, micro- and small-scale irrigation and rangeland management, and the RLP will support investments in rural livelihood activities that are less susceptible to environmental shocks.

94. The Safeguard Category assigned PCDP-3 is Category “B (Partial)”. OP/BP 4.01 on Environmental and Social Assessment is triggered, predicated on the assumption that there could be potential environmental risks and negative social impacts emanating from the implementation of demand-driven sub-projects whose scope, nature and boundaries are not yet known but are likely to involve civil works involving rehabilitation and new construction. Implementation of PCDP-2 has shown that preferred sub-projects will include rehabilitation and construction of schools, human health centers, animal health facilities, wells, small-scale irrigation facilities, and markets. It is expected that implementation of these activities under the Project would largely result in positive socio-economic and to some extent environmental gains. Potential adverse environmental, safety and health risks may involve loss of vegetation and biodiversity, soil erosion and sedimentation of nearby aquatic/drainage systems, air pollution, soil and water contamination from both liquid and solid waste, hazardous chemical poisoning of biotic life from use of weedicides and herbicides, etc. These may arise during the rehabilitation/ construction and operational and maintenance phases as vegetation will be cleared to pave way for civil works and ancillary facilities such as work camp sites, material storage facilities, and access roads and agrochemicals are used to re-fertilize soils and curb pest infestations. PCDP also triggers OP/BP 4.37 on Safety of Dams in cases of small dam construction (less than 4.5 meters) as part of small scale irrigation schemes or rangeland development. The Project will use the FAO ‘Manual on Small Earth Dams, A Guide to Siting, Design and Construction’ (FAO Irrigation and Drainage Paper # 64, Rome, 2010. Available at FAO website: [www.fao.org](http://www.fao.org)).



95. Aside OP/BP 4.01, implementation of PCDP-3 will also trigger additional World Bank safeguard policies namely the policy on Natural Habitats (OP/BP 4.04) since PCDP-3 may operate in woredas that include or border upon natural habitats and the policy on Physical Cultural Property (OP/BP 4.11) to address the possibility of chance findings of archeological importance, particularly in the Afar Region. The policy on Pest Management (OP/BP 4.09) is also triggered because, in promoting rain fed and/or irrigated agriculture, communities may resort to the use of agrochemicals to increase soil fertility and to fight pests and diseases. Given that the specific site location and scope of PCDP-3 interventions are not known in advance, an ESMF have been prepared and a Pest Management Plan (PMP) has been included as part of the ESMF. The ESMF was disclosed in country and in the InfoShop in accordance with Bank requirements on October 4 and October 9, 2013, respectively. Once sites have been selected and the nature and scope of the activities are known during implementation, appropriate safeguard screening instruments (such as Environmental and Social Impact Assessments – ESIA; Environmental and Social Management Plans – ESMP) will be prepared and applied prior to commencement of any interventions likely to cause adverse significant risks or threats.

96. The project would take preventive and mitigation measures against any potential threats during the rehabilitation/construction as well as during operation and maintenance (O&M) of civil works and also during any promotion of agricultural productivity under the RLP. A key undertaking prior to PCDP-3 implementation would be to ensure the incorporation and implementation of the environmental and social clauses annexed to the main ESMF into all contracts for works and that safeguards management is included in the Project’s institutional and implementation arrangements. This should include actions for capacity building, training and skills upgrade.

### **G. Other Safeguards Policies Triggered**

97. *Projects on International Waterways*: OP 7.50 is triggered because the project will finance small-scale irrigation investments along international waterways. Riparian notification has already been given to the governments of Kenya, Djibouti and Somalia for PCDP-1. New notifications reflecting the expansion of Project activities and potential increases in irrigation have been sent by the Bank on behalf of the GoE to the governments of Kenya, Somalia and Djibouti. Bank staff has assessed that the Project will not cause appreciable harm to the other riparians and will not be appreciably harmed by the other riparians' possible water use. (See Annex 12)

**Annex 1: Results Framework and Monitoring**  
**ETHIOPIA: Pastoral Community Development Project III (P130276)**

**Results Framework**

**Project Development Objectives (PD0)**

To improve access to community demand-driven social and economic services for pastoralists and agro-pastoralists of Ethiopia.

**Project Development Objective Indicators**

PDO Level Results Indicators	Core	Unit of Measure	Baseline	Cumulative Target Values					Frequency	Data Source/ Methodology	Responsibility for data collection
				YR1	YR2	YR3	YR4	End Target			
Male and female household heads in project kebeles who report that available public services address their priority needs	<input type="checkbox"/>	Percentage	43% M 28% F	--	--	70% M 50% F	--	80%M 80%F	Baseline, mid-term and end of project	Survey and qualitative analysis	M&E Officer, consultants
Students enrolled (grade 1-8) in PCDP constructed schools *	<input type="checkbox"/>	Number	73,784	--	85,000	122,425	145,250	182,600	Baseline, mid-term and end of project	Survey and progress reports in interim	M&E Officer, consultants
People provided with access to improved water sources under the project *	<input checked="" type="checkbox"/>	Number	800,000	--	1,000,000	1,320,000	1,660,000	2,000,000	Baseline, mid-term and end of project	Survey and progress reports in interim	M&E Officer, consultants
People with access to a basic package of health, nutrition, or reproductive health services*	<input checked="" type="checkbox"/>	Number	510,000	--	600,000	850,000	1,060,500	1,250,000	Baseline, mid-term and end of project	Survey and progress reports in interim	M&E Officer, consultants

\* Indicators measure additional access to public services due to the project focusing on 3 key services: primary education, water supply and primary health care. As actual services supported will be determined by beneficiary communities, targets are necessarily illustrative.

Households undertaking a viable IGA supported by a business plan	<input type="checkbox"/>	Number	11,200	--	15,000	18,200	25,000	32,200	Annually, starting year 2.	Progress report, Case studies	M&E Officer (FPCU), consultants
Households who are members of SACCOs as a proportion of total households in target communities	<input type="checkbox"/>	Percentage	5.4%	--	6%	8%	9%	10%	Annually, starting year 2.	Survey and progress reports	M&E Officer, External Consultant
Direct project beneficiaries	<input checked="" type="checkbox"/>	Number	1,900,000	--	2,500,000	3,200,000	4,000,000	4,500,000	Annually, starting year 2.	Progress reports	M&E Officers (FPCU, RPCUs)
Female beneficiaries	<input checked="" type="checkbox"/>	Percentage Sub-Type Supplemental	42%	--	50%	50%	50%	50%	Annually, starting year 2.	Progress reports	M&E Officers (FPCU, RPCUs)

#### INTERMEDIATE RESULTS

Indicator Name	Core	Unit of Measure	Baseline	Cumulative Target Values					Frequency	Data Source/ Methodology	Responsibility for data collection
				YR1	YR2	YR3	YR4	End Target			
<b>Component 1: Demand Driven Service Provision</b>											
<b>Intermediate Result 1: Community-owned investments in social and economic infrastructure within targeted communities increased and sustainably managed</b>											
CIF sub-projects completed and fully operational	<input type="checkbox"/>	Number	3,449	--	3,800	4,000	4,380	4,650	Annually, starting year 2. Process indicators used up to mid-term	Progress Reports	M&E Officer
<b>Intermediate Result 2: CDD approaches to local level development are adopted by local governments</b>											
Woredas targeted by the project with woreda development plans that follow a CDD planning process	<input type="checkbox"/>	Percentage	0%	--	10%	20%	30%	50%	Annually, starting year 2	Progress reports	M&E Officers

<b>Intermediate Result 3: Increased capacity of communities to effectively engage in local development</b>											
Sub-projects with post-project community engagement or O&M arrangements	<input checked="" type="checkbox"/>	Percentage	64%	--	--	70%	77%	81%	Annually, after mid-term. Process indicators used up to mid-term	Progress Report, qualitative studies	M&E Officers, consultants
<b>Component 2: Rural Livelihoods Program</b>											
<b>Intermediate Result 4: Grassroots financial institutions formed among target communities</b>											
SACCOs formed and operational	<input type="checkbox"/>	Number	448	--	--	700	900	1,110	Annually, after mid-term. Process indicators used up to mid-term	Progress reports and case studies	M&E Officers, External Consultant
<b>Intermediate Result 5: Households targeted by the project have adopted innovative practices/new technologies to strengthen livestock production or new IGAs</b>											
Clients who have adopted an improved agriculture technology promoted by the project	<input checked="" type="checkbox"/>	Number	0	--	--	1,100	2,200	2,200	Annually, starting year 3	Progress reports	M&E Officers
<b>Component 3: Development Learning and Knowledge Management</b>											
<b>Intermediate Result 6: Communities learn from local development processes</b>											
Lessons from community discussions and experience sharing documented by KDCs/learning and knowledge centers	<input type="checkbox"/>	Yes/No	No	No	Yes	Yes	Yes	Yes	Annually	Progress reports	M&E Officers

## Results Framework: Indicator Description

<b>Project Development Objective Indicators</b>	
Indicator Name	Description (indicator definition etc.)
Male and female household heads in project kebeles who report that available services address their priority needs	Assesses the extent to which expansion in service delivery is in line with communities' demands. HH head = household head and spouse
Students enrolled (grade 1-8) in PCDP constructed schools	Assesses the expansion in primary education due to the project—as a proxy for the expansion in public service delivery
People provided with access to improved water sources under the project	Assesses the expansion potable water supply due to the project—as a proxy for the expansion in public service delivery
People with access to a basic package of health, nutrition, or reproductive health services	Assesses the expansion in primary health care due to the project—as a proxy for the expansion in public service delivery
Households who are members of SACCOs as a proportion of total households in target communities	Assesses improved access by targeted communities to financial services through SACCOs. Membership relates to male and female household heads who would represent their entire household.
People undertaking a viable IGA supported by a business plan	Measures the combined result of increase in financial and economic services due to the project. It includes new IGAs as well as strengthening of existing production systems. Viability is measured in terms of the rate of return on investments made, technical feasibility and contribution to household welfare including nutrition. Business plan are simple livelihood plans based on target households' economic resources and capacity.
Direct project beneficiaries	Direct beneficiaries are people or groups who directly derive benefits from an intervention (i.e., children who benefit from an immunization program; families that have a new piped water connection). Please note that this indicator requires supplemental information. Supplemental Value: Female beneficiaries (percentage). Based on the assessment and definition of direct project beneficiaries, specify what proportion of the direct project beneficiaries are female. This indicator is calculated as a percentage.
Female beneficiaries	Based on the assessment and definition of direct project beneficiaries, specify what percentage of the beneficiaries are female.

<b>Intermediate Results Indicators</b>	
Indicator Name	Description (indicator definition etc.)
CIF sub-projects completed and fully operation	Assesses the Project’s contribution to expansion in service delivery. The definition of “fully completed and operational” will differ as per the type of infrastructure. Some criteria to be used are that infrastructure is delivering the intended benefits, is appropriately maintained, and that resources are allocated for future operation and maintenance of the infrastructure. No CIF sub-project will be completed in the first year, therefore output and process indicators related to the planning process and implementation of sub-projects will be monitored.
Beneficiaries that feel project investments reflected their needs (percentage)	This will measure the extent to which decisions about the project reflected community preferences in a consistent manner.
Woredas targeted by the project with woreda development plans that follow a community demand driven planning process	Indicator measures the extent to which woredas incorporate CDD approaches into their regular planning processes. “CDD approaches to local development” may be defined more specifically as approaches with transparent and demand driven mechanisms for investment planning, implementation and post-project management. In measuring the indicator consideration will be given to how much woreda development plans reflect priorities in kebele development plans and how much kebele development plans are developed with active community participation in line with the CIF operation manual.
Sub-projects with post-project community engagement or O&M arrangements (%)	This indicator is likely to be most relevant for CDD-type projects and measures the existence of specific arrangements created under the project to ensure ownership by project beneficiaries. The indicator will measure sub-project with <u>active</u> post-project engagement as assessed through qualitative analyses.
SACCOs formed and operational	This indicator measures expansion in community level financial institutions due to the project. Operational SACCOs are determined by a set of criteria (related to membership levels, savings mobilization and loan activity) outlined in the RLP manual.
Clients who have adopted an improved agricultural technology promoted by the project	This indicator measures the number of clients of the project who have adopted an improved agricultural technology promoted by the project.
Lessons from community discussions and experience sharing documented by KDCs as learning and knowledge centers	This indicator only measures whether or not communities undertake learning events and document their outcomes as a measure of whether effective learning and knowledge centers are being established in target communities

## **Annex 2 (a): Detailed Project Description**

### **ETHIOPIA: Pastoral Community Development Project III**

1. PCDP-3 will follow the overall Program approach of empowering communities and woreda governments to better manage local development among pastoral and agro-pastoral communities. It will promote a CDD process of development linked to a Community Investment Fund and a Rural Livelihoods Program, the funding for which flows through local governments. By adopting a CDD approach, PCDP-3 aims to promote association among pastoralists, empower them to actively engage in local development,<sup>21</sup> and encourage strengthening and diversification of their productive systems. This is in line with and upholding the GoE's decentralization policy that has pushed decision making authority for basic service delivery to lower levels of government and has sought effective participation of communities in planning and project implementation.
2. PCDP-3 will cover all accessible pastoral and agro-pastoral woredas of Ethiopia's arid and semi-arid lowlands of the Afar, Somali, Oromiya and SNNP National Regional States, with the exception of those covered under PCDP-1. Eligibility criteria for woredas to be included into the Program include the following:
  - (a) Woreda must be predominantly pastoral or agro-pastoral;
  - (b) Woredas should not have received similar support under PCDP-1;
  - (c) Woreda must be physically accessible to allow proper supervision, particularly on fiduciary performance and safeguards compliance;
  - (d) Woreda should not exhibit serious social tensions associated with various non-PCDP related developments in pastoral areas.<sup>22</sup>
3. PCDP-3 will have three substantive components as well as a project management and M&E component as follows:
4. **Component 1: Community Driven Service Provision:** (US\$136.7 million including US\$69.1 million from IDA, US\$53.4 million from IFAD, and US\$14.2 million from beneficiaries).
5. Component 1 is the largest component (65%) of the Project. It will have three sub-components: (a) community sub-projects through a CIF; (b) support to institutionalizing the CDD approach through institutional capacity building at the woreda and community levels and promotion of woreda planning and budget development that reflects community priorities; and (c) community level self-monitoring and learning.

#### **Sub-component 1.1: CIF**

6. PCDP-3 will provide an investment fund to selected kebeles in project woredas (supplemented by community contributions) for investment in demand-driven social and

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<sup>21</sup> Plan developmental activities, mobilize resources, implement small investment projects, and oversee associated services.

<sup>22</sup> Social tensions arising from such developments as the GoE's commune program poses a reputation risk to the World Bank and IFAD. While it is understood that the GoE does not intend to extend the commune program any further the Bank will nevertheless develop and agree with the GoE on modalities for engaging with communities affected by developments external to PCDP-3, including the commune program.

economic services. Kebeles will be selected by their woreda governments giving priority to most under-served communities. The purpose of the CIF is to make capital resources available for small community-driven local investments and expenditures that would expand and improve service delivery and build infrastructure for local development. These investments would be identified, prioritized, implemented and monitored by beneficiary communities. Communities will also be responsible for procurement and management of sub-projects. The Project will facilitate broad participation in planning for local development, strengthen capacity and downward accountability of community based institutions, and will promote greater decision-making authority at the community level.

7. Planning for the CIF and RLP (under component 2) will initially be undertaken jointly to first develop a CDP from which sub-projects for CIF funding as well as interventions for the RLP would be identified and agreed upon. The CIF will be used to finance sub-projects within community plans developed following a three step process: (1) an initial sensitization, awareness creation and general consultations that includes prior and informed consultations on the project's modalities and rules, social mapping and gender awareness campaign and agreement on ethical principles; (2) situation analyses at the sub-kebele level that include identification and prioritization of communities' primary development problems, development of community vision, and selection of representatives for CDP development; and (3) development of a 3-year rolling CDP at kebele level that translates the development visions from each sub-kebele into a kebele-wide plan. The CDP will serve to update and elaborate the existing kebele development plans. Consideration will be given during its development to ensure complementarity with wider developments and that envisaged interventions do not create conflict with neighboring communities.

8. *Step 1: Sensitization, awareness creation and general consultations.* This is the first entry point whereby MSTs and the woreda technical committee members undertake a Participatory Rapid Appraisal (PRA) to map traditional and formal community organizations<sup>23</sup> and identify community/clan leaders that can serve as representatives of the broader community and clarify with representatives of the community the PCDD approach; i.e., its rationale, features, principles, expected commitments from the community, and external contributions (i.e., level of funding that communities are to receive, associated capacity building and that there would be 2 rounds of engagement). This would be followed by community-wide discussions through formal and traditional community structures to popularize the approach, discuss the objectives of the Program, undertake a communications campaign related to gender, financial literacy and engagement of youth, and articulate ethical standards including a pledge to address concerns of the weakest/poorest members of the community (including women).<sup>24</sup> The discussions should seek an expression of interest by community leaders to engage with the project, establish a profile of the community (i.e., a description of the community: wealth ranking of members, mapping of community institutions and facilities, description of major livelihood systems, description of natural environment, etc.) and establish a community audit committee that would follow up on the process as it rolls out to ensure adherence to the CDD approach. This step

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<sup>23</sup> This will include an analysis of the way such groups are organized; i.e., representation, the voice of women and the poor, whether they function in a transparent manner, potential for capture, etc.

<sup>24</sup> Ethical principles should include inclusiveness, priority to vulnerable members (poor households, women and youth), transparency, accountability, trustworthiness, and cost sharing.



should result in a memorandum of engagement and would be a pre-condition to the allocation of a CIF budget to the kebele. This step in the consultation process will consider the different needs of pastoralists and establish a feasible calendar for subsequent consultations that will enable reaching different community groups (particularly mobile pastoralists and women).

9. *Step 2: situation analysis at the sub-kebele level.* Detailed situation analyses will be carried out within each sub-kebele or appropriate community organization/groups (identified through PRA during initial sensitization/consultation process as groups that can represent a section of the community). Particular attention will be given to community organizations/groups representing vulnerable groups (women, poorest households, youth, minority ethnic groups, etc.).<sup>25</sup> Situation analyses at the sub-kebele level will involve the formulation of a development vision, the identification of communities' primary development problems and prioritization of broad intervention areas. The sub-kebele would also select representatives for the development of community wide development plans at the kebele level. This process will not only focus on public service delivery but will also include a discussion of communities; aspirations and values regarding economic livelihoods, identification of opportunities for livelihood improvement as well as the challenges and constraints, particularly for the poorest households and those that have fallen out of pastoralism. Sub-kebele discussions will be led by community facilitators. To ensure broad participation training will be provided to facilitation teams on social mobilization and facilitation skills including how to manage consultations in large groups, how to encourage active participation by all present including women, youth and other marginalized groups, consensus building and modalities for selection of appropriate community representatives.

10. *Step 3: Development of Community Development Plan (CDP) at kebele level.* Once each sub-kebele has articulated its development vision and identified priority problems, these visions will be translated into a kebele-wide 3-year rolling CDP that translates the development visions from each sub-kebele into a kebele medium term plan. This step will be undertaken at the kebele level under the oversight of the KDC with representatives from the sub-kebele level and with technical support from the respective MSTs, woreda sectoral offices, agricultural research stations, and kebele level specialists such as agricultural Development Agents (DAs) and Health Extension Workers (HEWs). The KDC leadership will be responsible for bringing together community representatives for CDP development<sup>26</sup> and the woreda project coordinator or the MST team leader will be responsible for organizing a team of experts to support CDP development in each project kebele. The consultations will seek solutions to the identified development problems. In doing so, development problems (livelihood development, rangeland management, food security and resilience, education and outreach to mobile communities, health and nutrition, climate change) will be discussed topic by topic to ensure in-depth discussions and the generation of investment ideas beyond the standard menu of local level service delivery options dictated by current local development strategies.<sup>27</sup> Following the development of the CDP and based on its

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<sup>25</sup> PCDP beneficiary communities are diverse. It is therefore difficult to establish a general operation modality for consultations. The process for engaging at the sub-kebele level will therefore be determined through a PRA process during the initial sensitization process.

<sup>26</sup> The kebele leadership will post, at the kebele office, the composition of the group of representatives as well as the CDP itself to ensure transparency.

<sup>27</sup> This elaborate planning process would produce kebele profile with different community groups mapped out and their priorities reflected. CDPs would serve to refine existing kebele development plans that are aggregated into the

priorities, an annual Community Action Plan (CAP) will be developed for the CIF. The CAP identifies sub-projects, prioritized through a voting process, for financing through the CIF and lays down an annual action plan for implementation (including where they should be physically located). While technical specialists engage in discussions, voting will be limited to community representatives

11. *Targeting the vulnerable:* Pastoral communities are diverse. Each kebele can include community members that are broadly categorized into: (a) mobile communities who make their living from herding livestock (cattle, goats, sheep and camels), that move around in search of pasture and water sources for their livestock but also leave behind in central locations some household members such as the elderly, the sick, women with infants, etc.; (b) agro-pastoralists that combine herding with crop production and trade, with some, but not all, able bodied members moving around with the herds; and (c) households that have dropped out of pastoralism. The needs and vulnerabilities of these three groups differ significantly and it is important that these differences are reflected in community discussions. Similarly, women, youth, the poor and ethnic minorities tend to be easily overlooked in community discussions and decision making processes—given the particular social structures of pastoral societies. PCDP-3 will mainstream targeting of such groups into the community planning processes discussed above. During the initial sensitization process (step 1 of the consultation process), communities would be expected to agree on ethical principles that would include giving priority to the needs of their most vulnerable members (including women). This would be complemented by a social mapping exercise that would identify different social groupings (including the different categorization of pastoralists, women and youth groups, etc.) that the planning, prioritization and targeting processes would directly engage with. The Project will furthermore include training on social mobilization and facilitation skills to ensure broad and active participation and careful selection of representatives to decision-making fora and within community based institutions. A special effort will be made to address women’s constraints in engaging with the Project; e.g., training to women leaders, separate focus group discussions for women, including women as role models in project teams and establishing quotas for women representation in relevant decision making bodies.

12. *Establishing synergies with complementary projects:* PCDP-3’s community level planning process will be harmonized with processes for community level investments by other similar programs such as the PSNP and HABP. Planning for the PSNP public works and HABP livelihood support activities will also be based on community development plans that would be formulated jointly with PCDP as one process. PSNP will adopt the above planning process in the 64 woredas where this program will overlap with PCDP-3. Sub-projects for PCDP’s CIF and PSNP’s public works will be selected from the priorities set out in the CDP. To avoid duplication of payment, where PCDP-3 will overlap with PSNP, the CIF will not cover wages; unless skilled labor is required. However, PSNP beneficiaries receiving cash transfers will be able to contribute labor to PCDP sub-projects as part of the community contributions in lieu of work on PSNP public works. The planning process outlined above will be integrated into the next generation PSNP.

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woreda development plans for financing through multiple sources—providing opportunities to pastoral communities to influence broader development processes.

13. *Allocation of the CIF*: Two rounds of US\$50,000 each will be provided as a CIF grant to all project kebeles starting in the second year of implementation. In exceptional cases, for strategically important sub-project,<sup>28</sup> an additional allocation of 25 percent (US\$12,500) will be available upon approval by the RPCU. Such an allocation will be limited to one sub-project per woreda per year. Woredas that did not receive support through PCDP-1 or PCDP-2 (including woredas that PCDP-2 engaged with after its mid-term review) will be initially allocated US\$262,500 each plus an additional 15 percent as a minimum contribution from beneficiary communities (10 percent in kind and 5 percent in cash) to cover five kebeles; and, US\$462,500 in the following year to cover and additional four kebeles and a second round in the initial five kebeles. Lastly, they will have a final allocation of US\$212,500 to cover a second CIF round in the four kebeles that were phased-in during the second year of implementation. For 23 woredas supported through PCDP-2, an annual allocation of US\$112,500 with an additional 15 percent from community contributions will be provided to cover two additional kebeles not reached under PCDP-2. These woredas will be asked to use a portion of their capital budgets (amounting to US\$50,000) as a CIF to cover one more kebele as per the CDD modality. This will create a basis to integrate CDD approach into their regular planning and budgeting processes. As an incentive for doing so, an additional US\$50,000 will be provided from the project to match this allocation—allowing coverage of two instead of just one additional kebele.<sup>29</sup> At the mid-term review, the GoE, World Bank, and IFAD will consider whether to request the new PCDP woredas to also provide a matching fund from their capital budgets. At this time, the possibility of providing a third round of CIF to well performing kebeles based on funds availability will also be considered.

14. The amount available to a kebele will be declared upfront so that communities can prioritize sub-projects with flexibility to invest in one large or multiple small sub-projects up to the annual ceiling as they see fit. Disbursements on the CIF are expected to start in the 2<sup>nd</sup> year of Project implementation so that the first year would be focused on awareness creation, capacity building and community level planning. Eligibility criteria for financing under the CIF will be kept as broad as possible to respect the priorities of pastoral communities. A small amount (10 percent) will be dedicated to atypical investments/ expenditures that communities may want to undertake. For example, technical support – whereby communities decide on what support they require (e.g., engineering support for supervision of construction activities, etc.); introduction of innovation in service delivery (e.g., innovative use of ICT such as solar panels to provide light in the night to alternative basic education for children who cannot attend school during daytime); and improving quality of services associated with earlier sub-projects by meeting contingencies in service provision.

15. Once a CAP has been developed and priority sub-projects identified, such sub-projects will be further appraised by a woreda appraisal team and designs with costing will be developed for sub-projects that pass the appraisal process. Final approval for the use of the CIF will be provided by the WDC. It is not expected that sub-projects approved by WDCs will differ much from the priorities in their respective CAPs. PCDP-3 will, nevertheless, promote systems (e.g., a

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<sup>28</sup> The CIF operation manual establishes eligibility criteria in terms of projects that may be deemed ‘strategic’.

<sup>29</sup> A woreda may also choose to provide own funds at a lower amount; i.e., 25% (US\$12,500 or 250,000 ETB) of the allocation for an additional kebele. In this case, the project will match this allocation by US\$37,500 so that one additional kebele can be covered. At the mid-term review, the GoE, World Bank, and IFAD will consider whether to request the new PCDP woredas to also provide a matching fund from their capital budgets.

woreda level complaints redress system and regular feedback to kebeles – and from kebeles to sub-kebeles – on woreda level decisions) that ensure that the final approval process remains true to the CDD approach and would only deviate from what the kebele has planned according to pre-determined rules and criteria. Approved sub-projects will be implemented by communities themselves through Community Project Management and Procurement Committees. Upon completion, sub-projects will be handed over to woreda sectoral offices (in the case of public services such as schools, health posts, and veterinary clinics) that will in turn provide the necessary manpower and operational budgets to extend associated services. PCDP-3 will help community members to proactively engage in post-project oversight by strengthening existing community based management committees associated with different public services such as PTSAs, WUAs and establish other such committees where they do not exist (see sub-component 1.2 below).

### **Sub-component 1.2: Institutionalization of the CDD approach**

16. PCDP-3 will (i) build community institutions that can engage in planning and resource mobilization, implement small public investment projects, and participate in the oversight of service delivery, and (ii) work with WoFEDs to support the woreda level planning process so that the experience of planning with communities can be integrated within the GoE’s regular planning and budget development processes.

17. PCDP-3 community level capacity development will build on existing institutions such as KDCs, sub-kebele facilitation teams and traditional community organizations that will be responsible to oversee and facilitate the planning process. It will also help establish Community Project Management Committees (CPMCs) and Community Procurement Committees (CPCs) that would be responsible for implementation of sub-projects. community audit committees will also be established to oversee compliance to CDD principles and procedures, ensure that individuals who have positions as community representatives are held accountable for their actions and results; and ensure that benefits from project resources to targeted communities are realized and cost effective. Additionally, PCDP-3 will promote arrangements for post-project oversight. Community-based institutions will be strengthened through mentoring, training, and technical support.<sup>30</sup>

18. *KDCs, sub-kebele facilitation teams, and traditional community organizations*: Over the course of PCDP-3’s implementation period, these institutions (with support from a multi-sectoral team of woreda experts) will assume increasing responsibility for managing the community planning process—and will be trained accordingly.<sup>31</sup> They will be provided with intensive facilitation training focusing on how to manage consultations in large groups, encourage active participation by all present including women, youth and other disadvantaged groups, consensus-building techniques, particularly to manage cases when perceived priorities are rejected and

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<sup>30</sup> These institutions are expected to continue beyond the project as the CDD approach is integrated into the government’s own local development processes, support to which is discussed on the section on “woreda planning”.

<sup>31</sup> The starting point for institutionalization of the CDD approach is ensuring grassroots institutional capacity to fully take over the various functions initially undertaken with strong support and mentoring from project-funded staff in MSTs.

modalities for selection of appropriate community representatives as well as on needs assessment methods, including PRA tools and constraint analysis techniques. In addition to building their facilitation capabilities, their members will also be provided with training in key areas such as conflict resolution and management, participatory M&E and social mobilization.

19. *Community Project Management and Procurement Committees:* PCDP-3 will help establish CPMCs and CPCs as community institutions that manage implementation of sub-projects. Membership in these committees will be selected by community members. CPMCs and CPCs have been found to function well under PCDP-1 and PCDP-2 and PCDP-3 will therefore help establish such institutions and equip them with training including skills development in sub-project management, procurement, financial management, accounting for project funds, and contract management. They will also be supported by MSTs and woreda sectoral offices particularly in terms of supervision of construction activities.

20. *Community audit committees:* PCDP-3 will help establish functioning social audit committees to monitor the consultation process and ensure those who hold positions, tasks and responsibilities (most particularly representatives from the sub-kebele level that engage with KDCs in CDP and CAP development, and community representatives in service management committees) are accountable for their actions and results. Simple community assessment tools will be made available and training provided as part of capacity building to selected members of the community who would be responsible for carrying out regular social audits in their communities.

21. *Community-based service oversight committees:* PTSAs, Farmer/Pastoral Training Centers (F/PTC) management committees, WUAs and other community based management committees associated with different public services help manage frontline public services. PCDP-3 will help develop protocols for sharing responsibility between such community-based oversight committees and the woreda's sectoral offices including, as appropriate, decisions on use of budgets and endorsement of annual operational plans; and, provide training to committee members according to responsibilities assumed. For the CDD approach to take root, it is important that community institutions be inclusive, downwardly accountable and self-managing. Training on social mobilization and facilitation and institutionalization of social auditing mechanisms as discussed above will contribute towards this. Additionally, existing tools/practices for complaint redress, public display of information (including the engagement of sub-kebele community representatives in CDP, CAP and CLP preparation) and feedback down the system will be strengthened.

22. The sustainability and success of Component 1 will depend on the capacities of woreda leadership and sectoral offices (including their kebele level staff, e.g., DAs, HEWs, cooperative promoters) to provide necessary support to communities. Therefore, PCDP-3 will also invest significantly in strengthening the capacity of woredas to support communities to assume responsibilities for local development. To facilitate implementation of PCDP-3, the Woreda Administrator in each project woreda will establish a Woreda Technical Committee (WTC) by assigning staff from relevant sectoral offices (including health, education, pastoral development, water resources development, and rural roads). WTC members will be provided training so that they can provide adequate support to KDCs, particularly during CDP and CAP preparation. Given that woreda staff bring external expertise to community discussions, their training will

include a focus on how to introduce new ideas for consideration by communities without unduly influencing the discussions.<sup>32</sup> Staff from woreda sectoral offices would also participate in training, exposure visits and experience sharing events on the specific challenges of providing services to mobile communities.

23. The Project will help establish and build capacity of a Woreda Project Appraisal Team with membership from the WoPD, WoFED and sectoral offices but separate from the WTC (so that its members have no facilitation responsibilities under the project and can maintain a certain measure of independence) to appraise and review sub-projects, particularly from the perspective of social and environmental issues, technical soundness, gender equity, consistency with the Woreda Development Plan, compliance to rules, and any issues raised by the community audit committees as well as to check readiness of CPMCs and CPC for implementation of sub-projects, and as implementation proceeds, the achievement of milestones at different stages of in sub-project implementation.

24. This capacity building program will be delivered partially by project staff while some of the training (particularly to staff to woreda sectoral staff on providing services to mobile communities) will be outsourced to specialized firms/organizations that have experience with pastoralist communities. MSTs will provide hands-on support to all community based institutions to nurture such institutions through a process of learning by doing, and to provide assistance on issues that require higher level technical expertise. Training, mentoring and technical assistance will be complemented by community to community learning and learning from other developing countries discussed further under component 3.

25. ***Support to woreda planning:*** PCDP operates within a general policy of decentralized government that has been the cornerstone of the GoE development policy since the early 1990s. As part of this process of decentralization, woredas are now made responsible for a large proportion of basic service delivery, which should be delivered according to the priorities of target communities. This includes primary education (in some regions, construction and management of first cycle secondary schools), primary health care including the establishment of health posts, and clinics centers; the construction and maintenance of rural roads; developing and operating springs, hand-pump wells, water supply lines, water and soil conservation schemes, ponds, water harvesting schemes and small-scale irrigation schemes; environmental rehabilitation programs; managing veterinary clinics and farmer/pastoralists' training centers, and carrying out small-scale irrigation schemes by diverting rivers, floods and using the waters from ponds, springs and hand-pump wells.

26. The decentralization process confers a significant role to the lowest units of the government structure in relation to development planning and public spending. The coordinating office, WoFED, and sectoral offices have inadequate human resources and training to carry out consistently the tasks of multi sectoral and community driven planning. Sector offices' institutional capacity and systems for planning and community participation are, furthermore not well developed. In the regular woreda planning process, each woreda sector office identifies sub-

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<sup>32</sup> For example, to deepen the discussion on health and nutrition services, they would receive training on managing community conversations related to child care, parasitic control, hygiene, child growth monitoring, nutrition promotion and action (including promotion of optimal breastfeeding/complementary feeding, maternal nutrition, and dietary diversifications in the face of sharply declining milk/meat outputs, and control of micronutrient deficiencies).

woreda needs through an examination of their service gaps within kebeles via their frontline service providers, field visits and discussion with kebele executive committee members. Priorities for public investments are based on such identification of needs and planning directives from the regional level, initiated by the Regional Sector Bureaus and regional task forces. Sectoral plans are consolidated into a woreda development plan by a planning expert within WoFED and the woreda cabinet (consisting of heads of sector offices and the head of WoFED) will review (and modify according to woreda priorities) the final woreda development plan and budget, and submit this to the woreda council for approval. The review by cabinet has to balance the various applications submitted by sectors and kebeles against capital funds available and prioritize capital projects in relation to different needs in the kebeles and across sectors and the woredas' development priorities.

27. However, due to their limited implementation capacity and lack of experience with planning and budget development processes, pastoral/agro-pastoral woredas face problems in terms of implementing the GoE's decentralization policy as outlined above. Similarly despite the fact that the decentralization process has provided an opportunity for PCDP to implement a CDD approach, woredas in pastoral/agro-pastoral areas have limited capacity to plan and implement regular sector driven or CDD based initiatives effectively. The limitations can be expressed particularly in terms of the following decentralization and institutional development challenges:

- a) Local level decentralization and good governance initiatives were introduced late in pastoral and agro-pastoral woredas compared to woredas in other regions of the country. The woreda staff have not been provided with adequate training and institutional structures have not been fully developed or aligned with kebeles in a way that caters to the needs of the community;
- b) While woredas consult with kebeles to identify relevant development concerns, processes to help communities articulate their developmental priorities are not well developed and the kebele development plans remain general and do not fully reflect the priorities of their respective communities. Consultations are based on weak community participation methods and limited institutional capacity for their execution;
- c) Initiatives working through community planning processes (including the PCDP) are carried out separately from regular government system with their own planning procedures, and planning and budgeting calendars<sup>33</sup> not reconciled with the woreda's planning and budgeting activities;
- d) The existing Woreda and Kebele Planning and Budgeting Guidelines and toolkits issued by MoFED (that include a strong community level planning process) already introduced in woredas of other regions. are not efficiently rolled out to pastoral woredas; and
- e) Woredas lack sustained capacity building support, are unable to attract trained and experienced manpower in specific disciplines, and are inadequately equipped including in transport and communication.

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<sup>33</sup> The planning and budgeting calendar of PCDP and the regular woreda planning and budgeting will be reconciled and reflected in an updated PCDP-3 PIM.

28. PCDP-1 and PCDP-2 have provided an opportunity for pastoral/agro-pastoral woredas to test and introduced methods for actively engaging communities in local development. This has not yet been integrated with the regular GoE planning and budget development processes. Support towards this requires interventions at the woreda level since most decisions are made by the woreda administration and the planning and budget development process is managed by WoFEDs. PCDP-3 will focus on building the core woreda function of participatory planning and associated budgeting. Although this is a partial approach to strengthening the decentralization process, integrating the CDD approach with the woreda planning and budget development process would allow pastoral/agro-pastoral woredas to take an important step in realizing the GoE's fiscal decentralization process. PCDP-3 will therefore work with WoFEDs in its project woredas to integrate the CDD approach—introduced at the community level—into the regular planning and budgeting processes at the woreda level. Public sector capacity building is the key to the success of the decentralization strategy at all levels; especially at woredas and kebeles.

29. Interventions towards this will include the following

- (a) **Sensitization:** Sensitization workshops and/or stakeholder consultation will be carried out with relevant policy makers at federal and regional levels as well as with woreda councils and their cabinets. It is highly important that different stakeholders at federal, regional and woreda levels buy into the idea of adopting practical approaches to greater community engagement in the government's own planning and annual budgeting processes by providing continuous awareness creation/training on such approaches. Sensitization activities will be carried out as a regular activity—initially to gain support for the idea and, over time, to help create greater awareness about the implementation modality for integrated and community driven planning and budgeting, as well as to promote effective monitoring of the process through multiple implementing agencies, the community and other stakeholders (regional, woreda and at kebele levels) as per performance indicators.
- (b) **Technical assistance:** (a) TA to review MoFED's Woreda and Kebele Planning & Budgeting Guidelines, associated toolkits and financial transparency and accountability templates to adapt them to pastoralists' conditions and to incorporate lessons from PCDP's community level planning. The work will also include a review of PCDP's CDD modalities to recommend an approach; e.g., adherence to an annual calendar—that is consistent with the government's rules and regulations. The TA will interact with the core team of experts (selected from current MSTs and RPCUs) as well as other stakeholders; e.g., from BoFEDs and Regional Pastoral Development Bureaus to carry out this task. The outcome of the TA will be a new set of guidelines (duly reviewed and endorsed by policy makers), translation of the guidelines and improved understanding of the guidelines by a team of experts; (b) TA to design modalities on how to effectively incorporate community investment funds in the budget structure of woredas as well as to develop mechanisms for properly documenting, accounting and disbursement of community investment funds and matched community contributions, consistent with the government financial system, its rules and regulations. Such modalities should be incorporated into the Woreda and Kebele Planning & Budgeting Guidelines; and (c) TA to design general modalities for engaging woreda sector offices (and higher administrative tiers) with kebele



institutions on planning, project preparation, and budgeting, including the establishment of consultation platforms. Such modalities should be designed in light of the prevalent governmental systems and local conditions and lessons from PCDP's experience with local planning.

- (c) ***Training to WoFEDs and woreda sectoral offices***, including TOT to MSTs on the final Woreda and Kebele Planning & Budgeting Guidelines. In addition to the training, consultation and support/follow up of their implementation will be undertaken. Such training, consultation and support services can be carried out by the team of experts deployed to work on adapting the guidelines.
- (d) ***Matching funds***: to facilitate the integration of the CDD approach into woreda planning and budget development processes, woredas (initially starting with the 23 woredas that already have experience with the CDD approach under PCDP-2) will be asked to use a portion of their capital budgets as a community investment fund. It is expected that they will allocate the equivalent of US\$50,000 to such a fund (and thus cover one kebele in such a modality). If they agree to do so, the project would match a further US\$50,000 as an incentive. Total public funding available to woredas differs among Regions and among woredas within Regions, and such an allocation may not be acceptable to all woredas. Therefore, woredas also have an option of supporting part of a CIF allocation towards a kebele; i.e., if they allocate the equivalent of US\$12,500, the project would match US\$37,500. In providing an allocation to a community investment fund, the woreda will adhere to the planning, sub-project identification and prioritization process, and community procurement procedures established under PCDP.

### **Sub-component 3.3: Community Level Self-Monitoring and Learning**

30. PCDP-3 will develop a simple and community friendly monitoring and learning system to promote community level participatory M&E and learning. It will (i) introduce simple monitoring formats to be used by beneficiary communities to track project milestones, results and budget use and to identify implementation problems and best practices; (ii) facilitate periodic structured learning fora at the kebele and sub-kebele levels that would be chaired by community leaders and facilitated by volunteers from the community as well as MST staff; (iii) facilitate periodic structured learning fora at the woreda level with participation by selected facilitators of the sub-woreda learning fora; and (iv) training of kebele leaders and community volunteers on managing relevant information and promoting learning from such information. It will also develop the kebele centers as information sharing and learning hubs. The community learning fora would draw on information from regular community monitoring, social audits and feedback from the woreda level. It is expected that these learning fora will produce lessons and best practices that will be documented by the KDC (kebele manager within the KDC) and submitted to the WoPD for compilation. The Project will oversee community level monitoring processes and integrate it with the upgraded MIS. The community monitoring will also include social accountability mechanisms such as social audit committees, public display of information, participation in meetings, and a participatory grievance redress mechanism.

31. Under this sub-component, PCDP-3 will also support (i) identification, documentation and scaling up of best practices related to community-based local development; and (ii) community-to-community experience sharing visits to disseminate innovative approaches and best practices related to CIF and RLP.

**Component 2: Rural Livelihoods Program (RLP):** (US\$45.9 million including US\$25.9 million from IDA and US\$20.0 million from IFAD).

32. This component will support strengthening and/or diversification of pastoralists' livelihoods by supporting targeted pastoral households (selected by their communities based on their vulnerability status, particularly as they fall out of mainstream livelihood undertakings<sup>34</sup> as well as their potential to catalyze change within their communities) to improve their economic livelihood systems. Such support will focus on identification, selection and development of opportunities for viable IGAs and for strengthening existing productive activities. It will also promote adaptive research and innovative production practices by bringing together researchers and pastoralists to seek innovative solutions to livelihood problems identified by target communities. The RLP will also promote SACCOs within pastoralist/agro-pastoralist communities to enhance access to financial services. The RLP will have three sub-components: (i) promotion of pastoral SACCOs; (ii) identification and development of livelihood opportunities; and (iii) promotion of participatory adaptive research and innovative practices.

33. Interventions under the RLP will be based on priorities set in the CDP (that outlines target kebeles' development vision embracing issues related to public service delivery and aspirations for economic development, particularly the needs of the poorest households and those that have fallen out of pastoralism). An annual Community Livelihood Plan (CLP) that is separate from the CAP discussed above will be formulated from the CDP. The CLP will (a) identify households who will be supported to help them develop IGAs—the number of households to be selected will depend on capacity of the extension (or related) service to provide the necessary support, (b) provide a long list of livelihood activities that communities believe have potential for further development within their own capabilities, (c) identify key issues that threaten livelihoods and require external solutions, and (d) select model households who would be willing to devote time and resources to test solutions and innovative approaches to address issues identified and would be potentially organized into pastoralist-research groups (F/PRGs).<sup>35</sup> The CLP will be developed by community representatives with support from MSTs, relevant members of the WTC, particularly the WoPD, WoCP and Woreda Micro and Small Enterprise Development Office (if available), and research staff from a close research station or academic institution.

### **Sub-component 2.1: Promotion of pastoral SACCOs**

34. Financial penetration in Ethiopia's pastoralist and agro-pastoralist areas is extremely low as high transaction costs due to low population density and mobility of pastoralists, high risks

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<sup>34</sup> As a principle, the community level planning process will give priority to the poorest and vulnerable households (including women) within the community.

<sup>35</sup> Households organized in F/PRGs (at least 15 per F/PRG) will engage with researchers to test solutions and/or technologies related to livelihood issues identified in the CLP.

associated with pastoral communities' vulnerability to weather shocks, and limited physical infrastructure such as roads, and telecommunications have limited the opportunities for financial sector growth. Nevertheless, the experience of PCDP has shown that there is scope for creating access to finance among the program's target communities through the promotion of financial cooperatives (further discussed in Annex 8). Such cooperatives play a catalytic role in engaging the pastoral communities in income generating activities and improving their livelihoods as well as providing them with additional confidence to actively engage in broader development endeavors. This applies especially to the majority-female members of pastoral SACCOs established with PCDP-2 support. PCDP-3 will therefore build on its consultation processes to mobilize pastoral households to organize into common interest groups around a financial interest or more formally into primary pastoral SACCOs as a way of both deepening community driven local development and supporting pastoralists' livelihoods. Given the sensitivities around the establishment of deposit receiving institutions, PCDP-3's support to the promotion of new pastoral SACCOs will be cautious, based on community demand, and lessons from PCDP-2, where a savings-based approach led to the viability of such SACCOs (with the savings safeguarded either in a bank account or in safe boxes, to be accessed only by three elected SACCO committee members, when not on lent to members). Such support will be provided in conjunction with IFAD's Rural Finance Intermediation Project II (RuFIP-2).

35. A national strategy for the SACCO sector is expected to be developed under RuFIP-2 through a twinning arrangement of the FCA and the Irish League of Cooperative Unions. This strategy will provide further direction to PCDP-3's interventions and as well as for further support to develop pastoral SACCOs into mature financial institutions. PCDP-3 interventions will include the following:

- (a) Assessment of the SACCO sector in pastoral areas and development of a roadmap for SACCO development addressing among other things the viability and special features of pastoral SACCOs. No new SACCOs will be supported before such an assessment is completed;
- (b) Awareness creation for pastoral communities (as part of the community consultation process) on the benefits of organizing within functional and sustainable financial cooperatives, on strategic thinking regarding a long-term vision for their productive activities and businesses, and on the role and significance of collective action;
- (c) Organizational support (through project staff and WoCPs) to help interested pastoralist/agro-pastoralist households organize themselves as viable common interest groups that can grow into formal member-owned organizations; and develop governance structures, policies and procedures as well as operational modalities and by-laws;
- (d) Conceptual and strategic support to establish savings as a priority for SACCOs, leading to credit as a secondary priority. This will include the transfer of lessons learnt from PCDP-2 to PCDP-3 SACCOs and experience-sharing within and among Woredas and Regions;
- (e) Capacity building including: (i) skill training on record keeping and financial management; (ii) system development (e.g., improving internal control and monitoring system, establishing democratic governance structures, etc.); and (iii) training to SACCO leadership and committee members on leadership, organization and management;

- (f) Physical capacity building in the form of office equipment (including safes), basic office materials (including ledgers and books of accounts);
- (g) Continuous sensitization to ensure ownership and management autonomy as well as active participation of membership in the affairs of their SACCO, since unlike other finance providers, SACCOs must put their members at the center of their activities<sup>36</sup>. This will include, under the oversight of project accountants, special training for committee members and management in basic record-keeping and accounting, in order to prevent a lasting dependence upon outside accountants who will gradually take on an oversight role rather than actually doing the accounting;
- (h) Short term TA linked to community consultations to develop simple and appropriate financial products that pastoral SACCOs can offer their members, giving priority to multiple savings products so that they can mobilize savings and thereby loan capital for credit; and
- (i) Carefully managed savings leverage grant provided as seed capital to a registered SACCO on the basis of clear eligibility criteria and a grant agreement which will include the purposes/activities for which the grant can be on lent. Funding so provided will be used for on-lending to members as per the by-laws of the cooperative with oversight by WoCP which conducts periodic supervision and audits of SACCO accounts. The savings leverage grant will be released in two tranches. The first tranche will be provided after a SACCO has been able to mobilize savings for at least a year and exercised lending through its own funding sources. This will be followed by a 100 percent matching of overall savings (two years) in a second tranche up to the overall limit of 150,000 ETB (US\$7,890). Only regular mandatory savings (defined as monthly savings that cannot be withdrawn unless a member leaves a SACCO) are counted as savings for the purposes of the savings leverage grant.<sup>37</sup>
- (j) The Project will also hire cooperative accountants/promoters to support the WoCPs to implement activities related to the promotion of pastoral SACCOs.

36. The pastoral SACCOs established with PCDP-3 support will be responsible for record keeping and ledgers on their savings fund and all loan accounts (initially to be done by project financed cooperative accountant), appraising loan applications, lending to members, determining loan conditions, monitoring the use of the funds for intended purposes and collection of interest

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<sup>36</sup> Support to the development of appropriate financial products is particularly important in pastoral areas because livelihood systems often render traditional financial products irrelevant. In particular because of their mobility, pastoralists are often not in a position to regularly save in one particular place – some prefer to save in advance, when they have to travel away from their villages, others tend to pay a backlog whenever it is convenient for them. Without appropriate products and delivery methodologies, the saving mobilization capacity of pastoral SACCOs is limited and therefore also their growth and credit delivery potential.

<sup>37</sup> SACCOs within pastoral communities, as anywhere, are expected to generate loan capital from members' savings and share capital sales. However, the experience of RuSACCOs in RUFIP I and PCDP-2 reveals that the capital mobilized by small financial cooperatives in Ethiopia's rural areas is insufficient to meet the demand for loans. This is aggravated by the high inflation in the country. As a result, SACCOs ration the limited loan capital among members without satisfying their needs and also keep loan sizes small which has often constrained members from involving in meaningful business activities. An injection of a one-time small fund as seed capital can be a catalyst for the development and delivery of viable credit products. However, although the support of one-time seed capital can be used to increase the base for credit delivery, care must be taken to ensure that SACCOs in pastoralist communities are not be established simply to access seed capital.

(or service fee) and capital payments when due. Loans will be secured by at least two guarantors who must be members in good standing of the SACCO and with at least average savings of all SACCO members. Pastoral SACCOs will be established as self-reliant community-based financial intermediaries. They will be member-managed and fully autonomous. Each pastoral SACCO will be governed by its own bylaws and be subject to the cooperative legal and policy framework. In accordance with the cooperative system, pastoral SACCOs should reach full-fledged operation within one year of being legally established. During the first six months, their primary focus will be promotion of compulsory and voluntary savings. The provision of credit out of the SACCOs own funds should only be initiated once all members agree and the accountant supports the readiness of the SACCO. With knowledge provided by capacity-building efforts the pastoral SACCOs will decide on their operating procedures, credit and savings products, and lending interest rates (or service fees) with due attention to financial and operational sustainability under the rules and procedures set by the FCA and the respective Regional Cooperative Agencies/Bureaus.

37. Overtime, pastoral SACCOs should evolve into mature financial institutions – and will require continued support to reach this status. Post-establishment capacity building (including development of more sophisticated financial products, training of SACCO leadership and executives as well as support to the vertical integration of SACCOs and linkages with formal financing institutions) which is critical to the growth of SACCOs will be provided through the IFAD funded RuFIP-2. Similarly, 448 pastoral SACCOs already established with PCDP-2 support will continue to be supported through RuFIP-2. As a key project supporting Ethiopia’s rural finance sector, RuFIP-2 will also provide capacity building and support to woreda level cooperative support structures, particularly WoPCs. This is critical for the sustainability of PCDP-3 interventions in support of new pastoral SACCOs. At mid-term of PCDP-3, achievements regarding RuFIP-2’s support to WoCPs will be assessed and a determination made on whether PCDP-3 should engage in capacity building for WoCPs to ensure that they have sufficient capacity to effectively support SACCOs after its closing. Coordination between RuFIP-2 and PCDP-3, including the assignment of roles and responsibilities across the two projects will be outlined in the RLP operational manual.

38. **Financial literacy:** The growth of grassroots financial institutions, particularly among non-literate communities who have little experience with handling cash resources is dependent on increased understanding/knowledge of fund management and the promotion of a savings culture within associated communities. Therefore, PCDP-3 will complement direct support to the establishment of pastoral SACCOs with general financial education. Financial education by the Project will aim to promote greater awareness and skills in the proper use and management of financial resources and improving the saving culture of pastoral/agro-pastoral communities. Equipping pastoralists with the proper knowledge and skills which help them to evaluate their investment options, manage their fund flows, and make informed choices regarding their individual economic livelihoods goes hand in hand with the establishment of grassroots financial institutions. The specific interventions in this regard are training for WoCP promoters and accountants as well as the production of training and promotional material in local languages.

39. There are some attempts, under the leadership of the National Bank of Ethiopia (NBE), to coordinate the activities of various stakeholders such as cooperatives, formal finance providers,

Ministry of Agriculture, Ministry of Education, Regional Pastoral Development Bureaus and Commissions, media and others to provide financial education in the country. Financial education will be provided through PCDP-3 within the framework of the NBE's national coordination effort.

### **Sub-component 2.2: Identification and development of viable livelihood opportunities**

40. For any rural community, improving livelihoods requires that households invest in strengthening existing production systems and/or developing new income generating enterprises or gain better earnings from wage employment. However, pastoralist households face limited opportunities in this regard, because (a) they operate in risky and changing environments – due to arid and semi-arid landscapes made riskier as a result of climate change and restriction on their mobility, (b) their access to services and markets tend to be very limited, (c) education and skill levels are low; and (d) in the case of those households that have fallen out of pastoralism, their resource base is low. While the specific needs of individual households differ, they all require support in identifying viable investment opportunities (including skills development for wage employment) and understanding returns and risks related to different types of investments. They then need support to implement the investments, as well as advice and demonstration of new technologies, improved production practices and credit management (if loans are used to finance the investments).

41. To assist pastoralist households in this regard, PCDP-3 will facilitate a 5 step process:

*Step 1:* The first step, which is part of the CLP formulation, is the identification of challenges and constraints to livelihood development as well as the identification of a long list of livelihood activities that communities believe have potential for further development. It is based on the communities' vision and aspirations for livelihood development articulated in the CDP. During this step, communities will also select households who will be supported. PCDP's support will be provided through the public extension (or related) systems and the number of households to be selected will depend on existing capacity within these systems.

*Step 2:* Based on the long list of opportunities identified by project kebeles in their CLPs (clustered by livelihood zone), woreda experts from WoPD, WoCP or the Micro Enterprise Development Office will undertake market and technical analyses and develop recommendations for potential investments and IGA options that have positive rate of returns, greater market opportunities than traditional activities and have a growth potential, promote household nutrition, and are technically feasible. The recommendations will also consider agro-ecological suitability, and appropriateness to livelihood systems, availability of input supply and marketability of products/services. Potential investments identified will be in line with financial and human resource capacities of participating households.

*Step 3:* Frontline extension (and related) service providers such as DAs or woreda agricultural subject matter specialists and cooperative promoters will advise selected households to plan for and implement identified investment opportunities (i.e., on the development of simple

livelihood plans<sup>38</sup> appropriate to their particular labor and financial capacity). They will also provide them with training on different technical aspects of the investments they have selected to engage in, on business and entrepreneurship skills as well as on basic skills required in the labor market. For investment options for which the market and technical analyses identify a need for collective action (e.g., so that they can better access input and output markets), support will be provided to the organization of households into common interest groups and/or cooperatives. The development of livelihood plans will be closely monitored by woreda officials including (if available) from microfinance institutions to ensure their quality. PCDP-3 will not directly support the financing of livelihood plans. Rather, it is expected that households will obtain financing from credit obtain from their SACCOs (as membership in SACCOs increases due to support under sub-component 2.1), other financial institutions (e.g. in limited cases, there may be access to an MFI such as OCSSCO or OMO microfinance institution), conversion of assets (particularly livestock) into investible capital, own savings, contributions and informal borrowing from friends and family.

*Step 4:* Household investments will be monitored regularly to ensure that they are profitable and successful in raising household incomes; and, to provide any additional technical support as needed to ensure success.

*Step 5: Participatory Monitoring:* DAs will facilitate a process of participatory monitoring and evaluation to enable participating households and other members of the kebele to learn from their development process.

42. PCDP-3's input to the above process will be to facilitate consultations to identify IGA opportunities as part of the CLP, TA to relevant woreda offices for market and technical analyses, training to selected pastoralists and operational support for group formation and follow up of business plan implementation.

43. It is expected that the above process will identify priority areas of livelihood development that would require contribution from key public services particularly advisory and veterinary services. Public advisory services on crop production, rangeland management and livestock development (and to a limited extent on market access) are provided through the extension system with DAs and cooperative promoters at the kebele level backstopped by subject matter specialists in the WoPD. Regarding veterinary services, the GoE has invested in a network of animal health care facilities including health posts and woreda clinics—although this is patchily implemented in pastoral and agro-pastoral areas and may require adaptation to their specific requirements. Capacity to deliver on services is extremely weak. PCDP-3 will therefore support a set of activities including minor civil works, provision of goods, TA and training programs (including training to DAs and cooperative promoters on business plan development, entrepreneurship development, group formation, etc.) to help these key services respond to the needs of pastoralist households in general and those supported by the RLP in particular. The support will be based on the design of minimum standards of and approaches to service delivery applicable to pastoral communities. This will be carried out in the first quarter of PCDP-3 implementation.

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<sup>38</sup> Such plans are often referred to as business plans in the Ethiopian context.

### **Sub-component 2.3: Promotion of adaptive research and innovative practices**

44. Pastoralists/agro pastoralists often face various problems which threaten their livelihoods but to which solutions are not immediately available and which need research. There are also many new technologies generated by research institutions that have a potential to significantly improve livelihoods of pastoral and agro/pastoral communities but are not yet applied on the ground. At the same time, research outputs from research stations are often refuted by such communities. To some extent, this is because research outputs are often not directed at the needs and concerns of pastoralists. Yet, developing options for improved economic livelihoods among pastoralists requires innovation and the application of new technologies to promote better returns on their activities both financially and in terms of household welfare (e.g., improved nutrition of children). To encourage the adoption of new technologies and thus increase productivity and returns on household investments, the RLP will include support for the establishment of Pastoralist-Research Groups (F/PRGs) with the aim of bringing together pastoralists and researchers to test, adapt and apply new technologies and seek innovative solutions to specific production or business problems identified by targeted beneficiaries.

45. Households organized in F/PRGs (at least 15 per F/PRG) will engage with researchers to test solutions and/or technologies related to livelihood issues identified in the CLP. Establishment of F/PRGs will be part of the CLP formulation process which, as indicated above, will identify key issues that threaten livelihoods and require external solutions and select model households who would be willing to devote time and resources to test solutions and innovative approaches to address issues identified. Depending on the issues identified and capacity of research institutions, research issues will be clustered and F/PRGs organized around such clusters and results shared across kebeles and woredas. Researchers from selected research stations will lead the process of organizing F/PRGs and developing research proposals to be funded through an innovation grant. Proposals will be reviewed and endorsed by RARIs and approved by an evaluation panel to ensure quality.

46. The project will provide an innovation grant of up to 100,000 ETB (US\$5,250) to each F/PRG. The innovation grant will be a one-time grant to foster innovations led by the pastoralists but closely supported by the agricultural research system. The overall size of the grant will be determined by the nature of the problems to be addressed but will not exceed ETB 4,000 (US\$210) per member of the group and a total of ETB 100,000 per F/PRG. The average period for implementing grant-financed activities is expected to be two to three years. The innovative fund will cover operating costs and inputs and participating households will be expected to match 15 percent in in-kind contributions.

47. This sub-component builds on the World Bank's experience with the Rural Capacity Building Project (RCBP) and the earlier Agricultural Research and Training Project (ARTP) that supported Farmer-Research-Extension-Groups (FREGs) and Farmer-Research-Groups (FRGs) in Ethiopia's rural areas including among pastoralists and will be taken forward in collaboration with the JICA-funded FRG project that is currently implementing similar activities. Support through FREGs/FRGs enabled farmers and pastoralists to refine and validate improved technologies, to explore new opportunities, and to adopt innovative practices. Key lessons learnt are that in pastoral areas, because the extension system is rather weak, the innovation fund is best



managed by RARIs. It is, however, necessary to reorient researchers and continuously build capacity so that they can effectively engage within F/PRGs, help establish such groups and help develop viable proposals. Furthermore, FREGs/FRGs tend to evolve over time initially spearheaded by researchers (from research stations or academic institutions), then over time being taken over by the extension system and scaled up and finally carried forward through model farmers and/or pastoralists.

48. The JICA FRG Project builds capacity within research and academic institutions to engage in participatory research through F/PRGs. This project will extend such support to pastoralist areas and, as such, also develop capacity in institutions that would provide support to F/PRG establishment in PCDP-3 project areas. It will also provide logistics support to these institutions so that their researchers can participate in PCDP-3 community planning processes (i.e., CLP development) and help establish F/PRGs in selected kebeles. Thus it will provide the institutional support required to make PCDP-3's innovation grants effective. PCDP-3's interventions will focus on the following:

- a. Provision of an innovation fund to finance proposals and/or action plans from F/PRGs which could include activities such as adaptive research trials with pastoralists and agro-pastoralists either with their livestock, on farm, or as part of rural non-farm enterprises; making available foundation technologies by facilitating initial introduction of purchased inputs or equipment on a cost-sharing basis, and (where possible) support to on-farm seed production particularly for animal fodder and nutrition rich crops for human consumption.
- b. Coordinated activities associated with the development of and support to farmer/pastoralist-research groups, including the establishment of new groups with a minimum 30 percent representation of women pastoralists.
- c. Demonstration of best practices and innovations in pastoral livelihoods through facilitation of information sharing and peer to peer training by F/PRG members as well as documentation and dissemination of lessons learnt. This will contribute to Component 3: Development Learning & Knowledge Management.

49. Participating institutions are tentatively identified as follows:

Region	Research Institution
Afar	Afar Pastoral Research Institute
	Werer Agricultural Research Center
	Semera University
	Mekelle University
Somali	Somali Pastoral and Agro Pastoral Research Institute: Jijjiga, Fafen, Gode and Dolo Ado Research Centers
	Jijjiga University

Region	Research Institution
Oromiya	Oromiya Agricultural Research Institute: Adami-Tulu, Yabelo, Fentale, Sinana and Bore Research Centers
	Haramaya University
SNNPR	South Agricultural Research Institute: Bonga and Jinka Agricultural Research Centers
	Arba-Minch University

**Component 3: Development Learning and Knowledge Management** (US\$4.7 million, including US\$2.7 million from IDA and US\$2.0 million from IFAD)

50. Component 3 comprises a set of interventions to complement community level development with policy dialogue and strategic thinking around pastoralist development issues. It also seeks to enhance transparency and learning within the project. The Component will have two sub-components: (i) policy implementation studies and knowledge management, and (ii) communication and internal learning.

### **Sub-component 3.1: Policy<sup>39</sup> Consultation and Knowledge Management**

51. Through engagement with pastoral communities over a ten year period, PCDP has gained significant experience and knowledge on pastoral development. Such knowledge can be used to inform policy dialogue and lead to the formulation of strategic approaches for pastoral development if enhanced by further study to enrich experience with evidence; and if effectively disseminated to relevant stakeholders. Therefore, under sub-component 3.1, PCDP-3 will undertake studies around policy implementation issues identified during the implementation of PCDP-1 and PCDP-2, facilitate informed discussions, support program development as appropriate, and provide a platform for pastoralists to engage in policy dialogue by taking forward issues emerging from community learning events under component 1. Sub-component 3.1 will also support pastoral resource units and multi-media channels for information sharing.

52. PCDP-3 will commission studies on the following themes: (i) *Options for local development*: are the current norms for service delivery and public infrastructure appropriate for pastoral areas, how can they be improved; (ii) *Access to natural resources*: demarcation of land in the lowlands for different uses (enclosures, national parks, commercial agriculture, irrigation development, etc.) affects prospects for local development– limiting mobility and viability of traditional production system while also providing opportunities for alternative income sources. How can local development strategies be linked to such developments, what resources are critical to pastoral development, access to which needs to be protected; (iii) *Fiscal decentralization*: what options can work for decentralizing to the kebele level, availability of capital budgets for woredas are a key constraint to fiscal decentralization, what strategies can be considered to

<sup>39</sup> Focused on more effective implementation of the GoE’s policies

mobilize additional budgets to woredas; (iv) *Nutrition*: demographic and health surveys indicate the prevalence of under-nutrition in Ethiopia's pastoral regions, what drives these results, how can local development strategies be designed to help address this issue; (v) *Financial intermediation*: what options can be considered for deepening financial intermediation in pastoral areas given that formal financial institutions' engagement is limited and scope of pastoral SACCOs is narrow; (vi) *Gender*: in the context of rather rigid social relationships among pastoral communities, what strategies can be adopted to promote women's empowerment, and (vii) any additional topics that regional governments would like to investigate and issues emerging from PCDP-3 implementation as informed by its monitoring and evaluation activities and from community learning under Component 1.3.

53. Furthermore, PCDP-3 will organize, (every two years as well as in the final year of project implementation), multi-stakeholder discussion fora on pastoral issues around these topics where findings of studies (as well as from other work) can be presented and debated on and proceeding published. Such discussion fora will be organized at national and regional levels to encourage wide dissemination, debate and consensus building on study results so that recommendations will be translated into action. Studies on the pre-identified themes will be coordinated at the federal level. However, a budget will also be set aside to be used by Regional Pastoral development Commissions/Bureaus to commission studies that they regard as necessary to inform pastoral policy implementation in their respective regions.

54. As appropriate, PCDP-3 will also provide TA to the development of programs that include pastoral issues e.g., to integrate experience with community based disaster risk management into the DRM SPIF. The FPCU will be represented on the GoE/donor sector working group's task force on pastoralism (currently being set up) and together with other stakeholders assess the need for and program such TA. The project will also support capacity building needs for pastoral groups to enable them to effectively participate in policy dialogue fora and also to empower them to effectively articulate their views, needs and concerns.

55. PCDP-3 will more broadly support activities to facilitate access to useful information and expertise relevant to pastoral community development. The following two broad interventions are envisaged:

56. *Support to pastoral resource units*: PCDP-3 will support small resource units at the regional and federal levels in order to provide a forum for interested stakeholders to exchange knowledge and information on pastoral development issues in their respective regions.<sup>40</sup> The Project will help the Regional Pastoral Development Commissions/Bureaus (or a regional pastoral forum) take an active role in the regional resource units by providing an operational budget (on a sliding scale) and by carrying out promotional work to make the resource centers more broadly known among stakeholders. The Regional Pastoral Development Commissions/Bureaus will assign one person to run the resource centers on a daily basis and allocate a budget (on an increasing scale) to the centers so that units can be maintained beyond the Project. The resource units will seek and store the documents of all organizations involved in research and development to improve pastoralist and agro-pastoralist livelihoods. They will be open to the public for on-site reference. PCDP-3 will build up these resource units with hard and soft copies of publications and reports,

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<sup>40</sup> Resource centers are currently established within and managed by the FPCU and RPCUs.

as well as audiovisual materials, on pastoral research and development in Ethiopia. In addition to making such materials available to the public, the resource centers will hold quarterly “information and knowledge camps (fairs)” that are guided by specific themes identified by the Regional Bureau/Commission for Pastoral Development<sup>41</sup> and will support knowledge fairs to be held in conjunction with the annual Ethiopian Pastoralists Day.

*57. Management of multi-media information sharing channels:* The Project will help MoFA to manage a website on pastoralism in Ethiopia, through its resource unit, where relevant information, research outputs and activities on pastoral development will be posted. The website will serve as a key source of information and expertise for all stakeholders seeking partnership in pastoral research and development. The FPCU will identify research and development experiences from within Ethiopia and other countries, produce overview/synthesis papers, issues papers and policy briefs based on the outputs of relevant research and regularly post digital versions of such documents on this website as well as coordinate with regions to pull together regional information for posting. It will furthermore maintain an inventory of research organizations and developmental activities on pastoralism in Ethiopia (understanding the term “research” in a wide sense as systematic activities to generate knowledge and innovations) and post this information on the website and establish links with related websites. In addition to disseminating information and knowledge products generally, the website on pastoralism in Ethiopia will also be used to disseminate information on PCDDP including profiles of PCDDP supported woredas and kebeles, activities undertaken and results achieved, key lessons learnt, testimonials from PCDDP beneficiaries and documentation of success stories showcasing, in particular, examples of successful collaborations between implementing partners, pastoral communities and other relevant stakeholders as this can be used to strengthen partnerships and build strategic alliances among stakeholders even beyond the Project. Posting information on the Project at this level (in addition to the public postings of information at kebele centers) will further promote transparency in PCDDP operations and help build a dynamic and evolving knowledge base to improve the quality of interventions.

### **Sub-component 3.2: Communication and Internal Learning**

58. Sub-component 3.2 will seek to enhance transparency within the Project and promote effective implementation by documenting and disseminating PCDDP related information in various media. Accordingly it will implement a communication strategy elaborated in detail in Annex 6. It will also promote internal learning and experience sharing with other stakeholders.

*59. Internal learning:* PCDDP-3 will actively promote learning by its implementing agencies and stakeholders from the body of knowledge organized through its knowledge management interventions as well as from international experience. In addition to the multi-stakeholder national discussion fora on pastoral issues around topics pursued under sub-component 3.1, RPCUs in consultation with the RSC will organize regular (at least once a year) learning and experience sharing events for its stakeholders from the regional and woreda levels where PCDDP implementation experience and lessons as well as findings from relevant studies (including syntheses, briefs and policy papers posted in the website on pastoralism in Ethiopia), PCDDP

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<sup>41</sup> Fairs will involve exhibitions of best practices and have guest speakers. To encourage knowledge sharing and learning, an award system can be planned along these events managed by the RPCU.

monitoring and evaluation reports, and outputs from lower level learning fora (see discussion on component 1.3) will be presented and discussed.

60. *South-south learning*: There is a lot of experience world-wide with CDD approaches and development within pastoralist systems from which PCDP implementers could benefit. Similarly, PCDP's 15 year experience with pastoralism yields lessons that can be applied in other countries. Clearly, south-south exchanges can generate a very useful body of knowledge that can be further disseminated through the various media channels promoted through this sub-component. PCDP-3 will therefore include activities to promote south-south learning. The Project will mobilize more focussed and longer-term knowledge exchange, tailored to PCDP-3 needs, to build capacity of the implementation teams in mobilizing the communities and building community institutions, exploring options and livelihood graduation strategies for pastoral communities, and connecting them to a "network of practitioners" and good practices.

61. *Awareness creation and capacity building of stakeholders*: PCDP-3's interventions on knowledge management will only be realized if there is, among its various stakeholders, full understanding, awareness and acceptance of the Component's important contribution to the overall success of the project. To help increase commitment to interventions under this Component the following will be undertaken:

- d. Workshops aimed at increasing awareness and understanding of Component 3: Development Learning and Knowledge Management will be undertaken with participation of relevant stakeholders/ implementers from all levels;
- e. Specialized training will be given on knowledge management to newly recruited Knowledge Management and Learning (KM&L) officers within the FPCU and RPCUs and M&E officers within MSTs as well as refresher training to existing KM&L officers in order to equip them with the specific knowledge and skills needed to undertake their responsibilities;
- f. Detailed terms of reference for knowledge management officers at different levels will be prepared. Currently, most knowledge management officers working at the lower levels are spending the majority of their time on CIF activities and not on knowledge management. It is expected that this will shift as project coordination units and implementing agencies as well as the KM&L officers understand better what is required from them; and
- g. Specialized training on policy dialogue to pastoral groups to enable them to better articulate their views on matters affecting their livelihoods.

***Component 4: Project Management and M&E*** (US\$20.6 million including US\$11.6 million from IDA and US\$9.0 million from IFAD)

62. Although PCDP-3 implementation will be carried out through relevant government offices, its implementation and oversight will be supported by the FPCU located in MoFA and RPCUs at the regional level that will be located within Pastoral Development Bureaus/ Commissions. Because capacity within government offices in pastoral woredas is limited, project funded MSTs

covering three to four woredas and located within Pastoral Development Offices at the zonal level (a government structure that is a geographic sub-division of the Region) will provide hands on assistance to woredas and communities. They will do so to help communities and woreda governments implement PCDD activities, account for funds and report on performance. PCDD will fund all personnel, equipment, vehicles, motorcycles, training and operating costs related to running the FPCU, RPCUs and MSTs. Project teams are primarily coordinating bodies. However, they will also assume some implementation functions, particularly for Component 3.

63. *FPCU*: The FPCU will support MoFA to fulfill its responsibility for overall oversight of PCDD-3 implementation. To enable the FPCU to effectively provide such support (as per functions further elaborated below under Section II: Implementation Arrangements, its current composition will be strengthened by the addition of a safeguards specialist with expertise in both social and environmental issues. As is currently the case, the FPCU will also have one coordinator and dedicated staff capacity for oversight of each project component, M&E (including planning), MIS and information technology, safeguards, financial management (including internal audit), procurement and administration—with the requisite practical experience and skills.

64. *RPCU*: The RPCUs in the 4 Regions where PCDD-3 is expected to operate (Afar, Somali, Oromiya, and SNNPR) will support the Regional Steering Committee (RSC) composed of heads of bureaus of all relevant sectors, BoFED and the Pastoral Development Bureau/Commission. The composition of the RPCU will include: a regional project coordinator, officers for each project component, , and M&E officer (including planning), an MIS/IT officer, finance officer, a/finance, procurement officer, a/procurement officer, administration and general service officer, internal auditor, executive secretary and cashier, secretaries, store keeper, drivers, office assistants. In the case of Afar and Somali, the RPCUs will also include a safeguards advisor.

65. *Implementation support at Regional level*. To minimize the risk of constructing poorly designed infrastructure, particularly for small-scale irrigation and rural roads funded through the CIF, the project will place TA (as necessary) in Regional Water Resources Bureaus and Regional Rural Roads Authority to review designs for any irrigation and road construction sub-project for which no standard design exists.<sup>42</sup>

66. *MSTs*: Woredas and community institutions will be assisted by MSTs who will provide support to woredas in relation to the components of the Project carried out at this level, including *inter alia* sensitization and awareness creation on CDD principles and facilitation of community consultations, support to procurement and financial management, facilitation of community level learning and participatory M&E activities, etc. The current composition of MSTs will be revisited so that they can be strengthened in terms of expertise in engineering and financial management and the substantive positions will be reformulated to correspond better to the components of the Project carried out by woredas (CIF and RLP). The position of the procurement specialist will be maintained.

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<sup>42</sup> Zonal Water Resources Development and Rural Roads Offices will develop designs for irrigation and rural road sub-project respectively.

67. *Implementation support at woreda level:* The project will hire woreda project coordinators (with higher qualifications than the current woreda project focal persons) and financial management officers for each project woreda. The project coordinators will be placed in WoPDs and the financial management officers will be placed in the WoFEDs of each project woreda. They will coordinate implementation; ensure smooth flow of funds timely and good quality reporting (financial including SOEs, and performance on activities).

68. The decentralized nature of implementation and high staff turnover within both the project teams and implementing agencies are significant challenges for effective implementation of PCDP-3. Component 4 will therefore include continuous training of project teams, direct support to implementing agencies, sensitization of woreda leadership, and regular experience sharing among woredas. PCDP-3 acknowledges, in particular, the importance of the active engagement of WDCs in the implementation of woreda and kebele level activities. Yet, there is high turnover also among potential WDC members. The Project will therefore support continuous sensitization of the woreda leadership as well as regular experience sharing among woredas so that WDCs that fall behind can learn from those that are more familiar with the project's procedures and implementation modalities.

69. ***Monitoring & Evaluation:*** An effective M&E system is a key element of the PCDP design. The specific activities to be covered are as follows:

- h. *Evaluating PCDP-3 outcomes and impacts:* progress towards the PDO and intermediate outcomes will be measured through a detailed baseline survey and evaluations at mid-term and end of Project. The evaluations include 4 main studies: (i) survey of beneficiaries for an analysis of access to services including gender aspects; (ii) assessment of the woreda planning and budget development process; (iii) SACCOs study including gender aspects; and (iv) IGAs study on viability; i.e., rate of returns, technical feasibility and contribution to household welfare including gender aspects. In addition, PCDP3 will conduct an impact evaluation at midterm with a specific focus on gender to inform modifications of interventions for greater impact on women's empowerment. With the exception of the impact evaluation on gender aspects (to be undertaken by the Bank), the evaluations will be carried out by a competitively recruited consulting firm. Evaluations will be complemented by annual thematic studies, assessments and case studies on topics agreed to by MoFA, World Bank and IFAD;<sup>43</sup>
- i. *Monitoring inputs, outputs and processes:* Monitoring implementation progress will be based on an enhancement of the current system with monitoring at the community level, frequent data auditing, and supportive supervisions. Robust capacity building activities will be carried out for staff engaged in monitoring the performance of the project. PCDP-3 will continuously work on strengthening its monitoring system and the quality of data collected. Most of the data currently used

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<sup>43</sup> Evaluation of the woreda planning process will include an assessment of key performance areas, including adherence to national standards, sustainability of investments, bottom-up participation, transparency and accountability, environmental and social safeguard management – taking into account the views of executing institutions on the supply side and the perception of communities on the demand side.

for decision making under the Project is collected internally through the Project's monitoring reports complemented by some secondary sources. PCDP-3 will introduce more diverse tools and rely more on independent sources to assess performance including regular assessments of community level planning, technical audits of infrastructure, review of the effectiveness and quality of capacity building efforts. Findings from such monitoring will be shared with PCUs, the woreda technical committees and at community learning fora;

Monitoring data is already being entered into an MIS and shared through semi-annual MIS-generated reports. The MIS will be further upgraded under PCDP-3 from the current windows based system to a web-based system; and will be expanded to include information on characteristics of project kebeles in addition to their performance regarding PCDP activities. Upgrading the MIS will: (i) enable the MIS to be accessible from remote areas by all stakeholders over the internet; (ii) enable authorized data recording and backup at all levels with easier interface; and (iii) incorporate certain system functionalities such as addition of new and/or modification of existing outcome indicators, modification to financial transfer and settlements, addition of project fixed assets, improvements to the input and report formats, etc. Woreda coordinators will be trained to use and start inputting data into the MIS system;

- j. *Participatory M&E:* PCDP-3 will promote participatory M&E by (i) introducing simple monitoring formats to be used by beneficiary communities to track project milestones –focusing on results—and budget use and to identify implementation problems and best practices; and (ii) facilitating periodic structured discussions on findings. The KDC that also oversees the development of CAPs will be responsible to coordinate community monitoring activities;
- k. *Capacity building:* Continuous training of M&E Officers, PCU staff, woreda staff and supporting line ministries will be undertaken. The purpose of the training will be to provide skills in planning, monitoring of activities, evaluation of results, audit of data, gender in M&E, and other specific technical skills to support the preparation and implementation of the Project's M&E activities.



**Annex 2 (b): Project Costs In million US\$**  
**ETHIOPIA: Pastoral Community Development Project**

	<b>Total</b>	<b>IDA</b>	<b>IFAD</b>	<b>GoE</b>	<b>Community Contributions</b>
<b>1. Community Driven Service Provision</b>	<b>136.7</b>	<b>69.1</b>	<b>53.4</b>	<b>0.0</b>	<b>14.2</b>
1.1. Community Investment Funds	122.3	61.0	47.1	0.0	14.2
1.2. Institutionalization of CDD Approach	8.7	4.9	3.8	0.0	0.0
1.3. Community Self-Monitoring and Learning	5.7	3.2	2.5	0.0	0.0
<b>2. Rural Livelihoods Program</b>	<b>45.9</b>	<b>25.9</b>	<b>20.0</b>	<b>0.0</b>	<b>0.0</b>
2.1. Promotion of Pastoral SACCOs	18.8	10.6	8.2	0.0	0.0
2.2. Identification and Development of Livelihood Opportunities	22.0	12.4	9.6	0.0	0.0
2.3. Promotion of adaptive research and innovative practices	5.1	2.9	2.2	0.0	0.0
<b>3. Development Learning and Knowledge Management</b>	<b>4.7</b>	<b>2.7</b>	<b>2.0</b>	<b>0.0</b>	<b>0.0</b>
3.1. Policy Consultations & Knowledge Management	2.6	1.5	1.1	0.0	0.0
3.2. Communication and Internal Learning	2.1	1.2	0.9	0.0	0.0
<b>4. Project Management and M&amp;E</b>	<b>20.6</b>	<b>11.6</b>	<b>9.0</b>	<b>0.0</b>	<b>0.0</b>
4.1. Project Management	19.3	10.9	8.4	0.0	0.0
4.2. M&E	1.3	0.7	0.6	0.0	0.0
<b>5. Unallocated</b>	<b>2.3</b>	<b>0.7</b>	<b>0.6</b>	<b>1.0</b>	<b>0.0</b>
<b>6. Total Costs</b>	<b>210.2</b>	<b>110.0</b>	<b>85.0</b>	<b>1.0</b>	<b>14.2</b>

## **Annex 3: Implementation Arrangements**

### **ETHIOPIA: Pastoral Community Development Project III**

#### **Project Institutional and Implementation Arrangements**

1. Implementation of PCDP-3 will rely on existing GoE structures and community institutions supported by the project. Implementation will be decentralized and beneficiary communities will assume primary responsibility for executing many project activities. The woreda administration will provide the necessary backstopping to targeted communities and coordinate technical support. Nevertheless all levels of government will have a role in the oversight of the Project and in providing implementation support. Government implementing agencies will be supported by project teams: the FPCU at the federal level, RPCUs at each of the four project regions with MSTs that will support 3 to 4 woredas. Project teams will also be responsible, at their various levels to coordination implementation of the project, build capacity within implementing agencies, manage fund flows, ensure fiduciary and safeguards obligations, monitor performance, maintain timely and regular financial and progress reports, evaluate the project's impact and document best practices/lessons learnt. In addition to the FPCU, RPCUs and MSTs, the project will place a project coordinator and an accountant at the woreda level. TA will be placed in implementing agencies as appropriate.

#### **National Level Project Oversight**

2. *Ministry of Federal Affairs:* MoFA will host PCDP-3 and continue to be the major responsible body to coordinate the project implementation through the FPCU.

3. *FPCU:* A federal project coordination unit will be maintained in Addis Ababa to perform the following functions: (i) coordination of project activities at the federal level; (ii) fiduciary and safeguards obligations, including supervision of financial management, procurement and safeguards procedures followed at regional and woreda levels and providing periodic training on same; (iii) liaison with stakeholder groups; (iv) monitoring overall performance, providing regular (quarterly) financial and progress reports to MoFA, the World Bank and IFAD, evaluation of the project's impact and assessment of progress on the PDO; (v) public communication; (vi) strengthening capacity to implement and monitor project activities at all levels; and (vii) mobilizing external technical support as necessary. The FPCU structure and terms of reference for each position within the FPCU will be included in the PIM, and trainings will be provided, particularly on fiduciary, social and environment management.

#### **Regional Project Oversight and Implementation Support**

4. *Regional Steering Committees:* At the regional level, RSCs composed of heads of all relevant sectors and BoFED and led by the Pastoral Development Bureau/Commission will continue to provide overall guidance and leadership for the Project. The RSC will meet quarterly to review performance, endorse the quarterly progress reports and provide necessary guidance on project implementation, and at the beginning of the fiscal year to endorse the annual plan. RSCs in all the Project Regions will be strengthened.

5. *RPCUs*: RSCs will be supported by RPCUs whose responsibilities will include (i) coordination of project activities at the regional level; (ii) overseeing the implementation of the CIF and RLP; (iii) monitoring of project activities at the regional level and providing regular financial and progress reports to the FPCU as well as timely submission preparations of IFRs; (iv) regional fiduciary and safeguards obligations; and (v) liaising with similar interventions in the region. The RPCU structures and terms of reference for each position within the four RPCUs will be included in the PIM. Based on detailed needs assessment, trainings will be provided to staff, particularly on fiduciary, social and environment management as well as on M&E.

6. *Mobile Support Team*: MSTs will assist woreda and kebele level implementation and engage in capacity building activities covering three to four woredas each. They will provide support to woredas in relation to all activities carried out at this level. This will include *inter alia* sensitization and awareness creation on CDD principles, facilitation of community level planning, establishment/strengthening of community institutions, support to integrating CDD approach into woreda plans, procurement and financial management, social and environmental assessments, identification and development of livelihood opportunities, participatory M&E and facilitation of community level learning, facilitation of communication between communities and formal government structures. The composition of MSTs will be as follows: MST coordinator (who will also cover planning and M&E functions), CIF officer, RLP officer, engineer, procurement officer and a finance-cum-controller officer (supporting the woreda appraisal team). The MST coordinator and substantive staff can have technical qualifications, such as in veterinary medicine, range management, agricultural/pastoral extension, health and nutrition, education, water resources development, etc. but should primarily have experience in community facilitation skills. As the Project will be scaling up to reach most pastoral and agro-pastoral woredas, the number of MSTs is expected to be about 30.

7. To minimize the risk of constructing poorly designed infrastructure, particularly for small-scale irrigation and rural roads funded through the CIF, any sub-project for which no standard design exists will be referred to zonal offices. Thus Zonal Water Resources Development and Rural Roads Offices will develop designs for any irrigation and rural road sub-project respectively. These designs will be further reviewed at regional level and the Project will provide TA for this to be placed in Regional Water Resources Bureaus and Regional Rural Roads Authority. Additionally, the civil engineer placed within each MST will follow up on quality of construction during implementation of sub-projects.

### **Woreda Level Project Implementation, Oversight and Backstopping**

8. *WDC*: At the woreda level, the WDC, comprised of the heads of the offices of pastoral development or agriculture, water, education, health, rural roads, small and micro enterprises agency, cooperative promotion, the head of WoFED, and representatives of NGOs active in the woredas as well as representative from microfinance institutions if available and chaired by the woreda administrator or his deputy, will be ultimately responsible for all woreda level PCDP-3 activities and for approval of kebele CAPs, CLPs and sub-projects for financing through the CIF. It will meet on a monthly basis to review implementation progress, approve workplans and budgets, provide guidance, and address implementation bottlenecks as they arise. The WDC is a key oversight body as active engagement of the woreda leadership will be critical for the Project's success. The WDC will closely collaborate with MSTs and the RPCU to deliver on

Project activities---including facilitating capacity building of its staff by MSTs as per the requirements of the Project.

9. *Woreda technical committees*: Each woreda will assign dedicated focal persons from the offices of education, health, water resources development, pastoral development or agriculture, cooperative development, rural roads, and women and youth affairs to engage in the implementation of CIF and RLP. These focal persons will form a technical committee that meets at least on a monthly basis to plan coordinated visits to project woredas. The woreda technical committees will facilitate local level planning, supervise implementation of sub-projects, support identification and development of livelihoods, and promote community level learning. MSTs will support the woreda level PCDP technical committee and lead much of the support to kebeles. However, responsibilities will be gradually transferred from MSTs to woreda technical teams, so that woreda sectoral offices build sufficient experience to continue with the CDD approach after the close of the Project.

10. *Woreda project appraisal teams*: Each woreda will establish a Woreda Project Appraisal Team with membership from the WoPD, WoFED and sectoral offices but separate from the WTC (so that its members have no facilitation responsibilities under the project and can maintain a certain measure of independence). The Woreda Project Appraisal Team will appraise sub-projects, particularly in terms of social and environmental issues, technical soundness, gender equity, consistency with the Woreda Development Plan, and any issues raised by the community audit committees. They will check readiness of community institutions to implement sub-project and as sub-projects are implemented, the achievement of milestones against which funds will be disbursed.

11. *WoPD*: At the woreda level, the Woreda Offices for Pastoral Development will be the lead institutions for PCDP-3 implementation and support to kebeles. WoPDs in PCDP Project woredas will coordinate support to kebeles, monitor performance – reporting both to their WDCs and their respective MSTs, and put together the woreda’s annual PCDP action plan for review and approval by the WDC. A project-funded PCDP coordinator will be placed in the WoPD of each Project woreda.

12. *Woreda level implementing agencies*: Most of PCDP-3’s implementation will be decentralized to the community level, with beneficiary communities assuming primary responsibility for executing many project activities (as discussed further below). However, a few activities will be implemented at the woreda level e.g., by WoFEDs for Component 1, sub component 1.2 on support to integrated woreda planning that incorporate CDD approaches, WoCPs for Component 2 sub-component 2.1 on promotion of pastoral SACCOs, WoPD and/or micro enterprise development (if available) for Component 2 sub-component 2.2 on identification and development of livelihood opportunities; and, research stations and/or academic institutions for Component 2 sub-component 2.3 on promoting adoption of new technologies and innovative practices.

13. *WoFED*: In addition to being an implementing agency for PCDP-3’s support to integrated woreda planning, WoFEDs will be responsible for all PCDP-3 financial transactions at the woreda level. Flow of funds to communities and implementing agencies will be approved by the

WDC and managed by WoFEDs. The WoFEDs will manage transactions and provide support to communities to manage and account for the CIF. They will furthermore account and report on expenditures to the WDC and MST supporting the particular woreda. A project funded PCDP financial management specialist will be placed in the WoFED of each Project woreda to assist with this function.

### **Community Level Project Implementation**

14. Community-driven development is central to PCDP and communities themselves constitute the true implementing agencies for the Program. As such, they will identify, appraise, implement, monitor, and evaluate sub-projects which are financed through Component 1. In addition, they will participate in participatory monitoring, evaluation and internal learning. Community level implementing institutions include community groups, sub-kebele facilitation teams, frontline service providers, community project management and procurement committees as well as community audit committees. The KDC, as the developmental arm of the GoE's lowest level administration structure, will provide general implementation oversight and will liaise with and coordinate support from MSTs, the woreda, and other implementing agencies. The Project will not establish a parallel KDC structure for its purposes. It will instead rely on the kebele administration's organization. However, in the view of some of PCDP's peculiar features, some members of the community will be attached to the KDC for specific functions. For example, representatives from sub-kebele levels will join with the KDC to develop the CDP, CAP and CLP.

15. Successful implementation of the Project's core interventions will depend on strong community-based institutions. The Project will pay particular attention to existing community structures and build on these. Where necessary, it will establish new institutions. A participatory analysis of local and overlapping socio-economic structures in a Project kebele will be undertaken and traditional community organizations, leadership structures and groups representing specific interests (women, youth, environment, culture, etc.) will be identified. This will include an analysis of the way community organizations/groups are organized; i.e., their representation, how they give voice to women and the poor, transparency in their operations and internal relationships, potential for capture, etc. It is intended that a coalition of the aforementioned institutions and existing community groups will work together to set community development priorities and manage their implementation. A community's commitment to this process and its subsequent management of Project resources will be closely monitored.

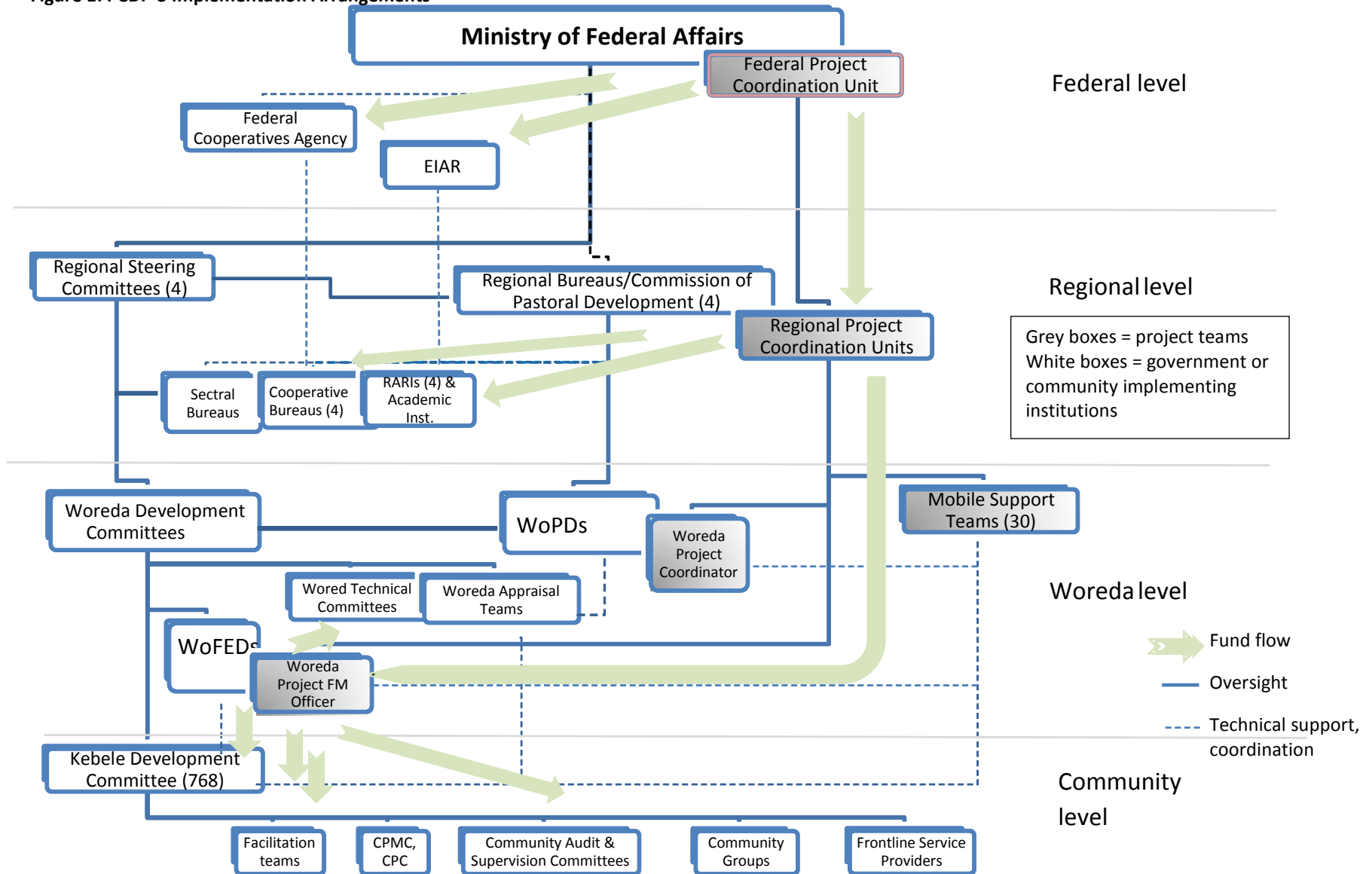
### **Coordination Mechanisms**

16. Given the multi-sectoral nature of PCDP implementation, strong coordination mechanisms are necessary. Thus coordination units are established at federal and regional levels, the WoPD serves as the Project focal point at the woreda level and the KDC at the kebele level. Additionally, high level steering committees are or will be established at the regional and woreda levels. At the woreda level, the WoPD and WDC are further supported by a technical team with membership from all relevant stakeholders. Members of the technical team serve as a focal person for their respective institutions and are responsible for coordinating their respective office's support for the Project's implementation. The technical team is required to meet as per a

pre-established schedule and the PCDP woreda coordinator will be responsible for fostering active association between members of the technical team.

17. PCDP-3 coordination mechanisms overlap with similar projects carried out at the community level. More specifically, the PSNP and HABP have overlapping albeit independent program management and coordination mechanisms. Since PCDP-3 will harmonize its implementation processes with these programs, coordination mechanisms will also be consolidated.

Figure 1: PCDP 3 Implementation Arrangements



## Component Specific Implementation Arrangements

18. The roles and responsibilities of implementing institutions are described in detail in the PIM. The implementation arrangements by component can be summarized as follows:

- a. *Component 1: Community Driven Service Provision:* Community institutions (KDCs, CPMCs, CPD, and community audit committee) with general oversight from the KDCs will be responsible for implementation of the CIF. They will be supported by woreda technical teams and MSTs. WDCs will oversee woreda support to communities and approve all sub-projects for funding through the CIF. The WDC will approve sub-projects from kebeles based on recommendations from a woreda appraisal team that will review sub-projects to ensure consistency with the woredas development strategy, feasibility of any recurrent expenditure implications, compliance with government standards, compliance with the project's rules and procedures (particularly regarding the CDD approach) and that social and environmental concerns are taken into consideration as per the ESMF and RPF. Criteria and methods of appraisal will be specified in the PIM. Capacity building of community institutions – including management committees to oversee service delivery as well as for woreda offices will be provided partially by RPCUs and MSTs and will be partially outsourced to a specialized firm that has experience with pastoral communities.

Support to integrated woreda planning will be implemented by WoFEDs and supported by relevant structures at the federal and regional levels. Although MoFA retains overall responsibility for coordinating PCDP-3 implementation, it is MoFED that supports the overall coordination of investment planning, and GoE budget allocations. Thus this Ministry, together with counterpart institution at the sub-national level will provide an overall planning and fiscal framework to realize bottom up practices with top down disciplines. At the Regional level, in addition to providing a planning and fiscal framework, the BoFEDs together with RPCUs will help coordinate integration between multiple resource flows to woredas. MoFED will, furthermore, oversee sensitization activities for community demand driven planning and budgeting.

- b. *Component 2: Rural Livelihoods Program:* Support to the establishment of SACCOS will be implemented on the ground by WoCPs but overseen by the FCA and Regional Cooperative Agencies/Bureaus. This will be under the terms of a Memorandum of Understanding (MoU) to be signed with MoFA. Details of the implementation arrangements including reporting, auditing system, supervision mechanisms and roles and responsibilities of participating institutions will be provided in the PIM. The FCA and Regional Cooperative Agencies/Bureaus will also manage capacity building support, particularly training of trainers to help WoCPs effectively deliver their support. Support to financial education will be outsourced.

Several agencies at the woreda level will be involved in the identification and development of livelihood opportunities for pastoralist households including the



WoPD or Woreda Office of Agriculture (extension process), the Woreda Micro and Small Enterprise Development Agency (if active in rural areas), and the Woreda Office for Trade and Transport. Training to pastoral households on technical aspects of their business plans and on business skills development will be provided by DAs and kebele level cooperative promoters (if available) with support from relevant offices at the woreda level. Interventions under this sub-component involve TA and capacity building to the extension system (both at the woreda and kebele levels), the Woreda Micro and Small Enterprise Development Agency and the Woreda Office for Trade and Transport. This will be out-sourced to an appropriate institution.

Innovation grants will be managed at the regional level by RARIs (or at the federal level through the Ethiopian Institute for Agricultural Research EIAR in collaboration with the JICA funded FRG Project) and implemented through research stations or relevant academic institutions.

- c. *Component 3: Knowledge Management and Learning:* This component will be primarily implemented through project coordination units with the exception of community level learning that will be coordinated by KDCs and facilitated by MSTs.

## **Financial Management, Disbursements and Procurement**

### **Financial Management<sup>44</sup>**

19. A financial management assessment was conducted in accordance with the Financial Management Practices Manual for World Bank financed investment operations issued by the Financial Management Sector Board on March 1, 2010 and supporting guidelines. In conducting the assessment, the Bank team visited the FPCU at MOFA, RPCUs in the four regions and selected woredas. The team also met with IFAD and discussed the various project issues and the way forward. Lessons learned from the first two phases of the project were taken into consideration and used in designing the risk-mitigating measures.

#### *Country Context*

20. The GoE has been implementing a comprehensive public financial management reform with support from development partners, including the Bank for the last twelve years through the Expenditure Management and Control sub-program (EMCP) of the government's civil service

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<sup>44</sup> A financial management assessment was conducted in accordance with the Financial Management Practices Manual for World Bank financed investment operations issued by the Financial Management Sector Board on March 1, 2010 and supporting guidelines. The objective of the assessment was to determine whether the implementing entities have acceptable financial management arrangements to ensure that: (a) funds are used only for the intended purposes in an efficient and economical way; (b) accurate, reliable, and timely periodic financial reports are produced; and (c) entities' assets are safeguarded. In conducting the assessment, the Bank team visited the FPCU at MoFA, RPCUs in the four regions and selected woredas. The team also met with IFAD and discussed the various project issues and the way forward. Lessons learned from the first two phases of the project were taken into consideration and used in designing risk-mitigating measures.

reform program (CSR). This was being supported by the IDA financed Public Sector Capacity building Support Program (PSCAP), Protection of Basic Services (PBS) and other donors funding as well as Government own funding. These programs have focused on strengthening the basics of PFM systems: budget preparation, revenue administration, budget execution, internal controls, cash management, accounting, reporting, and auditing. With the basics increasingly in place, the Government is beginning to increase its focus on strengthening the linkages between public policy objectives and expenditure. In this context, GoE has embarked on a programming/performance budgeting framework within MoFED.

21. The 2010 Ethiopia Public Expenditure and Financial Accountability (PEFA) PFM performance measurement framework assessment completed in September 2010 covered the federal government in the form of Ministries and Agencies as well as five regions. The study notes that Ethiopia has made significant progress in strengthening PFM at both federal and regional levels. Improvements have been noted in budgeting and accounting reform. The predictability in the composition of expenditure improved sharply, the variance in excess of the aggregate deviation falling to 5.7 percent. The budget is reasonably realistic and is reasonably implemented as intended, and performance in this regard has improved marginally since the period covered by the first PEFA assessment.

22. Comprehensiveness and transparency improved during the period covered by the 2010 PEFA assessment. Other notable areas of improvement are: increased in the amount of budgetary documentation submitted to House of Peoples' Representatives, strengthened reporting on donor projects and programs, improved transparency in inter-governmental fiscal relations, through greater timeliness in the provision of information to regional governments on the size of the budget subsidies that they will receive, and improved access by the public to key fiscal information through audit reports. An issue remaining to be addressed is for the Government to make available to the public information on the incomes and expenditures of extra-budgetary operations.

23. Weaknesses were noted in internal audit which necessitate increased focus on systems audit, and increasing management response to audit findings. Further strengthening of the internal audit function is a key challenge. The full roll-out of IBEX has helped to strengthen the quality of in-year budget execution reports by including information on revenue and expenditures, financial assets and liabilities, but excluding information on donor-financed projects and programs. A limiting factor continued to be the use of non-International Public Sector Accounting Standards (IPSAS) compliant accounting standards; compliance with IPSAS would require disclosure of information on donor-financed projects and programs.

24. Overall performance of external audit has improved due to increased coverage and a lessening of the time needed to audit annual financial statements. Audits conducted by Office of the Federal Auditor General (OFAG) generally adhere to International Organization for Supreme Audit Institutions (INTOSAI) auditing standards and focus on significant issues. The PFM study also notes that regional performance of PFM reform varies from region to region.

### *Project Financial Management Arrangements*

25. **Budgeting:** The Ethiopian budget system is complex, reflecting the fiscal decentralization structure. Budget is processed at federal, regional, zonal (in some regions), woreda and municipality levels. The budget preparation procedure and steps are recorded in the government's budget manual. The budgets are reviewed at first by MoFED then by the Council of Ministers. The final recommended draft budget is sent to parliament around early June and expected to be cleared at the latest by the end of the fiscal year.

26. The budget preparation for PCDP-3 begins from the community level and goes upward to the federal level. The detail procedure for the preparation of the budget including the CDP which incorporates CAP for the CIF component and CLP for the rural livelihood component are well documented in the PIM as well as the CIF and RLP manuals. The roles of the community, woredas, RPCUs and FPCU as well as oversight bodies will be as indicated in the FM manual.

27. The project budget is included in the annual budget proclamation of the federal government, under the name of MoFA. The detailed budget should be disseminated to all implementing agencies at all levels for proper follow-up. Actual expenditures should be compared to the budget on a quarterly basis and explanations should be sought for significant variations from the budget. In this regard it is essential that the operational staff work in collaboration with the finance officers to properly define the variances noted and use the information obtained for management decision.

28. During the implementation of PCDP-1 and PCDP-2, some of the weaknesses noted in the area of budgeting include (i) Budget not being approved and proclaimed at MoFED and parliament level; (ii) significant delay in the preparation of the annual work plan and budget; (iii) inconsistent communication of the annual budget to woreda accountants even though the annual woreda budget is formally shared with WoFEDs; and (iv) weaknesses in budget monitoring through variance analysis particularly at regions and woredas. In order to address these weaknesses, mitigating measures are proposed in the action plan.

29. **Accounting:** The GoE follows a double entry bookkeeping system and modified cash basis of accounting, as documented in the government's Accounting Manual, and these procedures have also been implemented in many regions.

30. As noted, the PCDP-3 will have its own FM Manual, which has been prepared under the scope of the country's accounting system with some modifications to specifically align it to the project's needs. The manual will be updated to reflect the new changes introduced in PCDP-3 such as the chart of accounts (to reflect the new components of PCDP-3 and new regions and woredas); the reporting formats required from woredas MSTs and regions; the move to report based disbursement; the new role of MSTs; the job descriptions of accountants at various locations including the qualification and experience required; etc. the revised manual was submitted during the appraisal mission and the Bank has provided its comment which will further strengthen the content of the manual.

31. Accounting centers for program funds include: (i) FPCU; (ii) RPCUs; (iii) RARIs; (iv) WoFEDs; and (v) FCA and Regional Cooperative Agencies/Bureaus. All these institutions will maintain accounting books and records and prepare financial reports in line with the system

outlined in the FM Manual. Arrangements for consolidation of PCDP-3 financial information are discussed under Financial Reporting below.

32. Since PCDP is a CDD project, communities are expected to contribute both in cash and in kind for the CIF sub projects. It has been a challenge to record such contributions appropriately in both of the previous phases due to lack of awareness and trainings on how to do so. An appropriate, robust system will be established to measure, record, and report community contributions in PCDP-3. The FM Manual to be updated will describe procedures to account for and report on community contributions.

33. **Information systems.** For normal government funds, Integrated Budget and Expenditure (IBEX) accounting system that is operational at the federal level and in most regions. Since the IBEX currently cannot capture transactions of donor financed projects, the project will use “Peachtree accounting software”, which is widely used in the country and will simplify the posting of transactions and generation of reports. The software has been in use by the project since phase 1 but due to high turnover of staff and new woredas being added to PCDP 3, continuous training should be provided on the software. Woredas with sever electricity and power problems are highly encouraged to use manual accounting with much care and diligence. Since it is highly recommended that the project should utilize on the country’s own information system, detail discussions will be held with MoFED on the possibility of moving towards IBEX and rolling out the same on a standalone basis for the project once implementation starts.

34. **Capacity building/training.** Focused and continued FM training is essential for the success of the PCDP-3 given that it works in remote and underdeveloped areas. The training responsibility for the project will be borne by the government, the FPCU and development partners. The World Bank will train project staff about Bank FM policies and procedures and will involve the project during the different trainings that it conducts both at the federal and regional levels. The FPCU will hold the responsibility to continuously train its accounting staff. Areas for which training is required include the FM Manual, Peachtree accounting software, Bank policies and procedures, document filing mechanisms, accounting for community contribution and preparation of interim financial reports, among others.

35. It is essential to come up with a concrete plan for ensuring that there is a systematic capacity building initiative with in the program. In the meantime, the possibility of making arrangements with a capacity building firm (as needed) to develop systematic financial management training and capacity building activities to all woredas and regions as a mandatory activity for which adequate budget and agreed action plan is made, will be considered. The main capacity building, supervision and monitoring of woreda financial management activities will mainly be with the MSTs whose capacity needs to be further strengthened and have a defined Terms of Reference. The FM manual will include their main responsibilities in terms of capacity building and supervision of woredas and the necessary reports that must be produced by them.

36. **Staffing.** The high staff turnover observed in PCDP is not a project specific issue rather a portfolio wide challenge which is being looked in at higher levels. In the meantime various existing and new ideas are presented which could mitigate the risk arising from high staff turnover. PCDP-2 employed project accountants for the FPCU, RPCUs and all the 55 woredas. Presently, the FPCU has two finance officers and one assistant accountant. Each of the RPCUs

has a finance officer and assistant accountant. The woreda finance offices have each recruited one assistant finance officer for the project. In addition to the existing positions in the finance function, each of the MSTs (which will cover 3 to 4 woredas) will be staffed with one accountant whose role will be to mentor and coach the woreda accountants as well as ensuring that timely reports are being produced. The MST will also step in at times of staff turnover and perform necessary back up facility until the new accountant is in place. Detail staffing requirement is described under staffing /capacity building below.

37. In addition, project accountants should be hired in each of those new woredas to be included in the PCDP-3 with the required educational back ground and experience. The FPCU finance officers should build the capacity of RPCUs, who will in turn build the capacity of woreda finance offices through regular visits and formal trainings. The qualification criterion for the accountants at the woreda level is considered to be increased to a BA level. The remoteness of the woredas and the benefit package provided by the project will be a determinant factor into having the required level of expertise in the woredas hence this needs to be given due consideration with MoFA and MoFED for possible alternatives. Not only is it necessary to have project accountants in place but to ensure that these staff are accountable to the normal government accounting structure is essential.

38. **Retaining documents:** Each implementing agency (FPCU, RPCUs, EIAR, FCA, RARIs, RCAs and woredas) is responsible for maintaining the project's records and documents for all financial transactions occurred in their offices. These documents and records will be made available to the Bank's regular supervision missions and to the external auditors.

39. Each community committee will maintain a simple book for registering transactions, which shows the amount of money received and expenditures made. All the supporting documents from the community should be submitted to the respective woreda finance office along with regular financial reports.

40. **Internal Controls and Internal Auditing** Internal control comprises the whole system of control, financial or otherwise, and has been established by management in order to (i) carry out the project activities in an orderly and efficient manner; (ii) ensure adherence to policies and procedures; (iii) ensure maintenance of complete and accurate accounting records; and (iv) safeguard the assets of the project.

41. The FPCU, RPCUs and woreda offices are using those control procedures prescribed by the financial management manual. These procedures are adequate to ensure authorization, recording and custody controls. As noted above, the existing financial management manual (of PCDP-2) will be revised to clarify important control, reporting and auditing procedures for PCDP-3 in terms of fixed asset management, responding to internal audit findings amongst others.

42. **Internal audit** – based on the various PFM analytic works conducted and as noted earlier, the internal audit function in the country is generally weak. Although the MoFA has an internal audit unit performing internal audit on government funds, the unit has been passive over the entire life of PCDP-2. The general weakness in the internal audit function is being addressed through various initiatives of the EMCP. In the meantime, in PCDP-2, the FPCU as well as the RPCUs

have an internal auditor dedicated for the project. The unit has already developed an internal audit manual which guides the unit in its day to day work. Given that PCDP-3 will expand to close to 113 woredas from only 55 in PCDP-2, further strengthening of the unit by increasing their capacity through various trainings is essential. The line of reporting of the internal auditor at the FPCU as well as the RPCUs will be both to the state minister of MoFA and the Regional Pastoral Development Offices respectively and to F/RPCU coordinators.

43. The unit has reported on a number of weaknesses which led to some concrete actions on those who were responsible for the irregularities leading to the extent of imprisonment. Due emphasis will be given to the unit's work and findings must be addressed by all implementers. The responsibility of project coordinator and the accountants at each of implementing agency with regard to addressing issues noted in the internal audit reviews will be disclosed in the FM manual.

44. **Financial Reporting:** Financial reports will be designed to provide high-quality, timely information on project performance to project management, IDA, IFAD and other relevant stakeholders. Peachtree software is capable of producing the required information regarding project resources and expenditures. Duties of each implementing entity in preparing regular financial reports are explained below:

- a. Based on the regular reports received from the four RPCUs, it is the responsibility of FPCU to prepare consolidated quarterly unaudited IFRs, consolidate annual accounts, and facilitate the external audit of the consolidated accounts. IFRs must be submitted to the Bank within 45 days of the quarter end.
- b. RPCUs will each be responsible for submitting regular financial reports to FPCU on a quarterly basis (within 30 days of the quarter end) by consolidating the woreda, RARIs, Regional Cooperative Agencies/Bureaus, and other regional implementers' financial reports.
- c. Woreda finance offices will be responsible for preparing and submitting monthly reports (within 15 days of the end of the month) to RPCUs.
- d. MSTs have the role of ensuring that all woredas submit their report to the RPCUs with acceptable quality. They are also responsible to assist the woredas under them to deliver the required.

45. For monitoring purposes, both FPCU and the RPCUs will send their financial reports to MoFED and BoFEDs, respectively. In addition, the FPCU will submit semi-annual progress reports to MoFA's Planning and Finance and Equitable Development Directorates showing budgeted and actual expenditures, source of funds used, statements of progress achieved on the basis of the agreed upon indicators and the (revised) objectives and financial reports for the forthcoming six months.

46. Formats of the existing IFRs will be revised to better reflect changes in PCDP-3 and provide additional information to users. The IFR format will be developed by FPCU, agreed with IDA during project negotiations, and will be included in the FM Manual. The format of IFRs will be produced from the PCDP-3 accounting system (the report should not compile transactions from

separate systems, as this procedure could lead to inefficiency and inaccuracy). The IFR will include:

- a. A statement of sources and uses of funds and opening and closing balances for the quarter and cumulative;
- b. A statement of uses of fund that shows actual expenditures, appropriately classified by main project activities (categories, components, and sub-components). The IFR, for the seed grant to the SACCO, will report the grant under the relevant sub component as expenditure once the money has been transferred to the SAACCO. Actual versus budget comparisons for the quarter and cumulative will also be included;
- c. A statement on movements (inflows and outflows) of the project Designated Account, including opening and closing balances;
- d. Expenditure forecast for the next two quarters together with the cash requirement;
- e. Notes and explanations; and
- f. Other supporting schedules and documents.

47. In compliance with International Accounting Standards and IDA requirements, the FPCU will produce annual financial statements similar to the contents of the quarterly IFRs. The annual financial statement will be similar to the IFRs with some modifications as to be indicated in the audit TOR. These financial statements will be submitted for audit at the end of each year.

48. *Lessons learned from PCDP 2 IFR submission and quality* – delay in the submission of IFRs was observed during PCDP 2 particularly midway the project life although the same has been improved during the final year of project implementation. Some of the quality issues raised in review of the IFRs as well as the Bank’s various supervision missions include:

- a. Significant differences noted between the expenditures reported by the RPCUs and the one reflected by the FPCU to report the consolidated IFR which is mainly due to a communication gap between the RPCUs and FPCU as well as the RPCUs and the woredas when it comes to expenditures that are not acceptable or questioned by the higher tier,
- b. Absence of standard format IFRs as part of Woredas and RPCU reporting is a fundamental omission. Since SOEs have been used for replenishing the Designated Accounts (DAs), both woredas and RPCUs have tended to concentrate on the preparation of SOEs hence neglecting the preparation of IFRs. This has had direct impact on the quality of IFRs submitted by the project to the Bank, and
- c. Discrepancies were noted between recorded expenditures in the IFRs and those submitted through SOEs.

49. In order to mitigate the weaknesses noted in the IFR preparation of PCDP 3, the IFR format has been changed from Federal to regional and woreda levels. The new IFR format allows the woredas to simply generate their reports and allow the RPCUs to monitor the performance of the woredas under them. In addition, it will allow for the finance officers at the FPCU level to monitor which woredas did not submit their reports and the exact level of expenditure incurred across the project despite the SOE figures. It also eliminates the possibility of adjusting the SOEs without passing the requisite accounting transactions in the system. The FPCU is committed to

improve the quality of the financial reports that come from woredas and regions. During the preparation mission for PCDP 3, it was agreed that the Bank will review the IFRs to be submitted for PCDP 2 until the appraisal of PCDP 3 to see if there are improvements in the quality of IFRs. Accordingly it has been noted that the submitted IFRs for the last three quarters were meeting the Bank's reporting requirement.

50. **Auditing:** Annual audited financial statements and audit report (including Management Letter) of the project will be submitted to IDA within 6 months from the end of the fiscal year. The annual financial statements will be prepared in accordance with the International Financing Reporting Standards (IFRSs) and include the statements mentioned above with supporting schedules and other information. The formats of the annual financial statements are already included in the FM Manual. The draft annual financial statements will be prepared within 3 months of the end of fiscal year and provided to the auditors to enable them to carry out and complete their audit on time.

51. The audit will be carried out by the Office of Federal Auditor General (OFAG), or a qualified auditor nominated by OFAG and acceptable to IDA. The OFAG had nominated a professional auditing firm to carry out the audit of PCDP-2. To ensure rotation of auditors in line with good practice, private auditors would have a maximum term of 3 years (non-renewable).

52. The auditor would express an opinion on the project financial statements. The audit will be carried out in accordance with the International Standards of Auditing (ISA) issued by the International Federation of Accountants (IFAC). The scope of the audit would also cover the reliability of the IFRs and the use of the Designated Account. The auditor will also provide a Management Letter which will inter alia outline deficiencies or weakness in systems and controls, recommendations for their improvement, and report on compliance with key financial covenants. The terms of reference for the audit will be agreed during negotiation and will be included in the FM Manual.

53. The auditor will prepare a work plan to ensure adequate coverage of the various institutions that receive project funds and cover all the major risk areas. Given the large number of institutions and to meet the timetable for completion of the annual audit, the auditor will carry out interim audits semiannually following the audit plan. Sub projects under the CIF will also be reviewed in sample basis in addition to the woredas. The interim audits are not a separate exercise, but are intended to facilitate the process of the annual audit, and also provide early information to project management to enable them to take corrective actions. The auditor will submit interim audit reports to project Management (FPCU) and the same must be forwarded to World Bank for follow up. The interim audit will be included in the terms of reference for the audit. At the midterm review of the project, the usefulness as well as the frequency of the interim audits will be assessed and a decision as to whether to continue with the initial design or alternative schedules will be discussed and agreed.

54. The audit of PCDP 2 for the financial statement of the year ended July 7, 2012 were qualified due to two main reasons, one being similar to the case of FY 2011 which revealed that the auditors were not recruited hence were not able to observe cash and inventory count at the year-end for an amount of ETB 573,561 and the second being the auditors did not obtain supporting



documents and explanations required for the purposes of the audit for expenditure with an aggregate value of ETB 3,099,857. The management letters issued by external auditors revealed similar internal control weaknesses throughout the four years although the final audit report for the year ended July 7, 2012 revealed graver audit findings. Some of the findings could be classified as ineligible unless the status report shows the appropriate action taken on these findings. For PCDP 2, the FPCU prepared audit findings action plan to address all the audit findings raised by the auditors in the management letters and forwarded the same to the regions and the Bank. Status report for all audit findings has also been submitted.

55. Based on lessons learned from PCDP 2, the external auditors for PCDP 3 should be recruited two months after effectiveness to ensure that the auditor will be able to plan and conduct the interim audits as well as be present for yearend closure procedures. This will ensure that one of the qualification points for the audit of PCDP 2 is addressed. In addition, all audit findings indicated by the auditor in the management letter should be translated in to an action plan and communicated to all regions within one month of the receipt of the audit reports. The status report on the actions taken to rectify the audit findings should be communicated to the Bank within two months of sending out the action plan. The internal audit unit within the project has a responsibility to ensure that all implementers have taken action on the findings appropriately. The actions needed with this regard are reflected in the Agreed action plan for financial management.

<i><b>Audit Report</b></i>	<i><b>Due Date</b></i>
The project annual audit report – by FPCU	By January 7 of each year
Semi-annual audit reports – by FPCU	90 days after the end of six months

56. In accordance with the Bank’s policies, the Bank requires that the borrower disclose the audited financial statements in a manner acceptable to the Bank; following the Bank’s formal receipt of these statements from the borrower, the Bank makes them available to the public in accordance with The World Bank Policy on Access to Information.

**57. Institutional Oversight:** MoFA will continue to oversee the project implementation and provide overall strategic guidance for PCDP-3 implementation, oversight over the plans and budgets of the implementing institutions at the regional level, review and approve the plans of the federally mandated implementing institutions, and ensure that agreed performance targets and timelines are met. Consistent with these oversight functions, MoFA will provide overall oversight over FM aspects of PCDP-3 and discuss the internal and external audit reports relating to the Project, the management’s response and actions taken on these reports.

### **FM staffing/Capacity**

58. Experience from the previous phases of PCDP has demonstrated the need for FM support and capacity-building mechanisms to be built into project design. Within the PCDP-3, mechanisms would be established and revised, based on implementation progress, at the federal and/or regional levels to provide support to regions and Woredas and to assist project management in FM.

59. The staffing requirement of PCDP-3 is indicated below:

- a. The FPCU will be staffed with one senior financial officer, two accountants and one assistant accountant within the project unit at MoFA;
- b. The 4 RPCUs will be staffed with one finance officer; accountants (2 for Somali and 1 each for Oromiya and Afar regions) and one assistant accountant for all regions. These accountants will sit in the offices of the Regional Pastoral Development Commission/ Bureaus;
- c. All woredas, including the new woredas for PCDP-3, will have one accountant each for implementing PCDP-3 which will sit in the WoFEDs and are accountable for the office head;
- d. All MSTs to be established under PCDP-3 ( 1 MST for 3-4 woredas) will have one accountant in the team who will be responsible for building the capacity of the woredas, fill in vacant woreda positions, monitor FM aspects of the woredas and assist on the job; and
- e. The internal audit unit of the FPCU currently has one auditor at the federal and regional level. The same staffing will be maintained and additional auditors as necessary will be recruited to strengthen the internal control aspect of the project as needed given that the government internal audit units are not assisting projects. The internal auditors will have dual accountability to both the FPCU and the State Minister of MoFA. Similarly, at the regional level, they will be accountable to the RPCU and the head of the Regional Pastoral Development Bureau/Commission.

60. The duties and responsibilities of these accountants will be explained in detail in the FM manual which will be updated. Staffing adequacy in all project institutions will be monitored during implementation and additional staff needs, if any, will be identified and filled.

### **FM Support and Capacity Building.**

61. Experience from other projects and the previous phases of PCDP have demonstrated the need for FM support and capacity building mechanisms to be built into project design. Within the PCDP-3, mechanisms would be established at the Federal and/or regional levels to provide support to Regions and Woredas, and to assist project management on FM aspects.

- a. The FPCU will provide FM support to help the various institutions (including RPCUs, WoFEDs, MSTs, RCAs, and others ) implement the FM arrangements through the financial management specialists which are recruited and currently working at the federal level. Their functions will, inter alia, include: (i) initial dissemination and orientation training to new woredas and MSTs; (ii) hands-on implementation support and troubleshooting on PCDP FM aspects; (iii) periodic training; (iv) updating of the FM manual as needed; (v) carry out any FM-related technical work or studies; (vi) prepare progress reports on FM aspects; and (vii) support in consolidation of financial reports, preparation of IFR and annual financial statements.
- b. The RPCU financial management officers have the responsibility to oversee the MSTs, RARIs, RCAs and woredas under them. They will be responsible for

receiving progress reports from MSTs with regards to the financial management of the woredas, monitoring of action taken on internal and external audit findings, focus the training areas of MSTs in the direction needed the most amongst others.

- c. The MSTs, in addition to the capacity building and training they will provide to the woredas, will produce quarterly progress report with regards to the financial management of the woredas under their supervision. The report will include, the staffing status, monitoring of budget, accounting and transaction recording, internal control procedures including any findings of the internal audit review, management of fund, financial reporting and follow up of external audit report findings. The content of the supervision reports to be produced by the MSTs will form part of the FM manual.
- d. It has been suggested that the FPCU would enter into contract with a training providing firm, as needed, to ensure that the capacity building within the project is continuous, progressing and value adding. A continuous capacity building activity within PCDP-3 is essential, particularly given the locations it operates in. Ad hoc trainings will not add much value to the Project.

**62. FM-related costs included in PCDP-3 work plans and budget.** The costs of: (i) Accountants noted above; (ii) audit costs; and (iii) related logistics and supervision costs (e.g., transportation, per diem and accommodation while travelling) will be included in the PCDP-3 work plans and budget.

#### *Financial management risk assessment, strengths, weaknesses, lessons learned, action plan*

**63. Risk assessment:** The financial management risk of the project is Substantial. The mitigating measures proposed in the action plan will help to reduce the risk of the project once implemented and applied during project implementation.

**64. Strength and weaknesses:** PCDP-3 will inherit the various strengths of the country's PFM system. As discussed earlier, several aspects of the PFM system function well, such as the budget process, classification system, and compliance with financial regulations. Significant ongoing work is directed at improving country PFM systems through the government's Expenditure Management and Control sub-program. The government's existing arrangements are already being used in a number of projects, including PSNP-3 and PBS, which are under implementation. PCDP also benefits from the country's internal control system, which provides sufficiently for the separation of responsibilities, powers, and duties, and it benefits from the effort being made to improve the internal audit function. Strength for the project is MoFA's extensive experience in handling Bank-financed projects. The availability of steering committees both at the federal and regional levels is an advantage to the project in enhancing its internal control.

**65.** The main weaknesses in FM arrangements continue to be high turnover and a shortage of qualified accountants and auditors (mainly at the woreda level), delays in reporting, the limited

focus of internal audit, and the largely ineffective internal audit function of the government. The long process involved in producing reports (from the woredas to the regions, and from the regions to federal) may delay timely submission of financial reports to the development partners.

**66. Experiences from PCDP-1 and PCDP-2 and actions taken:** The major weaknesses consistently noticed in PCDP-1 and PCDP-2 is the high staff turnover caused by the low conducive incentives and delayed submission of quarterly financial reports and yearly audit reports. Internal control weaknesses were noted repeatedly in the Bank’s supervision missions as well as external and internal audit reports. To address these challenges, the following elements have been incorporated to PCDP-3:

- a. The qualification level of the accountants at the woreda level will be enhanced from Diploma level to Degree level;
- b. New accountants at the MSTs will play a vital role for the 3 – 4 woredas they handle. Previously, although the MST structure was available, they were not equipped with a finance person hence their contribution towards enhancing the effectiveness of the FM system was very small. The MSTs will play a role in backstopping the woreda accountants, providing on the job training, ensuring timely submission of reports, monitoring action taken on both external and internal audit report findings and preparing FM supervision reports quarterly;
- c. To ensure that audit reports are submitted on time and actions taken in a timely manner on the findings, a semi-annual interim audit will be conducted by external auditors. The interim audits will feed in to the annual Audit Reports.
- d. The FM manual is revised particularly to simplify the reporting requirement at the woreda level and the overall consolidation process. In addition, segregation of duty for administrative issues has been made for finance officers to help them focus more on the financial activities of the project; and
- e. PCDP 3 builds on the accountability and awareness created in PCDP 1 and particularly PCDP 2. Actions taken on individuals who have not preformed their responsibilities as required has helped through time to raise the accountability within the project.

**67. Financial Management Action Plan:** Factoring in the above strengths and weaknesses, the inherent and control risk of the project is rated as substantial. However, the following actions are agreed to be performed in view of mitigating the identified risks in the project.

**FM Action Plan**

	Action	Date due by	Responsible
1	Revising the FM Manual in terms of budget preparation time frame, chart of accounts, duties and responsibilities of the new accountants at the MSTs, the qualification criteria, financial reporting formats, and auditing issues; manual will further be strengthened in the area of community contribution management, responsibility in addressing internal audit findings, audit terms of	By effectiveness	FPCU

	Action	Date due by	Responsible
	reference, etc.		
2	Recruit finance officers for all MSTs and new woredas established under PCDP-3.	Within 3 month after effectiveness.	FPCU and RPCUs
3	Training will be provided in the FM Manual, with particular emphasis on budget preparation and variance analysis, accounting including community contribution, reporting, and fund flow arrangements.	Initial training to be given within 4 months after project effectiveness.	FPCU and RPCUs
4	Explore the possibility of using IBEX in a stand-alone basis in consultation with MoFED	Consultation to begin immediately with the assumption of moving the project to full IBEX roll out within two years of implementation	FPCU/MoFED
5	External audit for PCDP 3 <ul style="list-style-type: none"> <li>a) Recruitment of external auditors at early stages of the project.</li> <li>b) Closing annual financial statement</li> <li>c) Ensure that the external auditor has complied with the audit TOR provided to it.</li> <li>d) Prepare audit action plan for all findings reported by the auditor</li> <li>e) Preparing status report on action taken on audit report findings</li> </ul>	<ul style="list-style-type: none"> <li>a) Within 3 months of effectiveness.</li> <li>b) 3 months after the end of the fiscal year</li> <li>c) Ongoing on yearly basis</li> <li>d) 1 month after receipt of the audit report</li> <li>e) 3 months after the receipt of the audit report</li> </ul>	<ul style="list-style-type: none"> <li>a) OFAG/FPCU</li> <li>b) FPCU and RPCU</li> <li>c) FPCU</li> <li>d) FPCU</li> <li>e) FPCU, RPCU and internal audit unit</li> </ul>
6	Appropriate and timely action will be taken by all implementers on internal audit findings	Within one month after the internal audit unit releases its report	Project coordinators at FPCU and RPCUs
7	Continuous training will be conducted. Budget analysis training, IFR preparation training, and other themes to be covered.	<ul style="list-style-type: none"> <li>a) Once a year in several clusters for all the woredas</li> <li>b) Annual training for implementing entities by region. During such time, review of each region's FM performance will be discussed and tailored training will be given to each region.</li> </ul>	FPCU/RPCU
8	Annual budget for the project should be proclaimed as part of MoFA's appropriation	Every year following the government budget calendar	FPCU
9	MSTs should conduct regular field visits to support as well as monitor the performance of WofEDs and produce reports to RPCUs.	Quarterly.	MSTs/RPCUs

	Action	Date due by	Responsible
10	Woreda annual budgets will be disseminated in a transparent and consistent manner to all concerned stakeholders, particularly woreda accountants	Annually, within two months of the start of the Ethiopian fiscal year	FPCU/RPCU
11	Increased engagement of internal audits at all levels to identify control weaknesses early. In this respect, workshops or capacity building activities/training will be conducted for auditors at federal and regional level.	Starting from the first quarter of implementation and annually.	FPCU/RPCU
12	To ensure proper cut off of expenditures for PCDP 2 and 3 particularly for the overlapping period a) Opening separate bank accounts for PCDP 3 b) Clear and separate budget breakdown for PCDP 2 and 3 activities; c) The first interim audit under PCDP 3 will give emphasis on SOE review on sample basis to ensure that there is no double dipping of funds and d) A separate exercise of SOE review could be conducted for the overlapping period to ensure that expenditures are reflected in the appropriate phase of the project.	a) and b) Immediately after project effectiveness  c) 1 <sup>st</sup> interim audit for the period ending January 7, 2015 d) March 2015 ( after the grace period for IFAD financing ends)	FPCU/world Bank

### Financial management covenants and other agreements

68. FM-related covenants in the Financing Agreement would include: (a) maintenance of a satisfactory FM system for the program; (b) submission of IFRs for the program for each fiscal quarter within 45 days of the end of the quarter; and (c) submission of annual audited financial statements and Audit Report within six months of the end of each fiscal year;

69. Other dated covenants for the project will include (a) the recruitment of MST and woreda accountants 3 month after effectiveness<sup>45</sup>; and (b) provide initial training to all regions, MSTs and woredas within 4 months after effectiveness.

#### Supervision plan

70. The FM risk for the PCDP-3 is rated substantial. Consequently the project will be supervised twice per year. After each supervision mission, risk will be measured and recalibrated accordingly. Supervision will be carried out in coordination with other development partners (IFAD) and will include:

- a. On-site visits to the various project institutions at all levels, including FPCU, RPCUs, and a sample of WoFEDs and other implementing entities. These visits would include a review of controls and the overall operation of the FM system;

<sup>45</sup> Major fund is not expected to flow to woredas during the first year after effectiveness. For component 1 and 2 which constitute major spending areas for woredas will only be implemented during the second year of implementation, the first year being dedicated to planning, forming community groups, trainings among the others.

- review of internal audit, selected transaction reviews, and sample verification of existence and ownership of assets;
- b. Reviews of IFRs and follow-up on actions needed; and
  - c. Review of Audit Reports and Management Letters, and follow-up on actions needed.

**71. Governance and Anti- corruption and control of soft expenditures.** Measures to tackle fraud and accountability aspects within the project should they arise will follow GoE systems set up to fight the scourge. The GoE established the Federal Ethics and Anti-corruption Commission of Ethiopia (FEACC) in May 2001 to tackle corruption and impropriety before it becomes rampant and widespread. Its objectives are (a) to strive to create an aware society where corruption will not be condoned; (b) in cooperation with relevant bodies, to prevent corruption offences and other improprieties; and (c) expose, investigate and prosecute corruption offences and improprieties. MoFA and most of public bodies have Anti-corruption Officers who have the responsibility of acting on suspected incidents of fraud, waste, or misuse of project resources or property. Employees of the ministry are advised to raise any governance and anti-corruption concerns with these officers as part of the programs complaint handling mechanism. Beyond the efforts formally built into program design, such as having quarterly financial reports, annual audit reports, Bank supervision missions and internal audit reviews, as part of implementation support, regional staff and citizens will be encouraged to report any cases of suspected fraud and corruption to resident Federal Ethics and Anti-corruption Commission. The governance and Anti- corruption matrix is depicted in Annex 9.

**72. Social accountability mechanisms.** Given that PCDDP is a CDD project, establishing a good social accountability mechanism is essential for sustainability and accountability within as well as beyond the project life. At the community level, social accountability mechanisms will include functioning of community/social audit committees, complaint handling mechanisms, public posting of budget and other information, participation in community meetings, and downward feedback mechanisms, supervision and monitoring of the sub projects by the communities. At the project level, the accountability will be enhanced through participatory monitoring system, and independent process monitoring to independently determine how effectively the project is running and to identify ways to improve quality of implementation and processes.

**73. Control of soft expenditures.** A number of measures to strengthen the controls related to soft expenditures (e.g., per diems, travel, accommodation, fuel, training, workshop and seminar costs) are described in the FM Manual. In addition the FPCU had prepared a separate guideline with guidance on how such soft expenditures could be better controlled within the project. This guideline will be incorporated in the FM manual which is to be updated. The project financial officers and coordinators will be responsible for ensuring that the management controls specified in the FM Manual are enforced. These controls included:

- a. Procedures for Budgeting and Acquitting of Expenditures for Workshops. This will include for example, controls on attendance, controls against budgeted expenditures, and the Finance Section undertaking verification (including where appropriate spot checks);
- b. Procedures for control of fuel; and

- c. Maintenance of Advance Records.

## **Funds Flow and Disbursement Arrangements**

74. ***Designated Account and Disbursement Method:*** Funds flow into the project and within the project among various institutions is depicted in the Figure below. IDA funds will be deposited in to a separate designated account to be opened at the National Bank of Ethiopia (NBE). Funds from IFAD will be deposited in to a separate foreign currency denominated designated account to be opened at the NBE. The authorized ceiling of the Designated Account would be two quarters forecasted expenditure based on the approved annual work plan and budget. Funds from the two separate accounts will be further transferred in to pooled Birr account to be held by MoFA. From the pooled local-currency account, MoFA will transfer funds to separate local-currency accounts to be opened by the four regions. MoFA will sign a MoU with FCA and EIAR (as necessary) and transfer funds accordingly to the agency for the components that it will implement.

75. Each of the RPCUs and existing woreda finance offices will open separate bank accounts for PCDP 3 to ensure that expenditures of PCDP 2 and 3 are reported in their appropriate period given that the IFAD resources for PCDP 2 will only be closed in November 2014, more than 6 months after PCDP 3 becomes effective. RPCUs will transfer funds to woredas, RARIs and RCAs. All the new woredas under PCDP 3 will open separate local-currency accounts to receive funds from their respective regions. The fund flow to each implementing entity will be made according to its respective annual work plan and budget. Any implementing entity that does not report in a timely manner on how the advance is expended will not receive additional funds until the initial advance is reasonably settled. The FM Manual will indicate in detail the fund flow to each tier of implementing entity.

76. Before transferring any money to the lower level, the FPCU and RPCUs will ensure that separate bank accounts have been opened for the project and there are adequate financial management systems including financial management staff capable of producing the required financial deliverables.

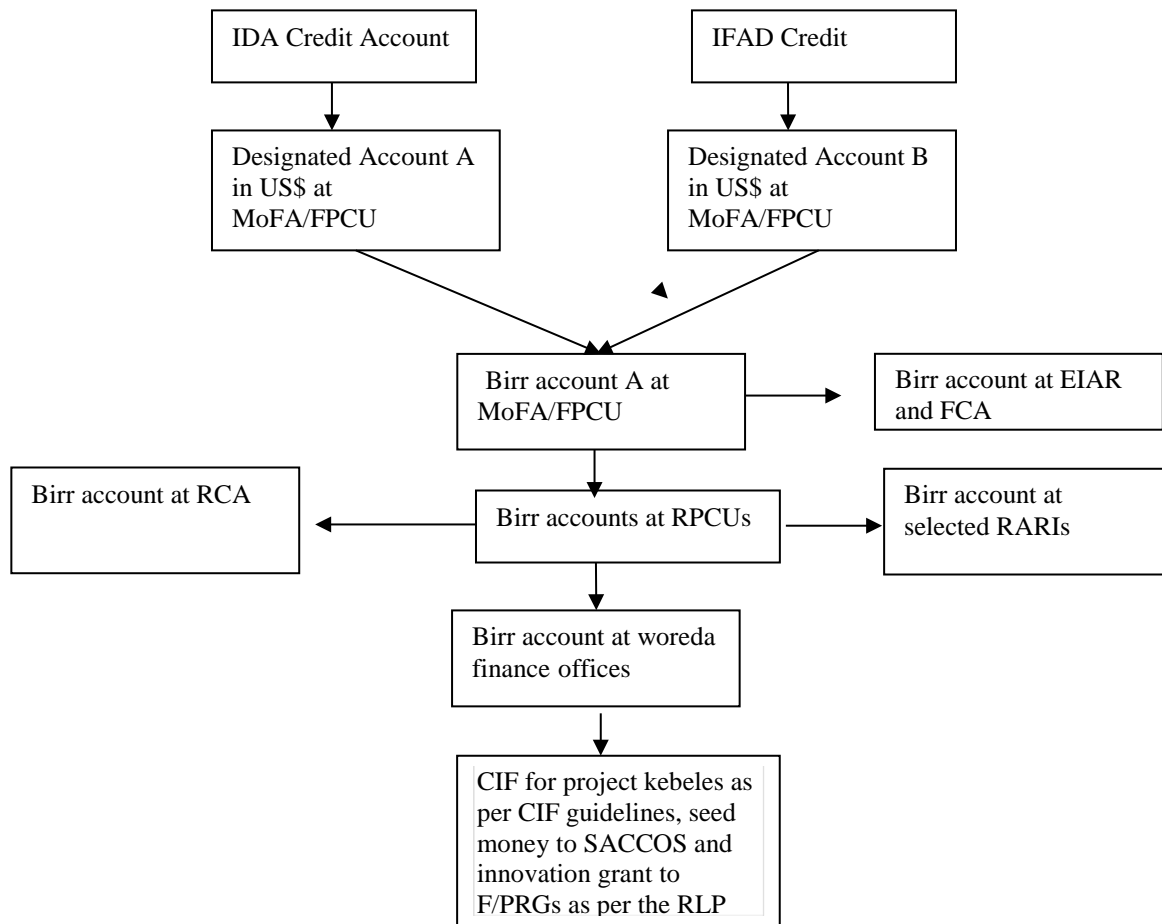
77. ***Fund flow to CIF component*** – fund will be disbursed from the woreda to the community for implementation of the sub projects by the community. The detail procedure for the implementation and pre requisite measures is outlined in the PIM as well as the CIF manual. The community will report back actual expenditures to the woreda and the woreda will document the same under the appropriate expenditure category.

78. ***Fund flow SACCOs*** – the savings leverage grant for established SACCOs which meet the required eligibility requirements will receive the grant directly from the woreda and will be treated as a grant once the fund is disbursed to the SACCOs i.e. the woreda will recognize expenditure once the grant is disbursed to the SACCOs. Detail procedure of the transfer as well as eligibility criteria as depicted in the PIM as well as the RLP operation manual. The project's M&E system will include reporting on use of the savings leverage fund to monitor that it is on lent to SACCO members for agreed purposes and/or activities.



79. **Fund flow Innovation grant** – the innovation grant to support the F/PRGs established under the project will be transferred through the woreda to the researcher assigned for the respective F/PRGs. The researcher will report back on the fund utilization and hence the woreda will report on actual expenditures. Only the operating cost for implementing sub component 2.3 will be transferred to RARIs.

80. The fund flow arrangement for the project is summarized in the following chart.



81. **Disbursement mechanism** - The project may follow one or a combination of the following disbursement methods: Designated Account, Direct Payment, Reimbursement and Special Commitment.

82. **Disbursement method** – both in PCDP 1 and 2, the project used Transaction-Based Disbursement through the use of statement of expenditures (SoE) to receive funds into its designated accounts. It has been noted that during the last two phases, fund flow constraint was a serious issue mentioned in various implementation support and supervision missions by the project team. The matter was more aggravated in PCDP 2 due to the increase of woredas, number of CIF sub projects and the budget cap for each sub project being increased from US\$35,000 to US\$50,000. Given that the project is a CDD and most procurement are handled by the

communities themselves which usually takes more time, fund has been tied up at lower level hence affecting the overall fund flow within the project.

83. Considering the above fund flow concerns as well as the current obstacles observed in the use of traditional based disbursement method, and given that the number of woredas will double from that of PCDP-2, which is likely to exacerbate fund flow problems, a report based disbursement method on the basis of quarterly un-audited IFRs with two quarters forecast will be used for PCDP-3. The decision to move to this disbursement method was made upon a review of the quality of IFRs (for PCDP-2) submitted to the Bank for the three quarters prior to appraisal and a determination that the project team will be able to produce reliable financial reports which could then be used for releasing funds into the project under PCDP-3. The following factors influenced the decision to move to a report based disbursement method under PCDP-3:

- a. The last 3 quarters IFRs were received timely and were acceptable to the Bank as meeting the required standard;
- b. It was noted that with SOEs procedure, “transfers” to Woredas remain “advances” in the books of the RPCU until full accountability via the SOEs. Hence expenditure incurred at Woredas was not necessarily reported at the correct time, and at consolidation level by RPCU will be reported as “advances”. This is understatement of expenditure and thus misleading. IFRs would eliminate this situation;
- c. The SOE procedure has encouraged a tendency of not maintaining proper accounting records by some Woredas, because the expenditure they report is simply an aggregation of SOEs;
- d. Collecting SOEs from over 100 woredas for replenishing the designated account will be a daunting task and could possibly put the project under fund flow constraint as was seen in PCDP 2; and
- e. The IFR based disbursement facilitates for a clear apportionment of expenditure between the existing financiers, IDA, IFAD and the Government.

84. To facilitate for the report based disbursement, it has been noted that some of the reporting requirements of the woredas could further be simplified and designed to resemble the normal government finance reporting formats to ensure that any accountant in the woreda can handle the reports. Accordingly, the FM manual of the project has been revised to incorporate simplified reporting formats for woredas, better mechanisms of controlling reports by the RPCUs and better consolidation and reporting mechanisms for the FPCU. These and other actions which could help to improve the financial reporting aspect of the project are included in the action plan and the risk mitigating measures.

85. The allocation of IDA Credit and Grant proceeds will be based on the project components. This will facilitate the monitoring of the project performance indicators as well as financial aspects since expenditures are directly allocated to components. Requests for replenishment of the Designated Account for expenditures incurred under each component will be based on expenditures incurred at the implementing agencies for which justification of utilization has been provided.

86. The FPCU will be responsible for paying contractors, service providers and suppliers for all works done, goods procured and services obtained at the federal level. Likewise, RPCUs will be

responsible for effecting payments for all services obtained and goods procured in their offices. Communities will be responsible for the same with respect to the implementation of CIF sub-projects, with support from woreda finance officers if necessary.

87. The financing shares of the respective partners to finance the annual work plan and budget is predetermined as indicated in the financing agreement. Additional information with regards to disbursement (minimum value of application for direct payments, reimbursement and special commitments) will be indicated in the disbursement letter of the project.

88. ***Cutoff for PCDP 2 and 3*** - There is a risk of unclear cut off between PCDP 2 and 3 since the IDA portion of PCDP 2 will be closed on December 3, 2013 and IFAD's contribution will go on till November 2014. To mitigate this, the following has been agreed to and reflected in the action table: (i) opening separate bank accounts for PCDP 3; (ii) clear and separate budget breakdown for PCDP 2 and 3 activities; (iii) the first interim audit under PCDP 3 will give emphasis on SOE review on sample basis to ensure that there is no double dipping of funds; and (iv) a separate exercise of SoE review could be conducted for the overlapping period to ensure that expenditures are reflected in the appropriate phase of the project.

## **Procurement**

### *General Procurement environment*

89. In Ethiopia, for Federal budgetary bodies, public procurement is regulated by the Public Procurement and Property Administration Proclamation No. 649/2009. The Proclamation establishes the Federal Public Procurement and Property Administration Agency (FPPA) as a body responsible for regulation and monitoring of Federal bodies public procurement activities. The nine Regional States and two City Administrations do have their own procurement proclamations and directives which are basically drafted using the Federal ones as prototype.

90. Public procurement is governed by proclamations enacted by the respective regional governments. Currently, all the PCDP-3 implementing regions which include Oromiya, SNNP, Somalia and Afar Regions have issued public procurement proclamations. These Regions have also issued procurement directives which guide the procurement processes in the respective regions. However, the proclamations ratified by regions have not provided for establishing independent procurement agencies (regional PPAs) and the supposedly regulatory bodies in the regions remain as a department within the respective BoFEDs. The fact that the procurement proclamations in the regions have not provided for the establishment of independent oversight bodies including regulatory bodies and complaint hearing boards remains a challenge in the procurement legal and institutional framework in the regions. Moreover lack of capacity in the regulatory departments in the BOFEDs to carry out procurement audits and limitation in internal control mechanisms contribute to the high risk in procurement in the regions.

91. The Ethiopia 2010 CPAR identified weaknesses in the country's procurement system and recommended actions to address these areas. The government has implemented many of the CPAR recommendations, but challenges remain in the areas of: coordination of procurement reforms, shortage of qualified procurement staff, lack of proper institutional structures for

procurement management, weak institutional capacity, absence of appeals mechanism in the regions for addressing stakeholder complaints, absence of systematic procurement performance monitoring and evaluation, and lack of organized effort in capacity building in the area of procurement.

### *General Provisions*

92. Procurement for PCDP-3 would be carried out in accordance with the World Bank's "Guidelines: Procurement under IBRD Loans and IDA Credits" dated January 2011; and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated January 2011, and Bank's Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants Dated October 15, 2006 and the provisions stipulated in the Legal Agreement. The general descriptions of various items under different expenditure category are described below. For each contract to be financed by the Credit, the different procurement methods or consultant selection methods, the need for prequalification, estimated costs, prior review requirements, and time frame are agreed between the Borrower and the Bank project team in the Procurement Plan. The Procurement Plan will be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

93. The procurement of goods, works and non-consulting services will be done using the Bank's Standard Bidding Documents (SBD) for all ICB contracts and for all consultancy services. The Bank has reviewed the SBDs issued by the Federal Public Procurement and Property Administration Agency (PPA) and has found them acceptable with some modifications. National Competitive Bidding (NCB) shall follow the Open and Competitive Bidding procedure set forth in the Ethiopian Federal Government and Procurement and Property Administration Proclamation No. 649/2009 and Federal Public Procurement Directive issued by the Ministry of Finance and Economic Development dated June 10, 2010, provided that such procedure shall be subject to the provisions of Section I and Paragraphs 3.3 and 3.4 of the "Guidelines for Procurement of Goods, Works, and Non-Consulting Services under IBRD Loans and IDA Credits & Grants by World Bank Borrowers" (January 2011) (the "Procurement Guidelines") and the following additional provisions:

- a. The Recipient's standard bidding documents for procurement of goods and works acceptable to the Association shall be used. At the request of the Recipient, the introduction of requirements for bidders to sign an Anti-Bribery pledge and/or statement of undertaking to observe Ethiopian Law against fraud and corruption and other forms that ought to be completed and signed by him/her may be included in bidding documents if the arrangements governing such undertakings are acceptable to the Association.
- b. If pre-qualification is used, the Association's standard prequalification document shall be used.
- c. No margin of preference shall be granted in bid evaluation on the basis of bidder's nationality, origin of goods or services, and/or preferential programs such as but not limited to small and medium enterprises.

- d. Mandatory registration in a supplier list shall not be used to assess bidders' qualifications. A foreign bidder shall not be required to register as a condition for submitting its bid and if recommended for contract award shall be given a reasonable opportunity to register with the reasonable cooperation of the Recipient, prior to contract signing. Invitations to bids shall be advertised in at least one newspaper of national circulation or the official gazette or on a widely used website or electronic portal with free national and international access.
- e. Bidders shall be given a minimum of thirty (30) days to submit bids from the date of availability of the bidding documents.
- f. All bidding for goods shall be carried out through a one-envelope procedure.
- g. Evaluation of bids shall be made in strict adherence to the evaluation criteria specified in the bidding documents. Evaluation criteria other than price shall be quantified in monetary terms. Merit points shall not be used, and no minimum point or percentage value shall be assigned to the significance of price, in bid evaluation.
- h. The results of evaluation and award of contract shall be made public. All bids shall not be rejected and the procurement process shall not be cancelled, a failure of bidding declared, or new bids shall not be solicited, without the Bank's prior written concurrence. No bids shall be rejected on the basis of comparison with the cost estimates without the Bank's prior written concurrence
- i. In accordance with para.1.16(e) of the Procurement Guidelines, each bidding document and contract financed out of the proceeds of the Financing shall provide that: (1) the bidders, suppliers, contractors and subcontractors, agents, personnel, consultants, service providers, or suppliers shall permit the Association, at its request, to inspect all accounts, records and documents relating to the bid submission and performance of the contract, and to have them audited by auditors appointed by the Association; and (2) Acts intended to materially impede the exercise of the Association's audit and inspection rights constitutes an obstructive practice as defined in paragraph 1.16 a (v) of the Procurement Guidelines.

94. The Bank has not as yet reviewed the SBDs for NCB issued by the Regions, if any. Hence all implementing agencies in the PCDP-3 regions will be required to use the SBDs issued by the Federal PPA subject to the above provisions.

**95. Procurement of Works:** Works procured under PCDP-3, would include small works such as schools, human clinics, animal health clinics, water well drilling and other similar works identified as priorities by communities and financed through the CIF. Works procured under other components of the project might also include small scale irrigation schemes and other disaster prevention works. The procurement of works will be done using the Bank's Standard Bidding Documents (SBD) for all ICB contracts. The procurement of works carried out by the communities shall be done in accordance with the Community Procurement Manual issued under PCDP-2 and which shall be updated for PCDP-3. Procurement of works other than those carried out by the communities shall be done using the Bank's SBDs for all ICB contracts and National SBD agreed with or satisfactory to the Bank for NCB contracts.

96. **Procurement of Goods:** Goods and equipment to be procured under PCDP-3 would include vehicles, motorcycles, furniture and office equipment, IT equipment, generators, water pumps and other equipment which are procured at federal, regional and woreda level. At community level mostly procurement of construction materials is carried out. The procurement of goods and equipment carried out at community level shall be done using the procedures laid out in the community procurement manual which shall be updated for PCDP-3. The procurement of pooled purchase carried out at federal and regional level will be done using Bank's SBD for all ICB and National SBD agreed with (or satisfactory to) the Bank.

97. **Procurement of non-consulting services:** Depending on the nature of the services, procurement of non-consulting services, such as transport, will follow procurement procedures similar to those stipulated for the procurement of goods. NCB procedures acceptable to the Bank would be used for contracts above an estimated monetary amount of US\$100,000. Contracts valued at less than US\$100,000 equivalent shall use Shopping procedures in accordance with the provisions of paragraph 3.5 of the Bank's Procurement Guidelines

98. **Selection of consultants:** The project will make use of consultant services for training, technical assistance, and other capacity-building activities, and annual financial audits of project activities. Contracts above US\$200,000 will be awarded through the use of the Quality and Cost-Based Selection method described under Sections 2 of the Consultant Guidelines. Consulting Services for audit and other contracts of a standard or routine nature may be procured under the Least Cost Selection method (LCS) described under Section 3.6 of World Bank Consultants Guidelines. Consulting services of small assignments may be procured through the Selection Based on the Consultants' Qualifications (CQS) method: Shortlists of consultants for services estimated to cost less than US\$300,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines. Contracts for individual consultants will be advertised on national papers of wide circulation to allow for the drafting of shortlists. Single Source Selection may be used where it is to the benefit of the project in accordance with the provisions of paragraphs 3.9 or 5.4 of the Bank's Consultant Guidelines.

99. **Operational Costs:** Expenditures made for operational costs such as fuel and stationery, cost of operation and maintenance of equipment, communication charges, transportation costs, and travel allowances to carry out field supervision will follow Ethiopian Government practices that have been found acceptable to the Bank and included in the PIM.

100. **Training and workshops:** Training and workshops will be based on capacity-building needs. Annual training plans and budget shall be prepared and approved by the World Bank in advance of the training and workshops. Venues for workshops and training as well as purchases of materials for training and workshops will be included as part of the training plan. The selection of institutions for specialized training will be done on the basis of quality and therefore will use the Qualifications Based Selection method.

101. **Margin of preference for domestic goods:** In accordance with paragraphs 2.55 and 2.56 of the Procurement Guidelines, the Borrower may grant a margin of preference of 15 percent in

the evaluation of bids under ICB procedures to bids offering certain goods produced in the Country of the Borrower, when compared to bids offering such goods produced elsewhere.

*Assessment of the agency’s capacity to implement procurement*

102. A procurement capacity assessment of the project was conducted in 2013. The procurement capacity assessment was conducted in the Federal Project Coordination Unit at the Ministry of Federal Affairs, the RPCU of the Southern Region and two Woredas within the Southern Region, the RPCU of the Somali Region and two Woredas in the Somali Region. The assessment reviewed the organizational structure for implementing the PCDP 3 and the interaction between the PCDP staff responsible for procurement at Federal PCU and the RPCUs in the four beneficiary regions. The assessment also looked in to the legal aspects and procurement practices; procurement cycle management; organization and functions; records keeping; staffing; and the procurement environment. As PCDP 3 is expected to be by and large a CDD project the capacity and institutional arrangement at MST and community level was also reviewed. The procurement capacity assessment was carried out using the Procurement Risk Assessment Management System – P-RAMS questionnaires framework which was developed to align with the Bank’s risk based approach. The objective of the assessment is to identify procurement risks during project preparation and implementation stages and to monitor them throughout the project cycle.

103. The assessment has revealed that although efforts are being made to institutionalize procurement in the FPCU and RPCUs of the beneficiary regions, the MSTs and the community procurement committees, there are still key issues and risks which need to be addressed concerning procurement for implementation of the PCDP 3. The key issues and risks concerning procurement for implementation of the PCDP 3 have been identified and include non-compliance to Federal and Regional directives, lack of procurement proficient personnel at all level in procurement cycle management and record keeping in Bank financed projects, lack of skill development schemes to the procurement personnel in the FPCU, RPCU, MSTs and Woredas, procurement planning is not used as a management tool to guide procurement process and as a decision making tool, the pay scale for procurement personnel which is low to attract qualified procurement personnel particularly at MST level and high level of staff turnover at MST level, and the inadequacy of the procurement environment for implementation of projects particularly at Regional and woreda level. At community level procurement activities of the Community Investment Fund (CIF) are carried out by the procurement committees which are drawn from the community. The capacity at this level is particularly of very much concern although this is expected to be mitigated by the mobile support team (MSTs).

104. The identified risks and proposed mitigation measures are provided below.

**Summary of Findings and Actions (Risk Mitigation Matrix)**

No	Major findings/issues	Actions proposed	Responsibility	Targeted date
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No	Major findings/issues	Actions proposed	Responsibility	Targeted date
1.	Inadequate capacity at FPCU and the Regions to handle procurement activities of PCDP 3	<ol style="list-style-type: none"> <li>1. Employment of qualified and procurement proficient consultants acceptable to the Association in the FPCU, RPCUs and MSTs.</li> <li>2. Procurement staff of MoFA, FPCU, RPCUs, and MSTs should be provided with basic procurement training offered at EMI in the procurement of goods and equipment.</li> <li>3. The procurement staff at FPCU shall be provided basic procurement training in selection and employment of consultants offered at EMI.</li> <li>4. Provide procurement staff (FPCU, RPCUs, MSTs) with the necessary facilities to support and supervise implementing agencies at Regional and woreda levels and create a conducive working environment.</li> </ol>	MOFA FPCU/RPCUs	Within the first quarter after the date of project effectiveness
2.	Non-compliance to Federal and Regional Proclamation and Directives including use of incomplete bidding documents, short periods of bidding time given to bidders, use of merit point system and use of direct contracting without proper justification	Federal and Regional PPA to issue reminders to all procuring entities to adhere to Bank as well as Federal/Regional Directives. Staff involved in the Project will be availed guiding documents for procurement and provided adequate training	MOFA/FPCU/RPCU/Regions	By project effectiveness
3.	Inadequate procurement planning at Regional and Woreda level	<ol style="list-style-type: none"> <li>1. Make procurement planning a requirement as part of work plans and budget.</li> <li>2. MSTs shall prepare satisfactory annual procurement plans for their respective Woredas and submit them to the RPCUs for consolidation and approval.</li> <li>3. Train procurement staff in the preparation and use of procurement plans at all levels</li> </ol>	MOFA FPCU/RPCUs	During project implementation
4.	Lack of familiarity with World Bank procedures and the need for written procedural manuals/systems in place including code of ethics	<ol style="list-style-type: none"> <li>1. Revise PCDP 3 procurement manual and PCDP 3 community procurement manual to lay out the procurement procedures of PCDP 3 and to incorporate recent changes in procedures and thresholds;</li> <li>2. Widely disseminate the procurement manual of PCDP 3 to all implementing agencies;</li> </ol>	MOFA/FPCU	By project effectiveness and one month after the date of effectiveness of the project
5.	Lack of capacity for satisfactory data management and maintenance of procurement audit trail	<ol style="list-style-type: none"> <li>1. Training on procurement records keeping to be provided to procurement staff of all PCDP-3 implementing agencies at woreda level</li> <li>2. Establish satisfactory procurement data management system;</li> </ol>	MOFA/FPCU	Within the first quarter after the date of project effectiveness



No	Major findings/issues	Actions proposed	Responsibility	Targeted date
6.	Weaknesses in internal control and weak capacity of procurement oversight at regional, woreda and community level	1. Government to appoint independent procurement auditors to carry out independent procurement audits of the project annually	MOFA/FPCU	Annually at the end of the fiscal year beginning FY 14. To be submitted to the World Bank at the end of the 2 <sup>nd</sup> quarter following the end of the fiscal year
7.	High level of staff turnover particularly at MST level	1. Make employment at MST level attractive to procurement staff by providing the necessary incentives	MOFA/FPC U	During project implementation

### *Assessment of risk*

105. The overall risk for procurement under PCDP-3 is rated ‘high’. Thresholds for prior review and international competitive bidding (ICB), including the maximum contract value for which the shortlist may comprise exclusively Ethiopian firms in the selection of consultants, are presented in Table xx for purposes of the initial Procurement Plan. The procurement capacity of the PCDP-3 implementing agencies will be reviewed annually and the thresholds revised according to the improvements or deterioration in procurement capacity.

### *Procurement Methods and Prior Review Thresholds*

Category	Prior Review Threshold (US\$)	ICB Threshold (US\$)	National Shortlist Maximum Value (US\$)
Works	≥ 5,000,000	≥7,000,000	NA
Goods	≥ 500,000	≥1,000,000	NA
Consultants (Firms)	≥200,000	NA	<200,000
Consultants (Engineering and works supervision)	≥ 300,000	NA	< 300,000
Consultants (Individuals)	≥100,000	NA	NA

106. First two (2) contracts of each procurement method, irrespective of their amount, will be subject to IDA prior review in accordance with paragraphs 2 and 3 of Annex 1 of the World Bank’s Procurement Guidelines as part of risk mitigation measures. All ICB contracts shall be subject to IDA prior review. All NCB contracts with contract amounts above the prior review threshold shall be subject to IDA prior review.

107. Direct contracting and single source selection can be used when it is considered beneficial to the Borrower. Under this project there might be circumstances which justify direct contracting by woreda implementing agencies and CPCs at the community level, where there is only a single supplier, labor contract or service provider for the provision of small value goods, works and

services. For such contracts which fall below an estimated cost of USD\$2,000 the implementing agency can undertake direct contracting but has to provide detailed justification underlying the selection of such a procurement method and has to obtain approval from the head of the implementing agency as per the procedures provided in the Procurement Directives of the Federal Government and the respective Regions. Direct Contracting and single source selection estimated to cost US\$2,000 and above by woreda implementing agencies and CPC and all direct contracting by regional and federal implementing agencies shall require Bank prior review.

### *Procurement Plan*

108. The Borrower, at appraisal, has prepared a Procurement Plan for the first 18 months of the project life for project implementation which provides the basis for the procurement methods. This plan is agreed between the Borrower and the Project Team and is available at the FPCU. It will also be available in the Project's database and in the Bank's external website. The Procurement Plan will be updated by the Project Team annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

109. Because the PCDP-3 is a CDD project, the particular community based schemes such as schools, clinics, animal health facilities, drilling of water wells and hand pumps, and other facilities to be rehabilitated or constructed will be identified in consultation with the beneficiary communities during project implementation. Hence the procurement plan will only include some contracts which are readily identified to be procured at the FPCU and at regional levels.

### **Goods and non-consulting services**

- a. List of contract Packages which will be procured following ICB and other procurement methods
- b. ICB contracts estimated to cost above US\$1,000,000 for Goods and non-consulting services and NCB contracts estimated to cost above US\$500,000 for Goods and Non-consulting services and ICB contracts estimated to cost more than US\$7,000,000 for Works per contract NCB contracts estimated to cost more than US\$5,000,000 and all direct contracting will be subject to prior review by the Bank.

### **Consulting services**

- a. List of Consulting Assignments
- b. Consultancy services estimated to cost above US\$300,000 for consultancy services for design and supervision and contract administration of works and contracts to cost above US\$200,000 per contract for other consultancy assignments and single source selection of consultants (firms), regardless of the contract amount, will be subject to prior review by the Bank.
- c. Short lists composed entirely of national consultants: Short lists of consultants for services estimated to cost less than US\$300,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 3.7 of the Consultant Guidelines.
- d. All consultancy services for the selection and employment of procurement and legal consultants, regardless of the contract amount, shall be subject to Bank's prior review.

- e. TORs for all contracts shall be cleared by the Bank.
- f. The selection of individual consultants will normally be subject to post review. Prior review will be done in exceptional cases only, e.g., when hiring consultants for long-term technical assistance or advisory services for the duration of the project and prior review of these contracts will be identified in the procurement plan.

*Frequency of Procurement Supervision*

110. In addition to the prior review supervision to be carried out from the Bank, the capacity assessment report of the Implementing Agency has recommended semiannual supervision missions to visit the field to carry out post review of procurement actions.

*Legal covenant, from procurement aspect*

111. Annual Independent Procurement Review by a consultant to be assigned by MoFA, starting FY 14.

### 1. List of Goods Contract Packages to be procured during the initial 18 months of the project

S.N	Package No	Contract description	Estimated cost US\$(000)	Procurement method	Pre-qualification Yes/No	Domestic preference Yes/No	Review by the Bank Prior/Post	Expected bid document issuing date	Expected Contract signing	Remarks
1	FPCU/G/ICB-1/2014	Vehicles and motor cycles (124 Vehicles for MoFA, FPCU, RPCU's, new woredas and new MST"s and 196 motorcycles for woreda offices and cooperative support)	\$9464.21	ICB	No	No	Prior	20/3/14	23/6/14	
2	FPCU/G/ICB-2/2014	Computer equipment and e-Videos (461 desk top computers, 230 laptops, 14 faxes and 80 e-videos) for capacity building to FPCU, RPCU, and MST)	\$950.50	ICB	No	No	Prior	31/3/14	17/7/14	
3	FPCU/G/N CB-1/2014	Office furniture (Office sets and file cabinets for FPCU, RPCU's, MST's and Woredas)	\$79.74	NCB	No	No	Prior	21/3/14	19/5/14	
4	FPCU/G/N CB-1/2014	Publication on pastoral issues for federal and regional resource units	\$3.50	Shopping	No	No	Prior	3/11/14	1/12/14	
		<b>Total</b>	<b>\$10,497.95</b>							

## 2. Consulting Services

S.No	Package No.	Contract description	Estimated cost \$(000)	Selection method	Bank Review (prior/Post)	Expected EOI issue date	Expected Contract signing	Remarks
1	FPCU/C/QCBS-1/14	Market study and value chain analyses at woreda level for identification of livelihood opportunities	\$650.20	QCBS	Prior	23/10/14	14/4/15	
2	FPCU/C/QCBS-2/14	Policy and implementation study at Federal and regional level	\$89.47	QCBS	Prior	22/9/14	30/1/15	
3	FPCU/C/QCBS-2/14	Development of impact evaluation methodology and baseline survey	\$65.27	QCBS	Post	24/4/14	22/8/14	
4	FPCU/C/IC-1/14	TA for training and the development of training manuals and materials (training of core team)	\$26.42	IC	Post	18/3/14	28/4/14	
5	FPCU/C/IC-2/14	TA to integrate experience of PCDP into DRM and SPIF	\$10.53	IC	Post	25/3/14	9/5/14	
6	FPCU/C/IC-3/14	Development of detailed operational manuals on how to incorporate CIF into Woreda budget	\$30.00	IC	Post	18/3/14	28/4/14	
7	FPCU/C/IC-4/14	TA for PRM programming	\$3.00	IC	Post	21/4/14	30/5/14	
8	FPCU/C/IC-5/14	Study of minimum standards for extension and veterinary services	\$52.63	IC	Post	30/4/14	12/6/14	
9	FPCU/C/IC-6/14	Assessment of SACCO's in pastoral areas and formulation of road map for SACCO support	\$3.00	IC	Post	30/4/14	12/6/14	
10	FPCU/C/IC-7/14	Training of woreda sector offices on provision of basic services to mobile communities	\$26.42	IC	Post	18/3/14	28/4/14	
11	FPCU/C/IC-8/14	Specialized training on knowledge management for FPCU, RPCU and KM officers	\$7.30	IC	Post	18/3/14	28/4/14	
12	FPCU/C/IC-9/14	FM training for new FPCU, RPCU and FM specialists and accountants	\$18.42	IC	Post	18/3/14	28/4/14	
13	FPCU/C/IC-10/14	Procurement Certification training @EMI for MST, RPCU, and FPCU	\$36.86	IC	Post	18/3/14	28/4/14	

S.No	Package No.	Contract description	Estimated cost \$(000)	Selection method	Bank Review (prior/Post)	Expected EOI issue date	Expected Contract signing	Remarks
14	FPCU/C/IC-11/14	MIS training	\$7.9	IC	Post	18/3/14	28/4/14	
15	FPCU/C/IC-12/14	IT training	\$32.90	IC	Post	18/3/14	28/4/14	
16	FPCU/C/IC-13/14	Peach tree training	\$18.42	IC	Post	18/3/14	28/4/14	
17	FPCU/C/IC-14/14	Specialized training for MSTs on gender and safeguards	\$28.42	IC	Post	18/3/14	28/4/14	
18	FPCU/C/IC-15/14	M&E training for FPCU & RPCU M&E officers	\$13.16	IC	Post	18/3/14	28/4/14	
19	FPCU/C/IC-16/14	Translation of M&E manual into local language	\$15.00	IC	Post	20/5/14	4/7/14	
20	FPCU/C/IC-17/14	TA for adopting and testing of CIF manuals	\$52.63	IC	Post	20/4/14	29/5/14	
21	FPCU/C/IC-18/14	TA for translation of CIF/RLP manuals for community use	\$21.05	IC	Post	18/3/14	28/4/14	
22	FPCU/C/IC-19/14	TA for preparation of woreda and kebele planning and budgeting guideline	\$21.05	IC	Post	20/4/14	29/5/14	
23	FPCU/C/IC-20/14	Review of planning and budget guidelines and training	\$52.63	IC	Post	30/5/14	11/7/14	
24	FPCU/C/IC-21/14	TA to translate final planning and budget guideline	\$21.05	IC	Post	3/7/14	18/8/14	
25	FPCU/C/IC-22/14	Website design on pastoralism in Ethiopia	\$27.17	IC	Post	21/7/14	27/8/14	
26	FPCU/C/IC-23/14	Selection of project Coordinator	\$13.33	IC	Post	6/1/14	12/3/14	
27	FPCU/C/IC-24/14	Selection of CDSP senior officer	\$9.48	IC	Post	6/1/14	12/3/14	
28	FPCU/C/IC-25/14	Selection of RLP senior officer	\$9.48	IC	Post	6/1/14	12/3/14	
29	FPCU/C/IC-26/14	Selection of PLKM senior officer	\$9.48	IC	Post	6/1/14	12/3/14	
30	FPCU/C/IC-27/14	Selection of M&E and planning senior officer	\$9.48	IC	Post	6/1/14	12/3/14	
31	FPCU/C/IC-28/14	Selection of MIS/IT Senior officer	\$9.48	IC	Post	6/1/14	12/3/14	
32	FPCU/C/IC-29/14	Selection of Senior finance office	\$9.48	IC	Post	6/1/14	12/3/14	
33	FPCU/C/IC-30/14	Selection of Senior procurement officer	\$9.48	IC	Post	6/1/14	12/3/14	
34	FPCU/C/IC-31/14	Selection of Senior internal auditor	\$9.48	IC	Post	6/1/14	12/3/14	
35	FPCU/C/IC-32/14	Selection of Senior admin and general service officer	\$9.48	IC	Post	6/1/14	12/3/14	

S.No	Package No.	Contract description	Estimated cost \$(000)	Selection method	Bank Review (prior/Post)	Expected EOI issue date	Expected Contract signing	Remarks
36	FPCU/C/IC-33/14	Selection of safeguard officer finance officer	\$9.48	IC	Post	6/1/14	12/3/14	
37	FPCU/C/IC-34/14	Selection of finance officers	\$14.20	IC	Post	6/1/14	12/3/14	
38	ARPCU/C/IC-1/14	Selection of regional project Coordinator	\$9.48	IC	Post	6/1/14	12/3/14	
39	ARPCU/C/IC-2/14	Selection of CDSP officer	\$7.10	IC	Post	6/1/14	12/3/14	
40	ARPCU/C/IC-3/14	Selection of RLP officer	\$7.10	IC	Post	6/1/14	12/3/14	
41	ARPCU/C/IC-4/14	Selection of KM officer	\$7.10	IC	Post	6/1/14	12/3/14	
42	ARPCU/C/IC-5/14	Selection of M&E and planning officer	\$7.10	IC	Post	6/1/14	12/3/14	
43	ARPCU/C/IC-6/14	Selection of project MIS/IT officer	\$7.10	IC	Post	6/1/14	12/3/14	
44	ARPCU/C/IC-7/14	Selection of Finance officer	\$7.10	IC	Post	6/1/14	12/3/14	
45	ARPCU/C/IC-8/14	Selection of Procurement officer	\$7.10	IC	Post	6/1/14	12/3/14	
46	ARPCU/C/IC-9/14	Selection of Internal auditor and oversight officer	\$7.10	IC	Post	6/1/14	12/3/14	
47	ARPCU/C/IC-10/14	Selection of Admin and general service officer	\$7.10	IC	Post	6/1/14	12/3/14	
48	ARPCU/C/IC-11/14	Selection of Safeguard officer	\$7.10	IC	Post	6/1/14	12/3/14	
49	ARPCU/C/IC-12/14	Selection of project Accountant	\$7.10	IC	Post	6/1/14	12/3/14	
50	SNNRPCU/C/IC-1/14	Selection of regional project Coordinator	\$9.48	IC	Post	6/1/14	12/3/14	
51	SNNRPCU/C/IC-2/14	Selection of CDSP officer	\$7.10	IC	Post	6/1/14	12/3/14	
52	SNNRPCU/C/IC-3/14	Selection of RLP officer	\$7.10	IC	Post	6/1/14	12/3/14	
53	SNNRPCU/C/IC-4/14	Selection of KM officer	\$7.10	IC	Post	6/1/14	12/3/14	
54	SNNRPCU/C/IC-5/14	Selection of M&E and planning officer	\$7.10	IC	Post	6/1/14	12/3/14	
55	SNNRPCU/C/IC-6/14	Selection of project MIS/IT officer	\$7.10	IC	Post	6/1/14	12/3/14	
56	SNNRPCU/C/IC-7/14	Selection of Finance officer	\$7.10	IC	Post	6/1/14	12/3/14	
57	SNNRPCU/C/IC-8/14	Selection of Procurement officer	\$7.10	IC	Post	6/1/14	12/3/14	
58	SNNRPCU/C/IC-9/14	Selection of Internal auditor and oversight officer	\$7.10	IC	Post	6/1/14	12/3/14	
59	SNNRPCU/C/IC-10/14	Selection of Admin and general service officer	\$7.10	IC	Post	6/1/14	12/3/14	
60	SNNRPCU/C/IC-11/14	Selection of Safeguard officer	\$7.10	IC	Post	6/1/14	12/3/14	
61	SNNRPCU/C/IC-12/14	Selection of project Accountant	\$7.10	IC	Post	6/1/14	12/3/14	
62	SRPCU/C/IC-1/14	Selection of regional project Coordinator	\$9.48	IC	Post	6/1/14	12/3/14	
63	SRPCU/C/IC-2/14	Selection of CDSP officer	\$7.10	IC	Post	6/1/14	12/3/14	
64	SRPCU/C/IC-3/14	Selection of RLP officer	\$7.10	IC	Post	6/1/14	12/3/14	
65	SRPCU/C/IC-4/14	Selection of KM officer	\$7.10	IC	Post	6/1/14	12/3/14	

S.No	Package No.	Contract description	Estimated cost \$(000)	Selection method	Bank Review (prior/Post)	Expected EOI issue date	Expected Contract signing	Remarks
66	SRPCU/C/IC-5/14	Selection of M&E and planning officer	\$7.10	IC	Post	6/1/14	12/3/14	
67	SRPCU/C/IC-6/14	Selection of project MIS/IT officer	\$7.10	IC	Post	6/1/14	12/3/14	
68	SRPCU/C/IC-7/14	Selection of Finance officer	\$7.10	IC	Post	6/1/14	12/3/14	
69	SRPCU/C/IC-8/14	Selection of Procurement officer	\$7.10	IC	Post	6/1/14	12/3/14	
70	SRPCU/C/IC-9/14	Selection of Internal auditor and oversight officer	\$7.10	IC	Post	6/1/14	12/3/14	
71	SRPCU/C/IC-10/14	Selection of Admin and general service officer	\$7.10	IC	Post	6/1/14	12/3/14	
72	SRPCU/C/IC-11/14	Selection of Safeguard officer	\$7.10	IC	Post	6/1/14	12/3/14	
73	SRPCU/C/IC-12/14	Selection of project Accountant	\$7.10	IC	Post	6/1/14	12/3/14	
74	ORPCU/C/IC-1/14	Selection of regional project Coordinator	\$9.48	IC	Post	6/1/14	12/3/14	
75	ORPCU/C/IC-2/14	Selection of CDSP officer	\$7.10	IC	Post	6/1/14	12/3/14	
76	ORPCU/C/IC-3/14	Selection of RLP officer	\$7.10	IC	Post	6/1/14	12/3/14	
77	ORPCU/C/IC-1/14	Selection of KM officer	\$7.10	IC	Post	6/1/14	12/3/14	
78	ORPCU/C/IC-2/14	Selection of M&E and planning officer	\$7.10	IC	Post	6/1/14	12/3/14	
79	ORPCU/C/IC-3/14	Selection of project MIS/IT officer	\$7.10	IC	Post	6/1/14	12/3/14	
80	ORPCU/C/IC-1/14	Selection of Finance officer	\$7.10	IC	Post	6/1/14	12/3/14	
81	ORPCU/C/IC-2/14	Selection of Procurement officer	\$7.10	IC	Post	6/1/14	12/3/14	
82	ORPCU/C/IC-3/14	Selection of Internal auditor and oversight officer	\$7.10	IC	Post	6/1/14	12/3/14	
83	ORPCU/C/IC-1/14	Selection of Admin and general service officer	\$7.10	IC	Post	6/1/14	12/3/14	
84	ORPCU/C/IC-2/14	Selection of Safeguard officer	\$7.10	IC	Post	6/1/14	12/3/14	
85	ORPCU/C/IC-3/14	Selection of project Accountant	\$7.10	IC	Post	6/1/14	12/3/14	
		<b>Total</b>	<b>\$1796.87</b>					



## Safeguards

112. The Borrower's capacity to ensure due diligence on social and environmental safeguards is somewhat weak. MoFA will be responsible for overseeing the implementation of PCDP-3 as it has done under PCDP-1 and PCDP-2. Much of the implementation will, however, be undertaken in a decentralized fashion and the ESMF (including PMP), the RPF and requirements for OP/BP 4.10 will be applied at the woreda level. Woreda level government offices do not, however, have the necessary capacity to apply these safeguards instruments effectively. GoE staff at all levels will therefore need further training to strengthen social and environmental impact assessments for sub-projects as well as their implementation; and to ensure adequate monitoring. A strategic training plan will be developed to (i) enhance the capacity of all implementing entities at the federal and sub-national levels to be able to implement and monitor the execution of safeguard instruments; and (ii) to enhance capacity of community levels public administrative structures and community-based institutions to monitor issues related to triggered safeguards.

113. Given limited capacity within PCDP-3 implementing agencies, effective implementation of safeguards instruments will require the support from project coordination units and MSTs. PCDP-3 will appoint Socio-Environmental Officers at FPCU and within the Afar and Somali RPCUs to closely monitor and provide technical support to MSTs, woredas and other stakeholders that will be involved in the screening of the sub-projects for the effective implementation of ESMF and RPF. In Oromiya and SNNPR, existing institutions responsible for environmental protection and land use management will provide focal persons to follow up on safeguard issues under the project. The FPCU will also designate the CIF officer to be the gender focal point person to strengthen analysis of and investment in gender issues. Nevertheless, it is understood that, as pastoralist and agro-pastoral communities have complex social relations, are prone to conflicts and are located in the arid and semi-arid regions of the country where the environment is fragile, the social and environmental risks associated with the Project are substantial. To mitigate any potential social and environmental impacts of PCDP-3 activities, the woreda administration will be asked to establish an appraisal team to review sub-projects for *inter alia* social and environmental issues as per the ESMF and RPF checklists.<sup>46</sup> The appraisal team will be provided with training on social development and environmental assessment and will be supported by MSTs. Additionally, indicators related to social and environmental concerns will be included in the Project's monitoring framework to allow close follow-up of any emerging issues

114. Capacity building of Socio-Environmental Officers and other related personnel will be undertaken at the FPCU and RPCU levels. Training will also be provided to other project team to create awareness on issues relevant to the context of the project including conflict, gender, and other social issues to improve the knowledge and skills of project implementers. Additionally, specific training and capacity building of kebele and sub-kebele community structures involved in the identification, selection and approval of infrastructural projects will be provided by MSTs.

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<sup>46</sup> The team will be formed under the oversight of the WoPD and will be separate from the WTC so that its members that have no facilitation function under the Project and can maintain a certain measure of independence. The appraisal team will also consider technical soundness, consistency with the Woreda Development Plan, gender equity, any issues raised by Community Audit Committees in their review of sub-projects.

The FPCU will as needed, engage third party consultants/organization for external monitoring of the ESMF and RPF.

## **Monitoring and Evaluation**

115. The institutional set-up for M&E has multiple levels and is well aligned with the PCDP-3 management system. Overall responsibility for M&E will rest with the M&E specialist of the FPCU, who will be supported by an MIS/IT Specialist. M&E officers at the regional level and MIS/IT specialists will report directly to the M&E specialist in the FPCU as well as the regional coordinator. The Regional M&E officers will work closely with MSTs, which will have a focal person for supporting monitoring activities at woreda level. MSTs will support WoPDs in their monitoring work with communities and also facilitate community learning. The data management, analytical and reporting capacities of MSTs and at local levels will continue to be enhanced through training programs and TA. The Woreda coordinator will be in charge of data entry in the MIS. In order to support an integrated M&E system, the M&E team will work closely with staff in charge of each component. Evaluation activities (impact evaluation and evaluations on gender, processes, safeguards, etc.) and thematic studies will be undertaken by external consultants to be selected on a competitive basis.

116. *Reporting Mechanisms:* PCDP-3 will have four levels of reporting, using simple basic formats with a set of indicators to be monitored:

- a. Kebele level: Kebele/community level activities will be monitored by woreda coordinators (with support of the designated MST member) and by beneficiary communities under the direction of the KDC following a predetermined format defined in the PME&L manual. While the woreda coordinators will use the collected information for woreda level reporting, designated community members will produce simple reports that will be submitted to the KDC as input for kebele and sub-kebele discussions and for woreda reports.
- b. Woreda level: Over the first year the RPCU will integrate the MIS at the woreda level into reporting arrangement to be supported by paper based report when the telecommunication infrastructures does not allow. Each woreda coordinator (with support of the designated MST member) will enter the data from community specificities and progress in the MIS system and produce a monthly report with data on each of the woreda's project kebeles and on woreda-level activities. Woreda reports will be based on agreed-upon formats from the PME&L manual and other manuals to report/document kebele characteristics, project outputs, progress against plans, procurement, and financial issues. In addition to providing information on each kebele, the woreda reports will aggregate kebele data and provide woreda-wide information on performance (including sub-projects, finance and procurement), implementation bottlenecks, best practices, and success stories. The woreda reports will be submitted to WDCs for decision-making. MSTs will be able to consult the data of each kebele via the MIS system.

- c. Regional level: The RPCU will receive reports on each woreda from MSTs and will access detailed woreda and kebele information from the MIS. The Regional MIS officer will be responsible for conducting MIS data analysis and for checking on the quality of data inputted into the MIS by woreda coordinators and MSTs. Based on a review by component leaders of information from these sources, the Regional M&E Officer will produce quarterly regional reports that review performance of each woreda and at the region, document progress against plans, and identify region-wide implementation issues and best practices. Regional reports will be submitted to the RSC and FPCU, and also used to provide feedback to WDCs. In addition; these reports will be used as one source of information at the regional level for annual events to share experience and lessons learnt.
- d. Federal level: The FPCU will receive reports on each region from RPCUs and will access detailed regional, woreda, and kebele information from the MIS. The Federal MIS officer will then be responsible for entering national level information into the MIS. The Federal M&E Officer will prepare quarterly and annual progress reports to be shared with MoFA, IFAD, and World Bank and also be used to provide feedback to RSCs and RPCUs. These reports will also be one source for posting PCDP related information on the website on pastoralism in Ethiopia managed under Component 3 of the Project.

117. If a woreda does not submit timely and quality reports that demonstrate progress, it will not be eligible for additional funding until performance data are provided. The quality of reporting will be assessed on a precise set of criteria from 3 main categories: (i) quality; (ii) timeliness; and (iii) identification of issues.

### **Role of Partners**

118. IFAD will continue to co-finance PCDP in its third phase. It has earmarked US\$85million for this purpose. These resources are expected to become available by January, 2014.

**Annex 4: Operational Risk Assessment Framework (ORAF)**  
**Ethiopia: Pastoral Community Development Project III (P130276)**  
**Stage: Board**

**Risks**

**Project Stakeholder Risks**

<b>Stakeholder Risk</b>	Rating	Moderate				
<p>Risk Description:</p> <p>There is strong interest in pastoral development among donors and civil society who have been supportive of PCDP interventions. The sector working group RED/FS is in the process of developing a specific sub-sectoral working group on pastoral development which will provided an added forum for dialogue and coordination. Nevertheless, at the community level, fairly complex social issues and competition for resources pose a stakeholder risk. However, this risk is not substantial given the project’s consultative/ participatory approach.</p>	<b>Risk Management:</b>					
	Social tensions and competition for resources at the community level will be mitigated as PCDP-3 deepens its consultation processes towards more inclusive planning of development activities.					
	Resp: Client	Status: Not yet Due	Stage: Implementation	Recurrent:	Due Date:	Frequency:

**Implementing Agency (IA) Risks (including Fiduciary Risks)**

<b>Capacity</b>	Rating	High				
<p>Risk Description:</p> <p>The capacity and outreach of local government (woreda and kebele levels) remains weak in many pastoral and agro-pastoral areas. PCDP implementing agencies exhibit weaknesses in relation to technical support to beneficiary communities, accounting and financial reporting, and procurement processes. Due to the remoteness of the woredas of the project, close</p>	<b>Risk Management:</b>					
	PCDP-3 will continue to invest in the capacity of local government personnel. Additionally, investments in the capacity of communities will allow them to play a leading role in the Program’s community level investments.					
	Resp: Both	Status:	Stage:	Recurrent:	Due	Frequency:

supervision and monitoring could be difficult leading to weak internal controls.		Not Yet Due	Implementation		Date:	
Although implementing agencies are supported by project staff, the Program has had difficulties in retaining such staff. High turn-over in project staff may affect timely delivery of quality financial reports as well as financial management and procurement arrangements.	<p><b>Risk Management:</b></p> <p>To mitigate against high staff turnover, PCDP-3, during its implementation, will explore the possibility of entering into arrangements with a capacity building and monitoring agent (firm) to provide systematic and regular training and capacity building activities, particularly on the Program’s fiduciary aspects, to all woredas as well as to undertake regular supervision and monitoring to ensure that irregularities and challenges with regards to financial management and procurement are identified and addressed in a timely manner.</p>					
High turnover of staff is also experienced within PCDP’s implementing agencies making it difficult to ensure long-term capacity development. The high turnover of staff is a typical problem and the root cause seems to be the low salary level compared to international organizations and even the private market. More specifically to procurement, the lack of recognition of procurement as a profession and its limited options in terms of building a professional career is also considered to be part of the problem.	Resp: Both	Status: Not Yet Due	Stage: Implementation	Recurrent:	Due Date:	Frequency:
<b>Governance</b>	Rating	Moderate				
Risk Description: PCDP-3 operations may experience political and bureaucratic interference with attempts at elite capture	<p><b>Risk Management:</b></p> <p>PCDP is designed to reduce this risk and this has largely worked effectively in the past. To reinforce existing practices, PCDP-3 will continue to establish and strengthen mobile support teams that support proper compliance of communities and local government officials with project rules and safeguard interest of the poor.</p>					
	Resp: Client	Status: In Progress	Stage: Implementation	Recurrent:	Due Date:	Frequency:
<b>Project Risks</b>						
<b>Design</b>	Rating	High				

<p><b>Risk Description:</b></p> <p>As the final project in a series of operations, PCDP-3 seeks to fully scale up successful interventions (doubling the number of project woredas), integrate the CDD approach within GoE regular processes for local development, and deepen impact. As such, it is complex—vis-à-vis implementation capacity.</p> <p>PCDP is designed to operate in areas of the country that are often affected by conflict. Internal tensions exist in the Ogaden and Borena and PCDP intervention areas also border fragile/unstable States such as Somalia and Eritrea. As PCDP-3 extends the Program’s interventions to all pastoral and agro-pastoral areas of the country, the likelihood of the Program activities being affected by conflict is increased.</p> <p>PCDP is designed to be implemented in a decentralized fashion placing much of the management responsibility with local governments and beneficiary communities where capacity limitations are significant.</p> <p>Some PCDP activities are closely linked to complementary interventions by related projects (e.g., RuFIP-2 for sustaining support to pastoral SACCOs). Thus the effectiveness of some interventions is dependent on the success of interventions over which the project has limited control.</p>	<p><b>Risk Management:</b></p> <p>PCDP-3 includes implementation support mechanisms (e.g., mobile support teams and capacity building) and operation procedures that devolving implementation responsibility to beneficiary communities. These have been well tested under earlier operations and found to be effective in mitigating much of the implementation risks.</p> <table border="1" data-bbox="808 391 2053 472"> <tr> <td>Resp: Client</td> <td>Status: Not Yet Due</td> <td>Stage: Implementation</td> <td>Recurrent:</td> <td>Due Date:</td> <td>Frequency:</td> </tr> </table> <p><b>Risk Management:</b></p> <p>PCDP-3 will develop clear criteria for including woredas (districts) into the Program which will include a consideration of factors potentially leading to conflict. In no event will the Program release funds to areas already under conflict where safety reasons impede proper monitoring and supervision of Program activities</p> <table border="1" data-bbox="808 708 2053 789"> <tr> <td>Resp: Both</td> <td>Status: Not Yet Due</td> <td>Stage: Implementation</td> <td>Recurrent:</td> <td>Due Date:</td> <td>Frequency:</td> </tr> </table> <p><b>Risk Management:</b></p> <p>PCDP- will use strong mobile support teams to support local governments and put in place operation procedures that hold beneficiary communities and local governments internally accountable</p> <table border="1" data-bbox="808 922 2053 1003"> <tr> <td>Resp: Client</td> <td>Status: Not Yet Due</td> <td>Stage: Implementation</td> <td>Recurrent:</td> <td>Due Date:</td> <td>Frequency:</td> </tr> </table> <p><b>Risk Management:</b></p> <p>PCDP-3 and RuFIP-2 will be implemented through the same implementing agency and will establish close monitoring mechanisms to ensure that complementary interventions are on track.</p> <table border="1" data-bbox="808 1174 2053 1255"> <tr> <td>Resp: Client</td> <td>Status: Not Yet Due</td> <td>Stage: Implementation</td> <td>Recurrent:</td> <td>Due Date:</td> <td>Frequency:</td> </tr> </table>	Resp: Client	Status: Not Yet Due	Stage: Implementation	Recurrent:	Due Date:	Frequency:	Resp: Both	Status: Not Yet Due	Stage: Implementation	Recurrent:	Due Date:	Frequency:	Resp: Client	Status: Not Yet Due	Stage: Implementation	Recurrent:	Due Date:	Frequency:	Resp: Client	Status: Not Yet Due	Stage: Implementation	Recurrent:	Due Date:	Frequency:
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<p><b>Social and Environmental</b></p>	<table border="1" data-bbox="808 1258 2053 1305"> <tr> <td>Rating</td> <td>Substantial</td> </tr> </table>	Rating	Substantial																						
Rating	Substantial																								
<p><b>Risk Description:</b></p> <p>PCDP includes social concerns related to the GoE’s policy of</p>	<p><b>Risk Management:</b></p> <p>An ESMF (with a PMP) and RPF have been prepared, consulted upon, and disclosed. The Social</p>																								

<p>settling pastoral communities and the likely existence of 'indigenous peoples' in the Program's intervention areas. However the commitment of the Program's implementing agencies to address social issues is low. Neither is there adequate capacity and expertise within PCDP's implementing agencies and government structures more generally to deal with social issues such as IP, conflict, and gender.</p> <p>More generally, PCDP's implementing agencies have low awareness and capacity to properly implement and document safeguard instruments.</p>	<p>Assessment includes the process used in fostering free, prior, and informed consultations leading to broad community support for the project, and provision of grievance redress, addressing any adverse impacts, culturally appropriate benefit-sharing, monitoring, evaluation, and reporting during implementation relating to vulnerable groups have been included in the project as social risk mitigation actions and benefits. Indicators to monitor social issues will be included in the Monitoring and Evaluation Manual to ensure that social issues monitored and are addressed.</p>					
	Resp: Both	Status: Not Yet Due	Stage: Implementation	Recurrent:	Due Date: 11-Oct-2013	Frequency:
	<p><b>Risk Management:</b></p> <p>Training on social development and environmental issues as well as on World Bank safeguard policies will be provided to project teams and implementing agencies. The FPCU and two RPCUs (Afar and Somali) will recruit safeguards specialists and the Oromiya and SNNP Regions (where capacity is better) will assign focal persons from appropriate institutions for social and environmental screening and review of safeguard instruments</p>					
	Resp: Client	Status: Not Yet Due	Stage: Implementation	Recurrent:	Due Date:	Frequency:
<b>Program and Donor</b>	Rating	Low				
<p>Risk Description: The Project faces no significant risk in this regard</p>	<b>Risk Management:</b>					
	Resp:	Status:	Stage:	Recurrent:	Due Date:	Frequency:
<b>Delivery Monitoring and Sustainability</b>	Rating	Low				
<p>Risk Description: The Project faces no significant risk in this regard</p>	<b>Risk Management:</b>					
	Resp:	Status:	Stage:	Recurrent:	Due Date:	Frequency:
<b>Overall Risk</b>						
<b>Overall Implementation Risk: Substantial</b>						
Risk Description:						

PCDP-3 is implemented in remote and underserved areas where implementation, fiduciary, and safeguards management capacity is weak. Added to this, remoteness of project woredas poses difficulties in terms of providing support and supervision. Moreover, pastoralist and agro-pastoral communities are known to have complex social relations, are prone to conflicts and are located in the arid and semi-arid regions of the country where the environment is fragile. This increases the social and environmental risks associated with the Project. Being a third project in a series of operations, PCDP-3 can rely on mitigation measures (in the form of strong mobile support teams and operation procedures that hold beneficiary communities and local governments internally accountable) that have been well tested and found to be effective – although requiring continued attention. Implementation capacity built under the first two phases of the program, particularly in terms of familiarity with the CDD approach also contribute to mitigating some risks. Given these considerations, the overall risk of PCDP-3 is rated as substantial



## **Annex 5: Implementation Support Plan**

### **ETHIOPIA: Pastoral Community Development Project III**

#### **Strategy and Approach for Implementation Support**

1. Implementation support for PCDP-3 would build on the successful relationships and practices currently in place for the PCDP Program. The strategy for supporting project implementation will focus on successfully mitigating the risks identified at various levels and supporting the risk management proposed in the ORAF and will consist of: (i) implementation support missions carried out jointly with IFAD and in collaboration with complementary operations (see Annex 7), and (ii) technical assistance in areas of weaknesses and where new approaches/procedures have been introduced.

2. *Implementation Support Missions:* The supervision strategy will use a number of instruments to review progress and respond to implementation issues; including:

- a. Joint Review and Implementation Support (JRIS) Missions: Semi-annual review and implementation support missions will be conducted jointly by the World Bank Task Team and IFAD to review overall PCDP-3 implementation performance and progress towards the achievement of the PDO. As much as possible, representatives from the PSNP/HABP and RuFIP-2 task teams will join these missions to ensure coordination between complementary operations.
- b. Mid-term Review (MTR): An MTR will be carried out mid-way in the implementation phase. It will include a comprehensive assessment of the progress in achieving PCDP-3 objectives as laid out in the results framework. The MTR will also serve as a platform for revisiting design issues that may require adjustments to ensure satisfactory achievement of the Project's objective.
- c. Other complementary reviews: Each, year, the World Bank, IFAD and MoFA will consider the need for additional analytical, advisory and knowledge sharing activities and/or third party reviews. Third party reviews will be especially useful for follow-up of PCDP-3 activities in areas affected by conflict. Such reviews will be planned for over and above the semi-annual JRIS missions.
- d. Implementation Completion: At the close of the project, the GoE and the World Bank will carry out separate implementation completion reviews to assess the success of the Project and draw lessons from its implementation.

3. The implementation support and oversight missions would have the combined aim of reviewing the quality of implementation, providing solutions to implementation problems and assessing likelihood of achieving the PDO. More specifically, they would: (i) review component wise implementation progress (through its results chain) including institutional development aspects, (ii) provide solutions to implementation problems as they arise; (iii) review with the FPCU the next six months action plan and disbursement programs; (iv) review the fiduciary aspects including disbursement and procurement; (v) verify compliance of project activities with the Bank's environmental and social safeguard policies;(vi) review case studies and survey results to measure results indicators to determine progress towards the PDO against the targets

set within the results framework and the quality of implementation; and (vii) review the quality of capacity building activities, which are crucial for an effective implementation of the program. The missions would combine comprehensive field visits, field based focus group discussions and interactive workshops with stakeholders for feedback, regional workshops as well as national workshops to highlight implementation issues, pick up on implementation lessons emerging and share mission recommendations including agreements on way forward actions. It will also include reviews of quarterly/annual reports and various studies.

4. *Technical Assistance:* Implementation support will include technical support from the World Bank and IFAD task teams on critical aspects, particularly in terms of deepening the CDD approach, ensuring proper financial management and procurement and, given that social safeguards are newly being triggered, in terms of follow-up on social development issues. The objective of the technical support would be to help the project teams to internalize good practices, and to resolve implementation bottlenecks as they are identified during JRIS missions. Technical assistance will include training workshops to develop core resource teams within implementing units and project teams; helping to finalize manuals, review and advise on terms of reference for required studies and technical support missions.

### **Implementation Support Plan**

5. *Technical Rigor:* The Bank managed task teams will comprise team members with appropriate technical skills and experience commensurate with PCDP-3 requirements. The Bank task team will be complemented by expertise from IFAD particularly on rural finance as IFAD is the main financier of RuFIP-2. The Bank task team members (including the task team leader, financial management, procurement, and safeguards specialists) are in large part based in Ethiopia. The Bank will, however periodically draw on international experience (particularly from World Bank headquarters, south-south exchanges and support from the FAO Investment Center) to complement the in-country staff.

6. *Focus of support:* The first two years of implementation would see more technical support, later on focusing more on routine progress monitoring, trouble shooting and results framework based assessments. The implementation support missions will be on a semi-annual basis complemented by regular short visits by individual specialists to follow up on specific thematic issues as needed.

7. *Fiduciary Reviews and Support:* The Bank will provide risk-based implementation support on FM and procurement arrangements. During the implementation support missions, the project FM specialist based in the country office will review the FM systems, including capacity for continued adequacy, evaluating the quality of the budgets and implementing agencies' adherence thereto, reviewing the cycle of transaction recording until the final end of report generation, evaluating the internal control environment including the internal audit function, reviewing IFRs and/or annual Financial Statements, follow up on ageing of the advance to the Designated Account, follow up on both internal and external audit reports and periodically assess the project's compliance with the FM manual as well as the financial agreement. The FM risk for the PCDP-3 is rated substantial and after each implementation support/supervision mission,

the risk will be measured and reevaluated. Supervision will be carried out in coordination with other development partners (IFAD) and will include:

- a. On-site visits to the various project institutions at all levels, including FPCU, RPCUs, and a sample of WoFEDs and other implementing entities. These visits would include a review of controls and the overall operation of the FM system; review of internal audit, selected transaction reviews, and sample verification of existence and ownership of assets;
- b. Reviews of IFRs and follow-up on actions needed; and
- c. Review of Audit Reports and Management Letters, and follow-up on actions needed.

2. On the procurement front the Bank will provide implementation support to the client through a combination of prior and post reviews, procurement training to project staff and relevant implementing agencies; and periodic assessment of the project’s compliance with the procurement manual. Additionally, procurement specialists will participate in semi-annual implementation support/supervision missions to visit the field and carry out post review of procurement actions Implementation support missions will be geared towards: (a) reviewing procurement documents; (b) providing detailed guidance on the Bank’s Procurement Guidelines; and (c) monitoring procurement progress against the detailed Procurement Plan.

3. *Environmental and Social Safeguards:* The Bank safeguards team consisting of social and environmental specialists will guide the project teams in applying the agreed safeguards instruments; and, during implementation support missions, review compliance.

4. The focus of Bank implementation support in the first two years will be as follows:

Time	Focus	Skills Needed	Partner Role (IFAD)
<i>First 12 months</i>	<ul style="list-style-type: none"> <li>• Project start up,</li> <li>• Support to preparatory activities (sensitization, community consultations and planning, institution building, strengthening implementation capacity including M&amp;E),</li> <li>• Support to finalization of manuals</li> <li>• Guidance on applying safeguard instruments</li> <li>• Development of impact evaluation methodology and oversight of baseline survey</li> <li>• Procurement, FM, M&amp;E and safeguards training of staff at all levels</li> <li>• Establishing coordination mechanisms with complementary projects</li> </ul>	<ul style="list-style-type: none"> <li>• Agriculture and Pastoral Livelihoods</li> <li>• Rural Finance</li> <li>• Financial Management</li> <li>• Procurement</li> <li>• Environment</li> <li>• Social Development.</li> <li>• Public Sector Development</li> <li>• CDD</li> <li>• M&amp;E</li> </ul>	Joint supervision and implementation support; coordination with RuFIP-2
<i>12-48 months</i>	<ul style="list-style-type: none"> <li>• Monitoring implementation performance including progress against PP.</li> <li>• Review strength of grassroots institutions, quality of participatory processes, and capacity building initiatives;</li> </ul>	<ul style="list-style-type: none"> <li>• Agriculture and Pastoral Livelihoods</li> <li>• Rural Finance</li> <li>• Financial Management</li> <li>• Procurement</li> </ul>	Joint supervision and implementation support; coordination

<ul style="list-style-type: none"> <li>• Review of annual work plans and disbursement schedule</li> <li>• Review quality of quarterly/annual reports, data and various produced studies</li> <li>• Assess quality of implementation process and data collected</li> <li>• Review of audit reports and IFRs, consider moving towards report based disbursements</li> <li>• Review adequacy of the FM system and compliance to financial management covenants</li> <li>• Assess quality of safeguards instruments as they are applied with a view of delegating approval of RAPs/EMPs to RPCUs</li> </ul>	<ul style="list-style-type: none"> <li>• Environment</li> <li>• Social Development.</li> <li>• Public Sector Development</li> <li>• CDD</li> <li>• M&amp;E</li> </ul>	with RuFIP-2
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## **Annex 6: PCDP Series of Operations, Evolution of the Program**

### **ETHIOPIA: Pastoral Community Development Project III**

#### **Program Objective and Phases**

1. A three-phase Pastoral Community Development Program (PCDP) was approved by the Bank's Executive Board on May 20, 2003. The Program is a multi-phased 15 year program using a series of operations. It aims to support the development of pastoral and agro-pastoral communities in Ethiopia, over a relatively long term, through a community-based development process that includes a Community Investment Fund (CIF), a Rural Livelihood Program (RLP), and support to participatory disaster risk management. It also complements community based initiatives with support to policy dialogue and strategic thinking around pastoralist development issues. On September 30, 2003 the first of a series of projects under the Program was declared effective and was completed successfully in February, 2008. A second project, PCDP-2, was approved on May 5, 2008 and declared effective on October 9, 2008. Implementation of PCDP-2, as per its design, is on track and is expected to close on December 31, 2013. PCDP-3 will build on the first two projects to scale up successes and integrate CDD approaches, introduced through the first two projects, into regular government planning and budget development processes.

2. Pastoralists in Ethiopia have been economically, socially and politically marginalized due to inadequate attention from policy makers in the past. Although significant improvements have been achieved over the last ten years, pastoralists face key challenges in their development including (i) poor access to basic social services, (ii) weak government institutions that are not well aligned with traditional systems, (iii) limited public participation in local decision-making processes, (iv) dependence on extensive livestock production with poorly developed support services, and uneven access to markets; (v) vulnerability to recurring droughts exacerbated by climate change; and (vi) increasing competition for natural resource use, and constrained mobility due to new settlements and large scale development schemes. PCDP has sought to address these challenges by building capacity of government institutions, promoting public participation in local decision-making processes and enhancing access to basic social services. While it does not directly support improved livestock production and development of livestock markets, PCDP has also helped targeted pastoralist households to improve their livelihoods by enhancing access to finance and providing technical support on their investments. Finally, the

program also contributes to addressing issues of vulnerability to recurring droughts by promoting community based risk management systems. As a local development program, PCDP does not address challenges related to the wider issues of cross-border livelihood inter-dependencies, conflict, increasing competition for use of land and water resources, and constrained mobility due to external influences such as growth of new settlements and large scale development schemes.

3. The higher order objective for the 15-year Program is:

*To sustainably improve livelihoods of pastoralists living in the arid and semi-arid Ethiopian lowlands as reflected by growth and stability of incomes; improved health, nutrition and education outcomes resulting from increased access to social and public services; enhanced social relations, institutions and natural environment that facilitate standards of living; and, reduced vulnerability to disasters.*<sup>47</sup>

4. The objective is to be achieved through investment in public services and basic infrastructure and by empowering pastoralist communities and local woreda governments to better manage their local development. The Program promotes a community-driven process of development, builds grassroots institutions, and, has piloted community-based pastoral risk management mechanisms. Through multiple phases, activities are expanded both “vertically” and “horizontally”, over time deepening interventions and expanding them geographically.

<i>Phase</i>	<i>Objectives</i>	<i>Basic Feature</i>
<b>PCDP-1 2003 – 2008</b>	<ul style="list-style-type: none"> <li>• Target ⅓ of pastoral and agro-pastoral woredas for community development.</li> <li>• Establish and test a Community Investment Fund (CIF).</li> <li>• Establish and pilot community-based pastoral risk management mechanisms.</li> <li>• Support further definition of the GoE’s pastoral development strategy.</li> </ul>	Identification and piloting of community based processes and institutional mechanisms
<b>PCDP-2 2008 – 2013</b>	<ul style="list-style-type: none"> <li>• Target up to ⅔ of pastoral and agro-pastoral woredas for community development (note that funding for PCDP-2 only allowed targeting of ½ the pastoral and agro-pastoral woredas).</li> <li>• Enhance pastoral livelihoods (through expansion of credit and savings cooperative systems to pastoral areas).</li> <li>• Expand community-based pastoral risk management mechanisms to all pastoral and agro-pastoral woredas</li> <li>• Expand pastoral development networking</li> </ul>	Expansion of community development and pastoral risk management systems
<b>PCDP-3 2013 – 2018</b>	<ul style="list-style-type: none"> <li>• Target most pastoral and agro-pastoral woredas for community development; and, work on institutionalizing the interventions.</li> <li>• Deepen CDD approaches and support pastoralists’ income generating activities more holistically.</li> <li>• Expand knowledge generation and dissemination, and internal learning at all levels.</li> </ul>	Full geographic scale up; consolidation and institutionalization of community development approaches

<sup>47</sup> As provided in the Project Appraisal Document (PAD) for PCDP-1, with slight modification to reflect higher level result of increased access to social and public services.

## Achievements and lessons from PCDP-1 and PCDP-2

5. Significant achievements have been registered under PCDP-1 and PCDP-2. An overview in terms of increased access to basic services is provided in the table below.

1) <i>Access to primary education:</i> Number of children enrolled (grade 1-4) minus dropped out (and percent of female students) in PCDP constructed school per year	22,328 (43% of which female)
2a) <i>Access to water sources:</i> Number of people served by PCDP constructed water points per/year	249,550
2b) Number of livestock served by PCDP constructed water points per year	322,000
3) <i>Access to health services:</i> Number of people attended by health workers in PCDP constructed health post per year	152,880
4) <i>Access to animal health facilities:</i> Number of household with animal treated within PCDP constructed animal health post per year	31,710
5) <i>For access to irrigation:</i> Number of hectares irrigated through PCDP developed infrastructures per year	672
6) <i>For rural roads:</i> Number of people living within 2 kilometers of a PCDP constructed road per year	69,000

6. Nevertheless, the programs interventions can be deepened for greater impact, particularly in light of consolidating achievements to enable phasing out the Program. This is considered under each of the Program's components.

### ***Sustainable Livelihood Enhancement Component***

7. The sustainable livelihood enhancement component under PCDP-1 and PCDP-2 included two sub-components: (a) Community Investment Funds, and (b) Rural Livelihood Program. Achievements and lessons are as follows:

- (a) *CIF*: PCDP has financed the construction of social infrastructure demanded and prioritized by targeted communities in 55 pastoral and agro-pastoral woredas of Somali (21), Afar (14), Oromiya (14) and SNNP (6) National Regional States. PCDP-1 implemented 1,733 sub-projects of which 1,412 were completed and 321 were carried over into the second phase. Of the completed projects 80 percent were operational. A further 1,901 are being implemented by PCDP-2 (1,222 including the 321 sub-projects carried over from PCDP-1) of which 1,886 (85%) are completed and most (94%) are already operational. A total of 2,682 sub-projects have been initiated. Although there have been implementation delays resulting from a relatively long planning period (due to participatory nature of the planning process), limited capacity to implement sub-projects by beneficiary communities and high staff turnover within Mobile Support Teams (MSTs), it is expected that all planned sub-projects will be completed by the close of PCDP-2. Access by PCDP beneficiary communities (encompassing a population of about 3 million people) to key public services has improved significantly. Communities have consistently identified education and health, water supply and improving animal health care services as their investment priorities.

PCDP has introduced a model of service delivery and investment whereby communities needing services are targeted by need and equity considerations. Once identified, beneficiary communities are supported by MSTs and relevant woreda offices to formulate Community Action Plans and to plan sub-projects (to be submitted for CIF funding) based on such plans. Sub-projects are reviewed and approved by the woreda against pre-determined criteria which include, environmental screening, technical standards, woreda development priorities and need/availability of complementary facilities. Sub-projects are implemented by beneficiary communities that organize community development and procurement committees and are supported by MSTs. This process is reinforced by capacity building to decentralized government bodies and to communities to help them to efficiently manage resources and to ensure that the quality of sub-projects is of an acceptable standard. Community institutions responsible for overseeing community consultations and local development have been established and capacity has been built at community level for planning and implementing investment projects and for mobilizing funds. Overall, a high level of satisfaction is expressed by pastoral communities reached by the Program to date on the CDD approach promoted, both in terms of the process itself that gave them opportunity to take part in their own development process as well as the ensuing services. Nevertheless, the experience under PCDP-1 and PCDP-2 suggests a need for deepening the CDD process in the following areas:

*Strengthening downward accountability:* While PCDP-1 and 2 have helped grassroots institutions emerge as active partners in their communities' development, institutional development is an on-going process which needs to be continued under PCDP-3 with a greater focus on ensuring that the composition of such institutions is adequately representative of all interests within a community and that mechanisms are in place for decision makers are obliged to account for their actions, decisions and outcomes. It is to be that even though priority sub-projects have identified by communities need to be approved by the woreda (sectoral offices and Woreda Development Committee (WDC), under PCDP-1 and PCDP-2 approved sub-projects did not differ much from the priorities of beneficiary communities. Downward accountability, nevertheless, presupposes that there are systems (e.g., a functional complaints redress system and regular feedback to kebeles – and from kebeles to sub-kebeles – on woreda level decisions) that ensure woredas respect the priorities sent to them from communities and would only deviate from what the kebele has planned according to pre-determined rules and criteria. Finally, another element of downward accountability is that once sub-projects are completed, delivery of associated services needs to be responsive to community needs and not just requirements of the respective upper levels in the service provision hierarchy. These are areas for further consideration under PCDP-3.

*Greater responsibility/authority in the planning process and post-project oversight:* PCDP-1 and PCDP-2 have engaged communities in planning and implementation of sub-projects. While current practices in terms of responsibility for implementation of sub-projects are adequate, there is room to increase the communities' role for more effective planning: (i) declaring available resources upfront would give communities decision making authority over the number and scale of sub-project within agreed limits—current practices allow beneficiary communities to identify and prioritize sub-projects, but only

one sub-project per year (even if the cost is lower than available funding) is approved; (ii) putting aside a small percentage of the CIF for atypical investments/expenditures that communities may want to undertake, which would broaden the options to communities beyond the current patterns of local development that are applied throughout the country—examples of atypical expenditures are technical support that communities may feel they require to enhance their own effectiveness in planning for and implementing investment projects (e.g., exposure visits, engineering support for supervision of construction activities), introduction of innovations in service delivery (e.g., use of ICT, investing in solar panels to provide light for alternative nighttime education for children who cannot attend school during daytime, supporting community animal health workers); and, improving quality of services associated with earlier sub-projects by meeting contingencies in service provision (e.g., establishment of a revolving drug fund in a health posts or veterinary clinic constructed by PCDP).

Most sub-projects implemented with the CIF to date have been successfully completed and handed over to woreda administrations that have in turn provided the necessary manpower and operational budgets to extend associated services. Management of these services has some community participation through Parent Teacher Student Associations (PTSAs), Water Users Associations (WUAs), and other community based management committees associated with different public services, etc. No support has been provided under either PCDP-1 or PCDP-2 to deepening community participation in post-project oversight. Providing such support would promote a more comprehensive CDD model.

*Ensuring inclusiveness and targeting the vulnerable:* The current community consultation process is rather abbreviated carried out over a short period, bringing people together in large groups, and focusing on the prioritizing of sub-projects without fully articulating a development vision. In doing so, it has not been able to proactively targeted the needs of certain community groups; e.g., women and youth because they tend not to be vocal in large groups, or mobile groups as it has been difficult to synchronize consultations with pastoralists' movements. The process has also resulted in a rather limited consideration of development options focusing on a menu of options rather than bringing innovative solutions to problems raised by communities. PCDP-3 will therefore implement a clearly delineated consultation process in three steps: initial sensitization, situation analysis and vision development at sub-kebele level (including within specific community groups), and formulation of a community development plan at the kebele level. During the initial sensitization process (step 1 of the consultation process), communities would be expected to agree on ethical principles that would include giving priority to the needs of their most vulnerable members (including women). This would be complemented by a social mapping exercise that would identify different social groupings (including the different categorization of pastoralists, women and youth groups, etc.) that the planning, prioritization and targeting processes would directly engage with. PCDP-3 will, furthermore, devote the first year of project implementation to capacity building and community level planning.

*Community level learning:* PCDP-1 and PCDP-2 implementation experience underscores that pastoralists can effectively plan for and manage local investments and mobilize their own resources to supplement public funding. Quite naturally, this effectiveness varies



across communities, across kebeles and woredas. It is therefore important that PCDP-3 support community-level learning both from own implementation experiences and from each other.

*Strengthening external support:* While pastoralists have demonstrated that they are able to effectively plan for and implement small investment projects, they nevertheless require external support to do this effectively. The experience of PCDP-1 and PCDP-2 has shown that this support is most needed to provide innovative solutions to development problems identified during the planning process, to provide required technical expertise in the design of sub-project, and to help communities overcome implementation difficulties. With a few exceptions (where there is active NGO engagement), such support is provided by local government. PCDP-3 will therefore focus effort on building capacity within local government to extend support to communities as they plan for and implement local development initiatives. This capacity building effort has already been initiated under PCDP-1 and PCDP-2. It is nonetheless an on-going process that needs to be further enhanced under PCDP-3 as the Program phases out and the CDD approach is adopted by local governments as a planning and investment model for all publicly funded initiatives.

- (b) *RLP:* Under PCDP-1, the Program financed IGA sub-projects that supported targeted (disadvantaged) households to supplement and diversify their income and asset base.<sup>48</sup> PCDP-2 followed up on this by promoting the development of grassroots financial institutions. This allowed the Program to support livelihood development and diversification among pastoral and agro-pastoral households more broadly and ensures that such support is sustained beyond the Program. PCDP-2 has supported the establishment of 448 pastoral SACCOs 55 woredas in the Afar, Somali, SNNP and Oromiya Regions—with about 28,926 members 19,319 (71.8%) of whom are women. These pastoral SACCOs have mobilized about 17.4 million ETB in savings over the few years of their operation and about 75 percent of them have started to extend loans to members a large proportion of borrowers (>70%) being women. Most PCDP supported SACCOs are following good practices in governance structure and procedures and their track record in terms of savings mobilization, and loan repayment (on average >100% of mature loans have been repaid) are impressive. It is too early to assess the contribution of the SACCOs to sustained increased incomes among their members. However, anecdotal evidence collected from SACCO members during a field visit to the Oromiya, Afar and Somali regions confirms significant economic gains for those SACCO members that had received and repaid at least one loan. Benefits from pastoral SACCOs are not only seen by their membership in terms of economic gain. SACCO members interviewed during the midterm review of PCDP-2 emphasized that they had gained benefits from opportunities for knowledge development and empowerment. SACCOs have played a catalytic role in engaging PCDP's communities in income generating activities and improving their livelihoods as well as providing them with additional confidence to actively engage in broader development endeavors.

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<sup>48</sup> 441 groups received IGA grants under PCDP-1. The Implementation Completion Report of PCDP-1 observed that beneficiaries of such grants saw significant improvements in their livelihoods, particularly in terms of increased incomes, improved self-employment opportunities, acquisition of new marketable skills and strengthened social ties.

Nevertheless pastoral SACCOs are still young institutions with limited capacity (in terms of business competence, physical resources and loanable capital) and scale of operation. PCDP's interventions to promote the establishment of SACCOs in pastoral areas need to be complemented by second generation support which would include establishing both prudential and non-prudential standards, infusing financial best practices, diversification of financial products, deepening of outreach, institutional strengthening, access to capital, risk management, vertical linkages to SACCO Unions and other financial institutions and mainstreaming the pastoral SACCOs into the overall financial system of the country. PCDP is not a financial sector development intervention and therefore lacks the institutional support structure to provide second generation support to SACCOs. It is expected that the 2<sup>nd</sup> phase of the IFAD financed Rural Finance Intermediation Project (RuFIP-2) will build capacity of regional and woreda level cooperative support structures, particularly the Woreda Cooperative Promotion Offices (WoCP) so that they will continue assisting pastoral SACCOs established through PCDP and provide the second generation support.

SACCOs have promoted an investment and savings culture among PCDP beneficiary communities which are important elements in promoting more diversified and robust livelihoods. However, while some pastoral households have derived benefits from the presence of SACCOs in their communities, the experience has been that most invest in low value; low income activities and the incomes earned are typically used for meeting household consumption needs (food, clothes, education, health etc.). Improving livelihoods requires that households invest in strengthening existing production systems and/or developing new income generating enterprises or gain better earnings from wage employment. However, pastoralist households face limited opportunities in this regard, not only because they have limited access to finance but also because (i) they operate in risky and changing environments – due to arid and semi-arid landscapes made riskier as a result of climate change and restriction on their mobility, (ii) their access to services and markets tend to be very limited, (iii) education and skill levels are low; and, (iii) in the case of those households that have fallen out of pastoralism, their resource base is low. While the specific needs of individual households differ, they all require support in identifying viable investment opportunities (including skills development for wage employment) and understanding returns and risks related to different types of investments. They then need support to implement the investments, as well as advice and demonstration of new technologies, improved production practices and credit management (if loans are used to finance the investments). PCDP's support to livelihood development has thus far been partial and PCDP-3 will move towards a more holistic approach that captures many of these elements.

As already mentioned in earlier discussions, the community consultation process under PCDP-1 & 2 has been focused on prioritizing the investment sub-projects for the CIF without helping communities to fully articulate a development vision. The RLP has, therefore, been implemented more or less separately from the community planning process. As the community consultations are deepened and communities formulate community development plans, they will include an articulation of the community's aspirations for economic development and consider interventions for strengthening livelihoods of selected households. The RLP must therefore be planned for jointly with

the CIF and its interventions should be based on priorities set out in community development plans.

### ***Pastoral Risk Management***

8. Various achievements have been registered in pastoral risk management as follows:

- (a) *Pastoral Early Warning Systems (PEWS)*: PCDP-1 collaborated with Save the Children Fund UK (SCF-UK) and Regional Disaster Preparedness and Food Security Bureaus in Somali and Afar Regions to introduce a household-economy approach to pastoral disaster early warning; and with the Ethiopian Pastoral Research and Development Association to establish a similar system in Oromiya and SNNPR, which included livelihood zonation, baseline data collection and identification of appropriate emergency indicators for each livelihood zone. PCDP-2 has followed this up by operationalizing the PEWS in 122 woredas. Each woreda has established disaster prevention technical committees which function as the basic building blocks for the PEWS. Standardized formats for collection of data on emergency indicators have been developed and translated into regional languages and community data collectors have been deployed in all four regions. Early warning reports are flowing systematically on a weekly and monthly basis from each of the 122 woredas to the Federal Ministry of Agriculture's Early Warning and Response Directorate as part of an integrated national early warning and response program that generates monthly national reports;
- (b) *Disaster Preparedness and Contingency Plans (DPCPs)*: PCDP-1 developed DPCPs for 23 woredas (including all of its project woredas in Afar, Oromiya and SNNPR but with 9 woredas outstanding in Somali Region in large part due to the lack of security in those woredas). A DPCP manual was put in place which contains provisions for the analysis of a woreda's physical, social, cultural and economic environment and information *inter alia* on disaster history, indigenous coping mechanisms and donor engagement in the woreda. Under PCDP-2, it was decided to integrate the development of DPCPs with an exercise of nation-wide woreda disaster risk and vulnerability profiling.<sup>49</sup> Such profiling has been completed in only 23 pastoral and agro-pastoral woredas. The development of DPCPs under PCDP-2 has been delayed as this must be preceded by the development of disaster risk and vulnerability profiles. This has left PCDP project woredas without basic DPCPs that are important for effectively responding to disasters. DPCPs have served to identify sub-projects for risk management financed through a disaster preparedness contingency fund made available by the projects. While under PCDP-1 community based sub-projects were implemented (albeit in a somewhat ad hoc manner given that DPCPs were only completed at the end of the first phase), a more region focused use of disaster preparedness contingency funds was adopted under PCDP-2 whereby eight veterinary cold chains and eight fodder stores were built in the four Regions. PCDP-2 also invested in water and feed distribution in the face of drought related emergencies;
- (c) *Disaster Preparedness Strategic Investment Plans: (DPSIPs)*: Regional disaster preparedness strategies and investment plans have been prepared in all four Regions

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<sup>49</sup> The national wide disaster risk and vulnerability profiling examines the underlying causes of disaster risk to better inform the design of risk reduction programs and contingency plan preparation as well as to inform the kind of early warning and response systems that are needed, framed in different risk contexts.

using a methodology involving hazard, vulnerability and response capacity assessments followed by a risk analysis and subsequent strategy formulation including a matrix of possible responses. A review of DPSIP investment plans at the midterm of PCDP-2 has raised a concern that a number of proposed investments lack strategic focus and, possibly, technical sustainability. Many of the investments incorporated within DPSIPs whether for rangeland and water resources development or for livestock market development need to be considered within a wider framework of national and cross-country disaster risk management.

9. Although PCDP has had significant success in promoting systems that help address pastoral risk management, particularly in terms of building on pastoralists' traditional knowledge and systems for coping with disasters, the program's interventions have been somewhat *ad hoc*. Community based early warning systems and risk management strategies play an important part in reducing pastoralists' risks but are only one aspect of disaster preparedness, mitigation and response. While PCDP has helped regional governments develop strategic investment plans for disaster mitigation and preparedness, moving forward, investments against strategic plans are best carried out in a holistic manner linking early warning, disaster preparedness and contingency planning with other initiatives along the entire disaster preparedness-mitigation-response-recovery continuum. In May, 2010, the GoE shared with its development partners a draft "National Policy and Strategy for Disaster Risk Management (DRM)" that promote a holistic approach to dealing with multi-hazard disasters and has subsequently developed a comprehensive DRM investment framework (DRM SPIF) that takes full account of lessons from PCDP-1 and 2. Pastoral risk management is best supported in a coordinated manner within the DRM SPIF. Additionally, the World Bank and the African Development Bank are in the process of preparing with the GoE the Regional Livelihoods Resilience Project (RPLRP) recognizing that many of the issues of pastoralists' vulnerability in the Horn of Africa (including Ethiopia) are regional in nature. The RPLRP will take forward some of PCDP's DRM initiatives in a regional context. Accordingly, PCDP-3 will not include a component on Pastoral Risk Management.

### ***Participatory Learning and Knowledge Management***

10. PCDP's third component focuses on knowledge management and learning. Achievements are mixed:

- (a) *Participatory Action Learning*: PCDP-2I sought to promote community-driven research on pastoral issues by engaging, on a pilot basis, Participatory Action Learning facilitators to work with selected pastoral and agro-pastoral communities to help them identify priority topics for community-led investigation and experimentation. The investigations were to be conducted as a joint effort of pastoralists, development agents and/or woreda subject matter specialists, researchers with relevant expertise from a nearby research center, college or university and/or private sector. At midterm, this pilot activity was not yet off the ground;
- (b) *Policy Implementation Studies*: PCDP-2 also sought to support studies that MoFA and Regional Pastoral Development Commissions/Bureaus regard as necessary to inform pastoral policy implementation. However, even though regional review committees have been established to determine the topics of interest and these review committees have

developed action plans as to how to go about undertaking such studies, implementation of this sub-component is seriously delayed. Nevertheless, engagement with pastoral communities over a ten year period, has yielded considerable experience and knowledge on pastoral development that can be used to inform policy dialogue (particularly in terms of practical implementation of the GoE's policies);

- (c) *Knowledge Management and Networking:* Substantial work have been done related to communication/dissemination of program information in various forms and at different levels, including the development of a PCDP website ([www.pcdp.org.et](http://www.pcdp.org.et)); establishment of PCDP Facebook page and e-based discussion forums. Pastoralism information resource centers have also been established in each Region although access tends to be constrained. Also, bi-annual brochures and quarterly newsletters are being regularly produced and distributed both in hard copies and group email lists to stakeholders by all 4 regions. Pastoralist Day continues to be a popular PCDP supported event, while radio programs, associated radio listening groups and pastoralist peer-to-peer learning represent other important PCDP knowledge management and networking activities.

11. PCDP-3 will build on knowledge and experience gained during the implementation of PCDP-2 and PCDP-3 to promote dialogue on pastoralist issues enriching its experience with evidence through further study and disseminating findings to relevant stakeholders. It will also continue with its initiatives to disseminate program information.

### **PCDP-3: The Way Forward**

12. As the final project is a series of operations, PCDP-3 will focus on scaling up the Program's successful initiatives, deepening the CDD approach and integrating modalities for community driven development within the GoE's regular processes for decentralized planning and budget development, supporting rural livelihoods more holistically, enhancing policy dialogue, and putting in place a clear phase out strategy.

13. *Scaling up:* PCDP-1 supported 32 (out of 144 woredas within Afar, Somali, Oromiya and SNNPR that the GoE has identified as pastoral or agro-pastoral) woredas to invest in basic services and infrastructure and introduce modalities whereby pastoral communities and local governments work closely together on local development. In parallel, PCDP-1 also supported further definition of the GoE's pastoral development strategy. PCDP-2 expanded these interventions to a further to an additional 26 woredas (reaching a total of 55 out of 144 pastoral and agro-pastoral woredas) and promoted additional initiatives in accordance with the GoE's pastoral development strategy. Such initiatives included support to grassroots institution building for livelihood development, and pastoral disaster risk management to reduce vulnerability. PCDP-3 will seek to expand program activities to almost all pastoral and agro-pastoral woredas in the country. It is expected to reach an additional 85 woredas. The Program, over its 15 year implementation period, would have covered most pastoral and agro-pastoral woredas in the country<sup>50</sup> and provided improved access to public services and/or supported the livelihoods of about 4.7 million pastoralists and agro-pastoralist

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<sup>50</sup> PCDP-3 as the third and final phase of the Program will scale up interventions to all pastoral and agro-pastoral woredas of the Ethiopian lowlands with a few exceptions; i.e., woredas that are not physically accessible (therefore

14. *Deepening and Institutionalizing CDD:* PCDP-1 and 2 introduced models for participatory development and local level planning within a limited area. Building on ten years of experience, PCDP-3 will deepen current approaches with the aim of (a) helping beneficiary communities think through more comprehensively their development issues, (b) promoting greater inclusiveness and downward accountability in the process, (c) proactively targeting the priorities of the most vulnerable sections of the societies, (d) allowing more time for building facilitation and technical skills to support consultations, and (e) allowing greater flexibility in the planning process. PCDP-3 will also work on integrating such approaches into the government's regular planning and budget development processes. The GoE encourages decentralized development planning and enhanced community participation in planning for public services. However, this is not yet fully realized on the ground. PCDP has provided practical experiences in implementing an approach that engages pastoral/agro-pastoral communities in their own local development including prioritizing service delivery, implementing sub-projects and monitoring performance. PCDP-3 will help woreda governments to replicate the experience at the woreda level. PCDP-3 will give particular emphasis to community level institution building since sustaining and institutionalizing CDD approaches requires self-managed, downwardly accountable, broad-based, and inclusive community institutions. PCDP-3 will build on PCDP-1 and PCDP-2 initiatives to foster strong community institutions such as (i) Kebele Development Committees (KDCs) that engage representatives of sub-kebele community groups to formulate community development plans, prioritize sub-projects and monitor their implementation as well as to promote community learning; (ii) community facilitation teams that can promote inclusive processes for consultative planning, (iii) Community Project Management Committees (CPMCs) and Community Procurement Committees (CPCs) to proactively engage beneficiary communities in sub-project implementation, (iv) community audit committees to effectively oversee general compliance to CDD principles; and, (v) oversight structures for services provided at the kebele level with greater community representation and authority.

15. *Holistic approach to rural livelihoods:* PCDP-1 supported targeted households to strengthen their livelihoods in a rather *ad hoc* manner. PCDP-2 followed with interventions to promote the development of grassroots financial institutions to more broadly support income generating activities, by enhancing pastoralists' access to finance. Nevertheless, such support remains partial as limited access to finance, while a critical constraint is only one of many faced by pastoralists as they seek to enhance their livelihoods. PCDP-3 will link support to livelihood development to the community planning process and while continuing to support grassroots financial institutions, will also introduce additional interventions such as helping to identify and develop viable investment options and promoting innovation.

16. *Targeting of the poor and vulnerable:* PCDP-1 and PCDP-2 did not proactively target the poor and vulnerable. Yet such groups are easily overlooked in community discussions and decision making processes. PCDP-3 will mainstream targeting of potentially marginalized groups such as women, youth, ethnic minorities, and poor households into the community planning processes. During the initial sensitization process (step 1 of the consultation process),

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do not allow proper supervision), that are affected by conflict or exhibit high risks of conflict as per social assessment currently underway, or where various programs external to PCDP have resulted in serious social tensions. The GoE has also decided that PCDP-3 would not expand into the 6 pastoral/agro-pastoral woredas in the Gambella National Regional States as this would over-stretch implementation capacity.

communities would be expected to agree on ethical principles that would include giving priority to the needs of their most vulnerable members. This would be complemented by a social mapping exercise that would identify different social groupings that the planning, prioritization and targeting processes would directly engage with.

17. *Institutionalizing the CDD approach in the context of fiscal decentralization in Ethiopia:* In 1994, the GoE formed a federal government structure with the establishment of 9 National Regional States and 2 Administrative Cities including inter alia the Afar, Somali, Oromiya and SNNP National Regional States. A comprehensive process of decentralization was initiated together with the formation of the federal government structure. Decentralization was rolled out in all its dimensions: political, administrative and fiscal and has been supported by capacity building of decentralized structures. Ethiopia's decentralization has been carried out in several phases. First, through a political decision whereby political, administrative and fiscal arrangements were changed to align with a federal government structure around ethnic (nations, nationalities and peoples) based Regional Governments.<sup>51</sup> The process included institutionalizing legal authority for regional governments, building administrative capacity at sub-national levels, promoting their fiscal autonomy with clear expenditure and revenue assignments between levels of government (including the allocation of a fiscal subsidy from the federal government based on a predetermined formula), and developing institutional frameworks for inter-governmental relations.

18. Second, in 2002/03, an expanded district (woreda) led decentralization program was launched. Thus, decentralization was taken further to the lowest government units with an intention of building woredas into development centers, particularly in terms of rural development and basic service delivery. Third, in 2005, following the third national and regional elections, the GoE introduced a good governance package to address perceived governance shortfalls and as a way of addressing inadequacies of local governments (woredas, as the lowest government unit and their lower administrative structures, the kebele). The package strengthened local government institutions with an overall aim of promoting citizen engagement, and ensuring institutional preparedness. Along this process, the concentration of governmental authority at regional levels was eased with more autonomy and decision making authority devolved to woredas. Furthermore, measures were taken to address the limited administrative capacity of woredas and to allocate a larger share of the regional budget to this level, which has in turn enabled greater focus on the grassroots level.

19. While administrative authority has been devolved to sub-national levels, serious capacity constraints and lack of experience with devolved authority hinder the achievement of full-fledged decentralization. Weaknesses have been associated with (i) lack of refined expenditure and revenue assignment to local governments, (ii) shortage of skilled manpower and lack of budget for recruitment of the same by local governments as well as limited incentives to attract critical professional staff, particularly to in remote areas, (iii) inadequate institutional set up at the woreda level, particularly in the new emerging regions and woredas (including the pastoralist areas). Although, over time, stronger decentralized structures have evolved across woredas of all

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<sup>51</sup> According Article 39 ,No.5 , a "Nation, Nationality or People" is a group of people who have or share large measure of a common culture or similar customs, mutual intelligibility of language, belief in a common or related identities, a common psychological make-up, and who inhabit an identifiable, predominantly contiguous territory.

regional states, disparities in institutional and human resource capacities still exist especially in pastoral and semi pastoral woredas, a legacy of marginalization in the past.

20. Despite the fact that decentralization has created some space for participation of citizens by empowering lower level governments, the system of grassroots participation, that responds to community needs as opposed to sectoral planning by sectoral offices, is not yet being implemented at the woreda level. Instead woreda sector offices identify sub-woreda needs through an examination of the service gaps in and around kebeles via their frontline service providers, field visits and discussion with kebele executive committee members. Some planning procedures are furthermore initiated by the Regional Sector Bureaus; backed by regional task forces which visit woredas with a set of pre-identified project proposals. Community participation is mostly understood in terms of massive mobilization of people to make contributions in labor, material and finance. The WoFED coordinates woreda planning and implementation. As PCDP seek to integrate the CDD approach within government systems in the context of the on-going decentralization process, it must interact primarily with this office.

21. Structures are being established for citizen/community participation, planning, and local service delivery. This provides room to enhance community participation in local planning, budgeting, and administration. Nevertheless, there is the need to improve the autonomy and the institutional strength of kebele administrations and the approach must be systematically strengthened for sustainability. The kebele planning process is currently ad hoc and lacks a formalized planning methodology or clarity regarding the assignment of responsibilities. PCDP-3 must therefore build on its experience with the CDD approach to both strengthen the process at the kebele level and help WoFEDs think through the linkages of kebele planning process with their own evolving planning processes. Capacity will need to be built around participatory planning processes within WoFEDs and woreda sector offices. One of the challenges for Ethiopian local governments is lack of adequate budgets to finance capital investments in different sectors, which limits the room for decision on long term development options. The local fiscal autonomy expressed in terms of ratio of own revenue to expenditure is low (about 20 percent). Nevertheless, there is a fiscal transfer from higher levels of governments over which woredas have full autonomy. As per the course that the GoE has taken in its decentralization process, such transfers will increasingly be allocated as per the priorities of target communities, particularly as this relates to basic service delivery. However, there is very little experience in doing this outside of the sectoral planning approaches. PCDP's experience helps to reorient the existing practice to focus more on community level inter-sectoral prioritization, planning and delivery/oversight of public services.

22. *Strengthening dialogue on pastoralism:* PCDP-1 and 2 helped define the GoE's pastoral development strategy and implemented initiatives in accordance with the strategy. Strategic thinking is obviously an on-going process and PCDP-3 will build a body of knowledge based on its implementation experience and supported by studies, discussion fora and a communication strategy for disseminating program information to promote continued dialogue on pastoralism.

23. *Clear phase out strategy:* As the final project in a series of operations, PCDP-3 adopts an approach that seeks to phase out its support and sustain initiatives. It will therefore include a strong focus on capacity building for local government to take over functions carried out by project staff. PCDP-3 will also emphasize grassroots institution building so that community institutions take over the development of community plans, implementation of small publicly



funded investment projects, oversight of related services, monitoring of performance, and community learning.

## Summary

Phase	Basic Feature	Achievements (PCDP-1 and 2)	Key Lessons
<b>PCDP-1 2003 – 2008</b>	<p>Identify and pilot community based processes and institutional mechanisms</p> <p>Invest in basic services and infrastructure within a few communities</p>	<ul style="list-style-type: none"> <li>• Community driven local development processes successfully introduced in 32 woredas (~1/5 of the country's pastoral and agro-pastoral woredas)—promoting local empowerment and a sense of ownership of developmental activities among pastoral communities.</li> <li>• Improved access to a wide range of public services including health, education, water supply, and veterinary services (44% increase in enrolment of girls, 250,000 people receiving health services from 93 health facilities, 52% being women, 107,323 livestock using water points).</li> <li>• Productive activities and asset base of selected disadvantaged households enhanced and diversified; and, their entrepreneurial skills developed through IGA support.</li> <li>• Model for community based disaster risk management introduced but in an <i>ad hoc</i> manner.</li> </ul>	<ul style="list-style-type: none"> <li>• Thorough and sustained capacity building for beneficiary communities, mobile support teams (MSTs) and woredas is critical</li> <li>• Implementation of the CIF should include objective measures to deal with non-performing communities</li> <li>• Engaging communities in identification /implementation of developmental projects should be complemented by mechanism to promote transparency, enhance women's engagement and address complaints</li> <li>• Greater clarity needed on procedures for IGA support to ensure profitable investments, sufficient beneficiary contribution, and proper business management practices</li> <li>• IGA support should be complemented by grassroots financial institution building to ensure that its sustainability.</li> <li>• There is a need to place pastoral risk management interventions in the context of a comprehensive approach to early warning, risk mitigation and disaster response</li> </ul>
<b>PCDP-2 2008 – 2013</b>	<p>Expand community development and pastoral risk management systems</p>	<ul style="list-style-type: none"> <li>• Community driven local development supported in 23 additional woredas—PCDP support expanded to slightly over 1/3 of the country's pastoral and agro-pastoral woredas.</li> <li>• Community driven approaches strengthened through the successful introduction of measures to more actively engage women, posting of approved sub-projects and their budgets at public centers for greater transparency and establishment of a complaint redress system.</li> <li>• Continued expansion in access to public services (cumulatively over the two phases, 22,328 children enrolled in grades 1-8; 249,550 people and 322,000 livestock served by PCDP constructed water points, 152,880 attended PCDP constructed health posts, 672 hectares irrigated)</li> <li>• PCDP-2 has been instrumental in expanding financial penetration in pastoral areas with some benefits in terms of improved income levels among in Program areas. 448 SACCOs have been established. Membership has included women representation at 67%.</li> <li>• Model for community based disaster risk management expanded to 122 woredas, but remains <i>ad hoc</i>.</li> <li>• Program information disseminated through the establishment of PCDP website, (29,225</li> </ul>	<ul style="list-style-type: none"> <li>• While pastoral communities have shown a readiness to engage in their own development, they also need greater support in terms of help to address implementation difficulties, technical expertise (e.g., in the design of roads and irrigation schemes) and thinking through options for addressing identified development problems, particularly in terms of relating such options to the pastoral way of life.</li> <li>• CDD approaches introduced at the community level need to be integrated into woreda development planning to ensure that the CDD approach is properly institutionalized and that PCDP investments are well coordinated with other interventions.</li> <li>• There is a need to be more strategic and coordinate interventions related to pastoral risk management with other on-going initiatives along the entire disaster preparedness-mitigation-response-recovery continuum. The recently developed National Disaster Risk Management Strategic Program and Investment Framework (DRM SPIF) provides an opportunity towards this.</li> <li>• Pastoral Savings and Credit Cooperatives (SACCOs) supported through PCDP-2 have a limited scale of operation and are too small to meet the demand for credit within their communities. There is a need to explore options</li> </ul>

Phase	Basic Feature	Achievements (PCDP-1 and 2)	Key Lessons
<p><b>PCDP-3</b> <b>2013 – 2018</b></p>	<p>Further geographic expansion; deepening and institutionalizing community development approaches</p>	<p>users), e-based discussion fora, information resource centers, production and distribution of brochures and newsletters, radio programs, associated radio listening groups and peer-to-peer learning.</p> <p><u>Future focus under PCDP-3</u></p> <ul style="list-style-type: none"> <li>• To the extent possible, PCDP will be expanded to all pastoral and agro-pastoral woredas in the country. It will, however, no longer be involved in woredas that were covered in its first phase as it is expected that such woredas will graduate out of the program at the end of PCDP-2.</li> <li>• In addition to expanding the CDD approach to new woredas, PCDP-3 will focus more on (i) institutionalizing the CDD process through a strong program of capacity building of both communities and local level implementing bodies and extending the CDD process to woreda level planning; (ii) enhancing inclusiveness and downward accountability of planning process, promoting the development of a developmental vision by communities and more in-depth discussion of developmental problems and their solutions; and, (iii) enhancing community level self-monitoring and learning.</li> <li>• PCDP-3 will continue to promote the establishment of pastoral SACCOs. PCDP-3 will also support selected pastoral households in strengthening their livelihood systems and/or diversifying into new viable income generating activities.</li> <li>• Pastoral risk management will not be part of PCDP in its third phase as it is best implemented in a coordinated manner within the DRM SPIF and RPLRP.</li> <li>• Under the knowledge management component, PCDP-3 will include focused policy studies and support to discussion fora on findings from such studies as well as technical assistance for taking lessons from PCDP to be applied within the DRM SPIF. It will also implement an enhanced communications strategy for greater transparency and internal learning.</li> </ul>	<p>for consolidating them into larger units and linking them with formal financial institutions to leverage additional loan capital and expand the scale of operation of an individual cooperative.</p>

## **Annex 7: PCDP-3 and Complementary Projects**

### **ETHIOPIA: Pastoral Community Development Project III**

1. While PCDP is the World Bank's and IFAD's principal instrument to support development of pastoral communities, many of its interventions are complemented by nation-wide but targeted programs such as the Productive Safety Net Program (PSNP) and the Household Asset Building Program (HABP) directed at chronically food insecure households; the National Nutrition Program/Community Based Nutrition (NNP/CBN) focusing on nutrition; the Rural Water Supply Project aimed at improving access to safe drinking water in rural areas; Protecting Basic Services (PBS) providing recurrent budgets for woreda and sub-woreda level service delivery; and the Rural Financial Intermediation Program (RUFIP-2) focusing on expanding financial services to rural areas. PCDP is also complemented by the Regional Pastoral Livelihoods and Resilience Project (RPLRP) that seeks to address cross-country issues related to pastoral livelihoods.

2. Some projects implement interventions that are very similar to PCDP but with a specific target group (e.g., chronically food insecure households under PSNP and HABP) or with a sectoral focus (e.g., Rural Water Supply Project). Other projects implement interventions that will complement PCDP-3 and even play a key role in sustaining PCDP's interventions. For example, PCDP through its social mobilization efforts promotes the establishment of grassroots institutions, particularly Rural Savings and Credit Cooperatives (RuSACCOs) as such institutions play a catalytic role in engaging pastoral communities to improve their economic livelihoods. However, PCDP-3's initiatives to promote the establishment of RuSACCOs in pastoral and agro-pastoral areas is predicated on complementary capacity building and support to woreda level cooperative support structures, particularly WoCPs so that they can provide second generation support to these institutions once PCDP phases out. Currently, there is inadequate capacity towards this and it is expected that RuFIP-2 will build such capacity. Other projects have the potential of enhancing PCDP's results; e.g., RPLRP by working on livestock value chains, cross border livestock disease control, and natural resource management –increase opportunities for pastoral livelihood development (since livestock production is the main source of livelihood for PCDP beneficiary communities) and thereby create an improved environment for successful livelihood support under PCDP-3. Similarly, the extent to which PCDP's interventions can be nutrition sensitive will depend on the ability of frontline health providers to engage the community on nutrition issues. NNP/CBN's interventions to build capacity in this regard will contribute to a local development planning process that will recognize nutrition as a developmental issue and think through solutions. The PBS helps ensure that investments by PCDP to expand services are complemented by operational budgets to ensure that such investments are actually operationalized.

3. The following table outlines the complementarities between different projects.

Project	Geographic overlap	Complementary Interventions	PCDP-3's corresponding Interventions	Areas of Complementarity and Deviation
<b>Projects with similar interventions</b>				
<b>PSNP</b>	22 woredas in Afar 20 woredas in Somali 20 woredas in Oromiya 2 woredas in SNNPR  Not all kebeles overlap	Public works through transfer payments	Investment in public services and infrastructure through CIF	<ul style="list-style-type: none"> <li>• Same type of investments – with similar negative lists (e.g., private goods are not funded through PW transfers or the CIF).</li> <li>• Decentralized planning process with the kebele as the planning unit.</li> <li>• Strong focus on local level (community and woreda offices) capacity building</li> <li>• Common implementing agencies at woreda and kebele (although not at Regional) levels but organized in separate task teams and coordinated through different mechanisms (WDC/WFSTF, KDC/KFSTF etc.). PCDP implementation is supported by mobile support teams that serve a cluster of 3 to 4 woredas and includes an engineer as well as region-based engineers and safeguards specialists.</li> <li>• PSNP pays mostly for labor costs (with small amount of funding for purchased inputs); PCDP acquires labor mostly as community contribution and pays for skilled labor, purchased inputs, etc.</li> <li>• Implementation of sub-projects is managed differently, but once completed both projects hand over investments to woreda government.</li> </ul>
<b>HABP</b>	20 woredas in Oromiya 2 woredas in SNNPR	Identification and development of income generating opportunities for chronically food insecure HHs	Identification and development of viable IGAs for HHs prioritized for support through community consultations	<ul style="list-style-type: none"> <li>• Overlapping interventions but with different target groups (market and technical analyses to identify IGA opportunities, community consultations on potential income generating opportunities, support to business plan development, CB for relevant frontline service providers)</li> <li>• Some differences: HABP targets chronically food insecure HHs and links them to a financing source. PCDP prioritizes assistance through community consultations and does not need to limit assistance to food insecure HHs; but does not have any linkages to a financing source. HABP has no component for adaptive research with beneficiaries; PCDP provides an innovation fund if communities are interested to be organized with researchers to develop a proposal to test innovative solutions to a livelihood problem that they identify.</li> <li>• Overlapping interventions have common implementing agencies at the woreda and kebele (but not regional) levels – but have separate coordination mechanisms. PCDP implementation is supported by mobile support teams; HABP is supported by woreda and region-based agri-business specialists.</li> </ul>
		Promotion and capacity building for RuSACCOs	Promotion of RuSACCOs	<ul style="list-style-type: none"> <li>• Overlapping interventions with almost the same approach (deployment of cooperative promoters and/or accountants, promotional activities, training for RuSACCO leadership and executives, provision of furnishing, materials, provisions for seed funding,<sup>52</sup> organizational support including TA for development of by-laws, etc.)</li> <li>• Some differences: HABP provides matching grants for office construction, and provides for a revolving fund targeted to chronically food insecure HHs that can be managed by RuSACCOs.<sup>53</sup> HABP also provides for 2<sup>nd</sup> generation capacity building to RuSACCOs and capacity building to woreda level cooperative support structures, particularly the WoCP.</li> <li>• Common Implementation agencies as both operate through FCA and related sub-national structures</li> </ul>
<b>WASH-2</b>	5 woredas in Afar 9 woredas in Somali 6 woredas in Oromiya 1 woredas in SNNPR	Development water supply infrastructure as per woreda plans	Development of water supply infrastructure if demanded by communities	<ul style="list-style-type: none"> <li>• Potentially overlapping interventions coordinated through the woreda planning process</li> <li>• Implementing arrangements and approaches differ significantly</li> </ul>

<sup>52</sup> HABP has not actually provided seed funding but allows for this and has developed modalities for its execution

<sup>53</sup> As in the case of the seed funding, HABP has not actually provided a revolving fund for RuSACCOs in pastoral areas of Oromiya and SNNPR but allows for this and has modalities for its execution.

Project	Geographic overlap	Complementary Interventions	PCDP-3's corresponding Interventions	Areas of Complementarity and Deviation
<b>Complementary projects that influence sustainability of PCDP-3 interventions</b>				
<b>RUFIP-2</b>	TBD	CB to cooperative support structure (FCA and related sub-national structures) <u>2<sup>nd</sup> generation support to RuSACCOs</u>	Promotion of RuSACCOs	<ul style="list-style-type: none"> <li>Interventions build on each other – promoting the establishment of new RuSACCOs looks forward to continued and higher level support on rural financial intermediation</li> <li>PCDP lacks the institutional support structure to provide 2<sup>nd</sup> generation support to RuSACCOs – this should be provided by the cooperative support sector</li> <li>Currently the cooperative support sector is weak and requires continued project assistance to effectively provide 2<sup>nd</sup> generation support to RuSACCOs</li> <li>RuFIP-2 is well placed to provide CB to the cooperative support structure as well as 2<sup>nd</sup> generation support to RuSACCOs</li> <li>HABP also includes CB to the cooperative support structure as well as 2<sup>nd</sup> generation support to RuSACCOs</li> <li>PCDP, RuFIP and HABP have the same implementing agency but separate coordination mechanisms</li> <li>Currently there is insufficient geographic overlap to allow complementarities to take effect.</li> </ul>
<b>Projects with potential to enhance PCDP-3's results</b>				
<b>RPLRP</b> (under preparation)	TBD	Development of livestock value chains <u>Controlling national and cross-border livestock diseases</u> Natural resource development	Identification and development of viable IGAs (including strengthening of livestock production)	<ul style="list-style-type: none"> <li>Still in design phase</li> </ul>
<b>NNP/CBN</b>	Currently in 7 woredas in Oromiya, expect to expand into: 20 woredas in Afar 10 woredas in Somali All PCDP-3 woredas in SNNPR	CB for health service providers on nutrition and child growth monitoring <u>Awareness creation on nutrition aspects at community level</u> <u>Community level conversations on nutrition</u>	Investment in public services and infrastructure through CIF	<ul style="list-style-type: none"> <li>PCDP-3 will engage woreda level health officers, kebele based Health Extension Workers and community facilitators in community consultations to develop a 3-year rolling community development plan from which CIF sub-projects will be identified. Training of health care providers and community facilitators on Essential Nutrition Action through NNP/CBN will allow proper consideration of nutrition issues during the preparation of the community development plan – through more informed facilitation.</li> <li>The promotion of child growth monitoring, general awareness creation on nutrition at the community level and community conversations on nutrition are also expected to foster better consideration of nutrition issues during the preparation of the community development plan – through greater engagement of community members on the issue</li> </ul>
<b>PBS</b>	All PCDP-3 woredas. Social Accountability pilot in 28 woredas 10 woredas in Oromiya 7 woredas in Afar 9 woredas in Somali 2 woredas in SNNP	Block grants for basic <u>public services</u> Promotion of financial transparency and social accountability	Investment in public services and infrastructure through CIF	<ul style="list-style-type: none"> <li>PCDP provides an investment fund for investment in basic services. PBS provides block grants to woredas that serves as a source of funding for operationalizing PCDP investments.</li> <li>PBS' social accountability interventions complement PCDP's CDD approach by putting in place a formal process to engage community members in providing feedback on service delivery – while PCDP engages them in planning for such services, implementing selected sub-projects and providing some oversight of services.</li> </ul>

## **Moving towards a harmonized approach**

4. There are attempts by woreda governments to coordinate interventions, particularly those that are implemented through government implementing agencies. Coordinating NGO projects are more difficult as their proposal development processes are more rigid and their budgets are not predictable. Nevertheless, woredas' best efforts remain somewhat partial due to slight variations in operational modalities of different projects. Yet there are opportunities for promoting harmonized approaches.

5. *Similar Implementation Arrangement:* The oversight bodies and implementing agencies of projects, particularly those that embrace decentralized and participatory approaches are often very similar. For instance, the Woreda and Kebele level Food Security Task Forces of PSNP and the Woreda and Kebele Development Committees of PCDP and NNP/CBN are very similar in their functions and compositions. Similarly, PCDP, RuFIP and HABP use the FCA and related sub-national structures for the implementation of support to RuSACCOs. Oversight and implementation of these different projects could therefore be carried out jointly. Relatedly, most projects carry out capacity building interventions aimed at enhancing the implementation capacities of their implementers. In doing so, they approach the same agencies for capacity building support with the same objectives resulting in duplication of effort and reduced effectiveness—and could be carried out more rationally.

6. *Complementarity of Interventions:* As indicated on the above table, some of the projects such as PCDP, PSNP, HABP and RuFIP have overlapping and complementary activities which should be planned jointly to avoid duplication of effort and to build on synergies. They can also develop mechanism to learn and share best practices among each other, which would contribute to further effectiveness at all levels. Also, some projects such as PSNP, HABP and PCDP have deployed technical staff to support the implementation capacity of government at woreda levels. However, though the programs are being implemented in the same localities with similar government structures and target communities and on complementary and sometimes overlapping activities, it is unclear how they complement each other. Yet, the fact that interventions are complementary provides an entry point for harmonizing efforts and the enhanced coordination/harmonization can have a significant added value in terms of achieving the objectives of each project.

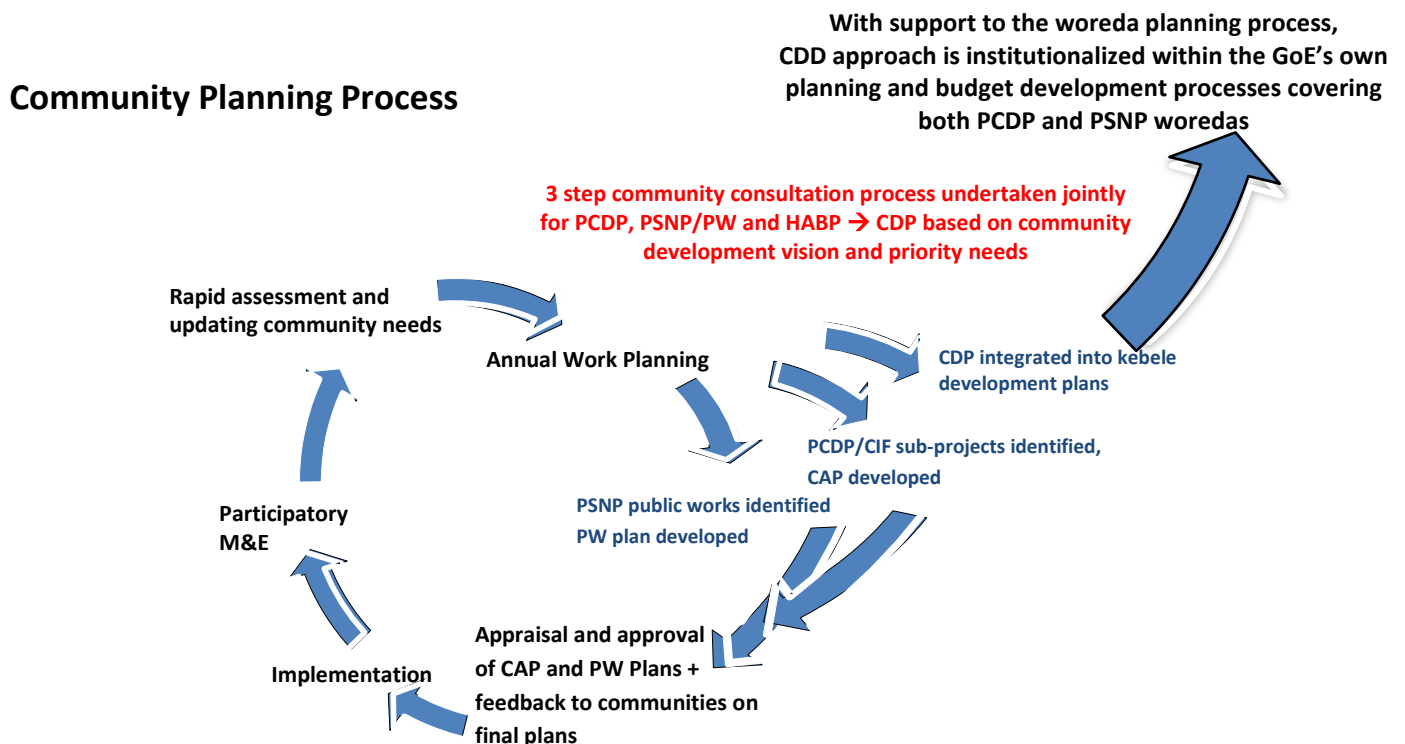
7. *Decentralized planning approaches:* PCDP, PSNP, HABP, NNP/CBN adopt community level participatory approaches to planning interventions that should be brought together into one process to avoid engaging communities' in multiple planning sessions. Other projects carry out planning processes at the woreda level which should also be linked to community level planning processes to ensure that interventions complement each other. While this is primarily the function of Woreda Finance & Economic Offices, harmonization in terms of planning calendars, decision making and approval process as well as information flows is required if this is to be effectively implemented.

8. While the above provide entry points for a more harmonized approach, the first step for coordination, particularly at woreda and kebele levels, is for respective implementing agencies or project teams of each project to share basic information about each other's interventions. Accordingly, PCDP-3 will communicate to all complementary projects as part of its initial

launch sessions. Similarly, the implementing agency or sector of a newly coming project should take the initiative to organize a formal forum for awareness creation among the implementing agencies of similar projects at all levels. It is clear from the table above that the most pressing need for harmonized approaches are required between PCDP, PSNP/PW, HABP and RuFIP. The he following modalities for harmonization will be adopted and reflected in the respective Project Implementation Manuals for each Project.

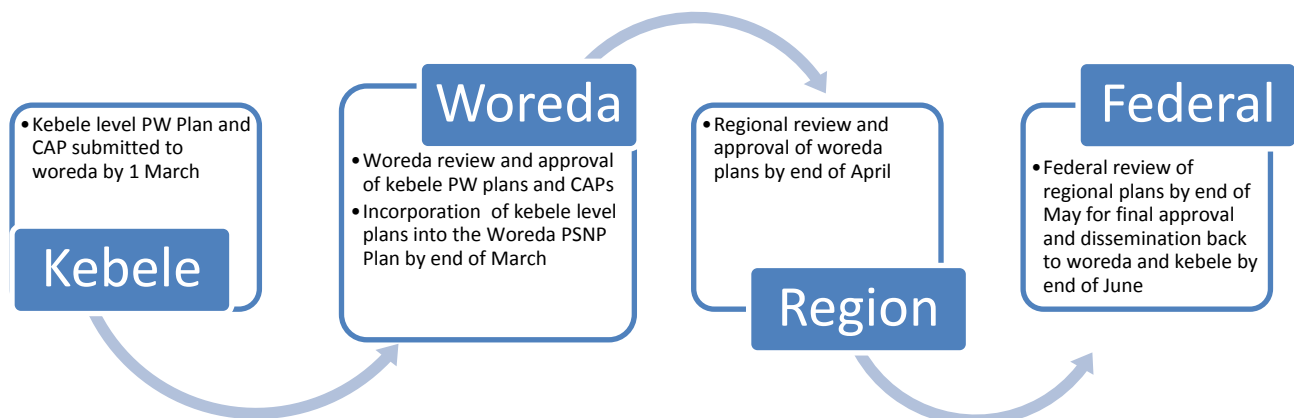
### PCDP-3 and PSNP

9. *Unified Community Level Planning Processes for PCDP/CIF and PSNP-PW:* Planning for both the PSNP public works and PCDP-3 CIF sub-projects will be based on community development plans and undertaken jointly as one process. Both PCDP and PSNP follow a community demand driven approach. Since PCDP has accumulated good practices in this regard as compared to PSNP, the two projects will build on the experiences of PCDP to follow a three-step community consultation process to develop a three-year rolling Community Development Plan (CDP). Based on the CDP, PCDP/CIF sub-projects and PSNP public works will be identified and separate CAP and PW Plan will be prepared for PCDP and PSNP respectively. Given that PSNP public works are primarily funded through transfers to chronically food insecure households, investments prioritized in the CDP that are also labor intensive will selected for implementation through though the PSNP. However, communities can also prioritize an investment that pools resources from both the PCDP/CIF and PSNP/PWs. To avoid duplication of payment, in such cases, the CIF will not cover wages; unless skilled labor is required. However, PSNP beneficiaries receiving cash transfers will be able to contribute labor to PCDP sub-projects as part of the community contributions in lieu of work on PSNP public works. The CDP will serve to update and elaborate existing kebele development plans. As such, it will be integrated into the local government’s regular development planning process.





10. To allow woredas to incorporate the CAP and PW plan, once approved, into their annual budgets, the community planning process; i.e., CDP preparation (or its annual review and adjustment) and the subsequent PCDP CAP as well as PSNP PW plan need to be completed by the end of February each year. Thus, the joint PCDP-PSNP planning process will be carried out in time to allow the Woreda Administration to release a consolidated budget (including the CIF and PW linked to PSNP transfers as well as the woreda block grant) at the start of the Ethiopian Fiscal Year (EFY) starting on 8th July. The process would furthermore allow the PSNP to complete a planning cycle that is aggregated up to the federal level according to the figure below.



11. Both the PCDP CAP and the PSNP public work plan need to be appraised and approved at the woreda level. A Woreda Appraisal Team will be established that can serve both projects. The appraisal team will review sub-project/public work proposals (incorporated in the CAP and PW Plan) for social and environmental issues,<sup>54</sup> technical soundness, gender equity, consistency with the Woreda Development Plan, and any issues raised by the community audit committees as well as to check readiness for implementation, and on completion of milestones against which payments are made during implementation. The appraisal team will be placed within the WoPD and will include membership from WoFED and sectoral offices. It will be separate from the WTC or the Public Works TC so that its members have no facilitation responsibilities and can maintain a certain measure of independence in their appraisal of sub-project/public works proposals. Appraisal will furthermore follow common, pre-determined criteria. Once proposals have passed the appraisal process, the CAP and PW Plans will be approved by woreda officials. Following approval, the final plans including any adjustments will be distributed back down to kebeles and communities immediately so that communities are informed of any changes. Approved plans will also be posted at the kebele office.

12. Implementation of sub-projects/public works will be managed by community institutions such as the Community Project Management Committee (CPMC) and Community Procurement Committee (CPC) under PCDP established for this purpose. The projects will provide

<sup>54</sup> PCDP and PSNP project teams will harmonize their Environment and Social Management Framework Documents so that the Woreda Appraisal Team can work from one checklist. It will, nevertheless, apply a separate Resettlement Policy Framework for PCDP investments since OP/BP 4.12 is triggered under PCDP-3.

coordinated capacity build support to such institutions as per a coordinated capacity building plan (see section 2 below).

13. *Harmonization of planning, oversight and coordination mechanisms:* The two projects will furthermore use common, planning, oversight and coordination mechanisms. At the kebele level, preparation of the CDP, CAP and PW Plan is carried out by the KDC with representatives from sub-kebele community groups (in the case of PCDP/CIF) or the Kebele Food Security Task Force (KFSTF) in the case of PSNP/PWs. The KDC is the arm of the administration responsible for developmental activities including the kebele chairperson, the kebele manager and other selected members from the kebele administration. The KFSTF is composed of the kebele chairperson, kebele manager, DAs, HEWs and/or Volunteer Community Health Workers, Teachers, and community representatives.

14. DAs, HEWs, Teachers are frontline public service providers. While these stakeholders should, together with woreda experts, guide the planning process and advise on possible solutions to identified development problems, they should not as per the CDD approach, have any decision making power in planning for and/or prioritizing interventions for local development. It is therefore proposed that the KFSTF be merged with the KDC and that the KDC together with community representatives selected from a consultative process at the sub-kebele level and/or pre-identified community groups be responsible for CDP, CAP and PW Plan preparation. The KDC and community representatives will receive technical support from woreda sectoral staff and kebele level specialists (DAs and HEWs) as well as project teams (e.g., PCDP has mobile support teams that will support the community planning process). This is a decision-making body that oversees all community level planning and implementation activities of PCDP and PSNP activities and coordinates learning from this experience.

15. The KDC leadership will be responsible for bringing together community representatives for CDP/CAP/PW Plan development. The PCDP woreda project coordinator and PSNP focal person will jointly organize a team of woreda experts to support CDP development in each project kebele.

16. At the woreda level, PCDP-3 and PSNP will use common oversight committees and technical teams to provide support to communities, appraise and approve sub-projects/ public work proposals, and follow-up on their implementation. Thus, instead of having a separate Woreda Food Security Steering Committee (FSSC) for PSNP and a Woreda Development Committee (WDC) for PCDP, it is agreed to work through one woreda level committee (comprised of heads of relevant government offices and NGO branch offices as well as MFI branch offices as appropriate). There will also be one woreda level technical committee to ensure quality control and provide implementation support as well as to facilitate the community level planning process. The Woreda Appraisal Committee will also serve the two projects to review sub-project/public works proposals against a common set of criteria. However, due to its very specific purpose, the PSNP's existing woreda level transfer committee will continue as it is.

17. The two projects will maintain separate implementation and support arrangements at the regional and federal levels. Nevertheless, to ensure coordinated regional and federal support from each project to woredas, particularly in terms of capacity building and internal learning, the following will be adhered to:

- (a) Establishment of a regional capacity building task force at both the federal and regional levels comprised of focal persons from PCDP-3, PSNP and HABP implementing agencies—it will be responsible to develop a joint inter-project strategic capacity building plan. PCDP's FPCU and RPCUs will lead the process.
- (b) As part of the federal level coordination, PCDP-3 FPCU will join the national level technical committees for HABP and PW.

18. Operations in pastoral and agro-pastoral areas are constrained by a serious capacity gap within the institutions discussed above. Their functions are therefore supported by project-funded technical assistants under both PCDP and PSNP that support implementation and also engage in capacity building. PCDP has a well-established support system in place in the form of Mobile Support Team (MST) that support three to four woredas each. The MSTs provide support in terms of facilitating community level consultations and planning, follow-up on implementation of sub-projects, M&E and reporting as well as fiduciary and safeguard compliance functions. To the extent that PCDP and PSNP undertake joint activities (e.g., development of CDP in overlapping kebeles, including progress on PSNP public works into the PCDP MIS), the MST will not differentiate between PCDP and PSNP. Where activities are carried out separately, it will collaborate with the TA provided by PSNP. For example, an engineer engaged by PSNP to follow up on quality of infrastructure related to PSNP public works can be placed within the MSTs.

19. *Joint supervision and harmonized reporting:* Currently, PCDP and PSNP have very distinctive mechanisms for donor supervision, M&E and reporting. As a result, there is limited information sharing regarding the programs' performances, use of resources and critical lessons—introducing some fiduciary and program efficiency risks (related to ambiguous accounting of funds and other resources, overlapping activities, and limited learning across similar initiatives). Towards greater harmonization, the following has been agreed on:

- (a) Project management staff from both projects will proactively participate in joint supervision and implementation support missions and mid-term reviews for each project;
- (b) Progress on PSNP PW will be reflected in the PCDP MIS and MIS reports will be shared regularly with all relevant stakeholders from the two projects; and
- (c) As part of its development learning and knowledge management activities, PCDP will take the initiative to organize bi-annual fora to bring together stakeholders from PSNP and PCDP (as well as HABP and RUFIP discussed further below) to review and document lessons, assess progress and agree on the way forward for enhanced coordination.

### **PCDP-3 and HABP**

20. *Unified Planning Processes for PCDP/RLP and HABP:* As in the case of the PCDP CAP and PSNP PW Plan, interventions related to PCDP-3's RLP and HABP support to development of livelihood opportunities for chronically food insecure households will be based on community development plans and undertaken jointly as one process. Thus the CDP will not only inform the CAP and PW Plan but it will also inform a Community Livelihoods Plan (CLP) that will (a) identify households who will be supported to help them develop IGAs—priority will be given to

the poorest households, particularly the chronically food insecure and households made vulnerable because they have dropped out of pastoralism; (b) provide a long list of livelihood activities that communities believe have potential for further development (c) identify key issues that threaten livelihoods and require external solutions, (d) select model households who would be willing to devote time and resources to test solutions and innovative approaches to address issues identified and would potentially be organized into pastoralist-research groups. Households identified for livelihood development will engage in further consultations with front line service providers such as DAs or woreda agricultural subject matter specialists and cooperative promoters on potential IGAs and receive training on business plan development, entrepreneurship, and technical aspects of their IGAs including demonstration of improved technologies related to their IGAs. These activities are common to PCDP's RLP and the HABP and will therefore need to be implemented in a coordinated manner. Similarly, capacity building support to pastoral SACCOs through the two projects is similar (the only difference being that PCDP does not provide a matching grant for office construction and does not place a revolving fund within them, instead PCDP-3 provided a savings leverage fund as seed capital). The RLP operational manual is being developed in accordance with the HABP program implementation manual with adjustments to reflect that both projects will initially develop a CLP.

21. To ensure coordinated implementation of the HABP and RLP, all project activities under HABP's output 1 and Output 2 (as it pertains to RuSACCOs) and PCDP's Component 2.1 and 2.2 (promotion of SACCOs and initial capacity building, recruitment of cooperative promoters and accountants, TA for market, value chain and technical analyses, training of DAs and woreda experts, operational support to business plan development and follow up, training to selected pastoralist households, support to extension and veterinary services) will be planned for jointly at the woreda level and consolidated within common oversight mechanisms (FCA in the case of SACCO establishment and support, and F/RPCU and HABP technical committees respectively in the case of RLP and HABP) at regional and federal levels. These same oversight mechanism will follow-up on implementation and provide the necessary backstopping.

22. *Harmonization of implementation, oversight and coordination mechanisms:* As CDP development does not differentiate between CIF, RLP, PSNP/PWs or HABP, the same community institution (KDC with community representatives) will be responsible to facilitate the preparation of the CDP and incorporate livelihood issues as well as public service delivery priorities into these plans. It will also be responsible to develop the CLP that is a common planning document for the RLP and the HABP. Unlike CIF sub-projects and PSNP public works, implementation of project interventions under the RLP and HABP is not through community institutions but through the public extension system and/or through cooperative support structure; i.e., Woreda Cooperative Promotion Offices.

### **PCDP-3 and RUFIP-2**

23. The IFAD financed Rural Financial Intermediation Program II (RUFIP-2) a project focused on rural finance and PCDP that is focused on community development contribute in very particular ways to the promotion of grassroots financial institutions. PCDP through its social mobilization efforts is well placed to help establish such institutions within pastoral communities and to help them grow. It, furthermore, has a particular interest in promoting their establishment as experience world-wide show that they contribute significantly to engaging communities in

local development endeavors. RuFIP-2 contributes to their evolution from social organizations into mature financial enterprises. In recognition of this, it has been proposed that RuFIP-2 and PCDP-3 be systematically linked to implement complementary interventions each focusing on its comparative advantage. Therefore, PCDP-3 will be focusing on the establishment and provision of first generation support for SACCOs in the pastoral areas—including (a) social mobilization and financial education; (b) organization support; (c) skills training; (d) systems development; (e) leadership training; (f) physical capacity building; (g) technical assistance and consultations to develop simple financial products appropriate to pastoralists; and (h) provision of a one-time carefully managed savings leverage grant as seed capital.

24. RUFIP will takeover/follow PCDP-3 intervention to provide a second generation support with a focus on networking and enhanced institutional support to the pastoral SACCOs and the MFIs, if existing in their respective areas. It will also build capacity within the cooperative support structure to ensure that adequate long-term support can be provided to RuSACCOs through the government system. IFAD (the FCA's main funding agency) in October 2013, submitted a proposal to The FCA that is the implementing agency for RuFIP-2) asking it to present the proposal to the RuFIP-2 steering committee to ensure that RuFIP-2's coverage includes PCDP-3 wordas so that these synergies can be established. It is expected that RuFIP-2 will strengthen the SACCO support structure including capacity building and support to WoPCs in pastoral areas. This is critical for the sustainability of PCDP-3 interventions in support of new pastoral SACCOs. At mid-term of PCDP-3, achievements regarding RuFIP-2's support to WoCPs will be assessed and a determination made on whether PCDP-3 should engage in capacity building for WoCPs to ensure that they have sufficient capacity to effectively support SACCOs after its closing.

## Annex 8: Review of PCDP Support to SACCOs in Pastoral Areas

### ETHIOPIA: Pastoral Community Development Project

#### Current status of SACCOs established in the pastoralist areas with PCDP support

1. PCDP has supported the establishment of 448 SACCOs in 55 pastoral and agro-pastoral woredas of Afar, Somali, Oromiya and SNNPR. Support has been provided primarily through Woreda Cooperative Promotion Offices (WoCPs) that, with technical backstopping from Regional Cooperatives Promotion Bureaus/Agencies (RCPBs) are the main institutions that support cooperative development in Ethiopia. Table 1 shows the current status of PCDP supported SACCOs. 447 cooperatives have been registered, which means that they have a legal status to function as independent business entities and of these, 379 have bank accounts and 344 have starting lending, initially only from their own internal savings. The 448 SACCOs have 28,926 members with an average membership of 65 members. Women constitute about 71.8 percent of the total membership.<sup>55</sup> The concept of savings-based SACCOs was only recently introduced with PCDP-2. The SACCOs are therefore relatively young (under 4 years) but have been able to mobilize about 5.7 million ETB of capital and as of June 2013, about 17.4 million ETB savings. Average saving per member has reached about 602 ETB. Mandatory monthly savings per member range from ETB 10 to ETB 50, with the tendency to increase as SACCOs mature and members develop confidence in the concept.

**Table 1: Status of SACCOs supported by PCDP, as of June 2013**

Region	Number	Membership			Savings (ETB)	Capital (ETB)	Registered SACCOs	SACCOs w/ Bank Accounts
		Male	Female	Total				
Somali	147	1,336	7,412	8,748	6,858,538	3,008,946	147	865
Afar	60	1,580	1,834	3,414	1,962,511	551,207	59	54
Oromiya	169	2,845	7,935	10,780	6,486,853	1,720,110	168	168
SNNPR	73	3,846	2,138	5,984	2,095,310	399,437	73	71
<b>Total</b>	<b>448</b>	<b>9,607</b>	<b>19,319</b>	<b>28,926</b>	<b>17,403,212</b>	<b>5,679,700</b>	<b>447</b>	<b>379</b>

2. Table 2 shows that about 70 percent of SACCOs have started lending and 14.7 million ETB has been disbursed in loans to 15,946 members. Nevertheless, although lending is taking place, average loan size is quite low at ETB 920 (US\$ 50), and SACCOs are as yet unable to meet a growing demand for credit. Relatively, more women (71.8 percent) than men have benefited from the loan provision of these financial cooperatives. During a field visit in October, 2013 in three regions a development could be observed within the SACCOs, probably after

<sup>55</sup> However, membership of women significantly varies from region to region, influenced to a large extent on traditional roles that women have in managing resources. For example, women make up about 85% of SACCO members in Somali where they play an active role in trade and management of small ruminants. In South Omo, SNNPR, where women do not own assets, women members account for only about 36 % of the total SACCO membership.

members initially tested the new institution. For example, the amounts of individual monthly mandatory savings have increased significantly (from ETB 10 to ETB 40 and 50 in the SACCOs visited). There was also a corresponding increase in loan sizes and maturities (from three to six to ten months).

**Table 2: Loan disbursed from own sources, as of June 2013**

Region	Number of SACCOs	Number of Borrowers			Loan amount (ETB)
		Male	Female	Total	
Somali	74	612	3,857	4,461	5,158,582
Afar	44	205	175	380	820,215
Oromiya	155	2,011	6,580	8,591	7,770,000
SNNPR	71	1,672	842	2,514	927,314
<b>Total</b>	<b>344</b>	<b>4,500</b>	<b>11,454</b>	<b>15,946</b>	<b>14,676,111</b>

3. Ideally, SACCOs provide loans to members from their own sources; savings and share capital mobilized from members. In the short-term, however, they have only limited saving mobilization capacity. The demand for credit among their membership is however observed to be high. It will require a very long time and significant capacity building for these burgeoning financial institutions to develop the necessary ability to meet such demand from their own sources or, in the future, from borrowing from SACCO unions that are still to be established except in the Oromiya region. Given the absence of other finance providers, PCDP-2 provided eligible SACCOs, with a proven savings and credit history, seed capital to catalyze their lending operations. Table 3 indicates that 329 SACCOs, have used such seed capital to lend 21.3 million ETB to 17,525 members.

**Table 3: Loan disbursed from PCDP seed capital support, as of June 2013**

Region	Number of SACCOs	Number of Borrowers			Loan amount (ETB)
		Male	Female	Total	
Somali	59	517	2,994	3,501	4,221,200
Afar	44	826	782	1,644	1,426
Oromiya	155	2,478	7,388	9,866	13,111,514
SNNPR	71	1,672	842	2,514	3,964,789
<b>Total</b>	<b>329</b>	<b>5,529</b>	<b>12,006</b>	<b>17,525</b>	<b>21,298,929</b>

4. Loans provided are typically short term with a repayment period of 3- 6 months. Performance on repayment is encouraging. As shown in Table 4, although the repayment rate varies from region to region, the average repayment rate is 108 percent. Loan repayment rates in Oromiya and SNNPR are more than 108 percent; however, this doesn't necessarily mean that the repayment rate of all members is 100 percent but that members have repaid the principal and interest before the loans matured. Also, the repayment rate in Afar appears to be much lower than in the other regions. This may be due to unsuitable credit products that do not take into account the inability of borrowers to make regular repayments once they have to move with their animals. Overall, borrowers from Afar repay, though not always on a timely basis. The same applies to regular monthly savings that might come in late. In spite of the generally positive experience, there is a need for post-loan follow up to ensure 100 percent repayment by all members, to increase membership size, the volume of savings and to develop savings and loan

products that are suitable for pastoralists as well as for agro-pastoralists in all financial cooperatives in all regions.

**Table 4: Loan repayment, as of June 2013**

Region	No. of SACCOs	No. of members	Loan Amount	Loan repaid	Rate of Repayment*
Somali	65	1,002	4,221,200	3,711,052	98
Afar	30	333	1,426	709,662	82
Oromiya	154	5,396	13,111,514	13,000,000	108
SNNPR	48	782	3,964,789	1,592,440	166
<b>Total</b>	<b>297</b>	<b>7,513</b>	<b>21,298,929</b>	<b>18,963,154</b>	<b>108</b>

\*Repayment rate is calculated against mature loans and not the actual loan amount

5. There has been a significant growth, over the PCDP-2 implementation period, in the key outreach indicators, namely the number of SACCOs established, membership, savings mobilization, loans disbursed and share capital (Table 5). Households who have had accessed loans from the SACCOs have used loans to invest in income generating activities. The PCDP-2 support of SACCOs also made a positive impact on social indicators such as gender mainstreaming and empowerment and social cohesion among the members of the communities.

**Table 5: Growth in PCDP-2 supported SACCOs**

Indicators	May 2011	Sept. 2012	%age change
Total No. SACCOs	300	449	49
No. SACCOs registered	262	446	70
Total membership	18,815	28,086	49
Average membership	62	62	0
Total savings (ETB)	5,912,984	13,300,194	125
Average saving (ETB)	314	473	50
Share capital (ETB)	1,474,614	5,003,559	238
Average share capital (ETB)	78	178	128
Total loans disbursed (ETB)	1,424,344	11,052,718	678
Average loan size (ETB)	75	394	425
Members with loans	1,006	10,650	958
%age members with loans	5	37	32

6. Although progress is encouraging, the SACCOs supported by PCDP are fledgling and remain weak. Their membership and capital is still relatively low and investments in physical infrastructure, furnishing and working materials would be limited to basic facilities only unless externally supported (as by PCDP-2) which would affect their effectiveness and performance. Availability of own office space, furnishings, safe boxes, and books of accounts to properly keep records of individual members and the SACCO as a financial institution are all important to ensure that the SACCOs operate effectively. Overtime, the SACCO itself should invest in such



capacity from its own capital. There are encouraging examples of SACCOs that are using a portion of their interest/service fee income to cover rental costs for an office. Similarly, knowledge and experience of the SACCO leadership in terms of understanding the vision/mission and values of SACCOs and their operational modalities and their ability to disseminate this to members and potential members is still rather poor. The management and other committee members have low administration, leadership and technical skills to enforce the bylaws and prepare strategic and annual plans that are comprehensive to ensure the sustainability of the financial cooperatives. Additional training and capacity-building support (more than the once a year training under PCDP-2) is required to enable the SACCO management, committee members and members to develop the necessary capacity. The capacity of the primary SACCOs are also constrained by the low participation of members in the day-to-day activities and limited awareness on the missions, visions, goals, values and bylaws of the cooperative, to be improved by further awareness and financial literacy training.

7. SACCOs require reliable accounting and management information systems (MIS) to provide timely information for their decision-makers. This would include systems, software, and benchmarks against which reports are to be prepared and analyzed. This has yet to be properly developed in the case of pastoral SACCOs

### **Challenges of delivering financial services to pastoral communities**

8. Some of the challenges faced by financial institutions in pastoral areas such as high transaction costs due to low population density and mobility of pastoralists, high risks associated with pastoral communities' vulnerability to weather shocks, limited physical infrastructure such as roads, and telecommunications, and unfavorable macro-economic policies (including direct government intervention through a variety of programs) are structural and will generally limit the opportunities for financial sector growth. Nevertheless, the experience of PCDP has shown that there is scope for growth of sustainable grassroots financial institutions despite these constraints. This is an important opportunity since access to finance is critical for livelihood development and diversification among pastoralists and agro-pastoralists. The review conducted on behalf of the appraisal team for PCDP-3 considers some specific challenges that need to be addressed to realize this opportunity.

#### **(i) Lack of financial awareness**

9. There is very limited financial awareness among pastoralist communities in Ethiopia. Pastoralists are used to holding physical rather than financial assets. Many members of SACCOs supported by PCDP-2 indicate that they hardly saved in cash before being a member of a financial cooperative. This is further confirmed by the recent national survey by the Ethiopian Inclusive Finance Training and Research Institute (EIFTRI) in 2013 that found cash saving of the pastoral communities to be extremely low. As a result, mobilizing savings is a challenge and requires innovation to promote savings products that are relevant to pastoral communities. Many pastoralists also are often not ready to assume the risk of using borrowed funds for investment, afraid of being indebted. However, once SACCO members experience the benefits of savings and receiving (and subsequently repaying) credit they eagerly embrace it and use the demonstration of such benefits to attract additional members, as demonstrated by some SACCOs created under PCDP-2. In general social norms do not censure defaulting on loan commitments,

so when pastoralists actually do take on loans it is an informal arrangement. SACCOs address this issue by requiring at least two guarantees secured by members' savings, in addition to an in-depth review of business opportunities to be financed and of the member's skills and ability and willingness to repay. However, there is a need for innovation in the development of savings and loan products. More importantly, there is also a need for concurrent work on financial education regarding savings and lending, cash management, and possibly more specialized financial products such as micro-insurance. This is a serious challenge in some pastoral communities where appreciation for the advantages of cash based operations is low.

**(ii) Established financial products have limited relevance to pastoral communities**

10. Financial products offered throughout rural Ethiopia are limited to a narrow range of savings and loan products, and some piloting of micro-insurance. This is especially so within the SACCO sector where products have been developed centrally by the FCA or by Regional Cooperative Bureaus, prescribed and implemented in all financial cooperatives in the country. Neither have MFIs nor banks developed products intended for pastoralist communities as generally they do not see pastoralist communities as viable clients. Yet, as suggested above, the needs and aspirations of pastoral communities are very specific and expansion of financial services to such communities must start with exploring what the real demand for financial services are. This might include micro-insurance, transfers (as remittances are significant among some communities) and other services beyond savings and credit.. Micro-insurance might be especially important since pastoral communities in Ethiopia, who depend mainly on livestock, are vulnerable to risk and economic shocks related to variability in weather, recurrence of droughts and livestock disease. For shocks that result in relatively small losses, financial needs may be most appropriately served by emergency loans and targeted saving products. Some SACCOs have developed an "emergency fund" to serve as insurance in case of inability of members to repay or of other emergency needs. The fund is financed by a levy in the amount of 10 percent of interest or service charge due and is managed by the SACCO management committee. Insurance products for weather-related or widespread livestock disease will be beyond the capacity of any small financial institution at this time, let alone of such small community-based financial institution not yet linked to a wider network.

**(iii) Lack of non-financial services**

11. Demand for financial services depends, in part, on opportunities for profitable investments or for diversification into new livelihood opportunities including wage employment. Yet, there are very few opportunities available to pastoralists (beyond the traditional extensive livestock production) because of low levels of education and lack of familiarity with the formal sector, lack of awareness of potential business opportunities and lack of business skills. Linkages to markets are poor and they live in a difficult physical environment. The growth of the financial sector in pastoral areas is therefore in part dependent on support to such communities in services that are complementary to finance such as business development, skills training, enhanced market linkages, advisory services on new technologies and technical training, veterinary services and supply of drugs for livestock development, etc. The delivery of such services to pastoralist communities is very limited and PCDP-3 will address these issues.

**(iv) Dispersed and mobile population to which formal financial service providers are not well suited**

12. Because pastoral communities are dispersed and mobile, formal financial institutions such as banks and MFIs have not found it profitable to expand services to such communities. Operation of banks is confined to urban centers. MFI services are not available in Afar and very limited in scope in the Somali Region (through the USAID supported Somali Microfinance Share Company (SMFSC) whose clients accessing loans have to date not exceeded 3,000). In Oromiya and SNNPR even though the Oromiya Credit and Savings Share Company (OCSSCO) and Omo MFI have branches, their penetration in pastoral areas remains close to none. More creative approaches to financial service delivery are therefore required that rely on community-based organizations, such as SACCOs. However, as SACCOs in pastoral areas are very young and, apart from some SACCOs that have recently been established by some NGOs, limited to those having been established by PCDP-2, they have not yet emerged as strong financial institutions serving pastoral communities to any significant extent.

**a. Limited capacity to regulate, oversee and support SACCOs**

13. Mobilization of communities to establish cooperatives (including SACCOs), registration of cooperatives and subsequent oversight in terms of technical support, capacity building, monitoring, and control (including annual auditing of SACCO accounts) is provided by public cooperative promotion agencies, particularly the Woreda Cooperative Promotion Office (WoCP) with backstopping from the FCA and Regional Cooperative Bureaus. The capacities of WoCPs to provide such support vary from region to region. For example, in the Somali region, it is only since the spring of 2013 that WoCPs have been established at the woreda level. The cooperative promotion head has been assigned in each of the 65 Woredas but the Regional Bureau is still in the process of developing the organizational structure of the woreda offices. The regional government is expected to allocate budget to the new WoCPs in EFY2006. On the other hand, in SNNPR, although the capacity of staff is mixed, WoCPs have relatively capability to promote and regulate financial and non-financial cooperatives. Nevertheless, all WoCPs face challenges related to technical capacity specific to financial institutional development, limited mobility due to inadequate provision of vehicles and/or motorbikes to WoCPs, inadequate allocation of recurrent budget whereas most of the work is related to outreach and working directly with communities, and most importantly, limited capacity to audit all SACCOs even though regular audits are a critical input for SACCOs both in terms of regulation and in helping them monitor their financial performance. Since auditing of SACCOs is critical, the government through WoCPs provides auditors at the woreda level. In the long-run, SACCO unions, once established and performing well, could take the responsibility of auditing and supervising primary SACCOs. Additionally, high staff turnover, aggravated by low salary levels, stretches the already limited capacities even further.

14. Where SACCOs have been established, the demand for loans tends to be much higher than the ability of the SACCO to mobilize savings as loan capital. Many SACCOs cannot meet the demand of their members for credit, and their management committees have to categorize members requesting loans into three or four groups. The small savings mobilized from members is disbursed to the first group, where the remaining two groups would wait (a minimum of three

to six months) until the first group repays the loans. Among SACCOs supported through PCDP-2, this has meant that loan sizes are kept small, repeater loans have been unlikely and repayment periods are short and similar for all borrowers, failing to accommodate variability in the cash flows of activities for which credit would be used and loans have often needed to be repaid before investments yielded real benefits. This reinforces the discussion above that innovative savings products are required to boost SACCOs' loan capital. It also suggests that there may be room for injection of some seed capital to catalyze SACCOs' credit functions while SACCOs put in place strategies to significantly increase savings. In order to address the shortage of loanable funds some SACCOs have already increased the amount of mandatory monthly savings per member. They are also adding interest/service fee income to their capital instead of paying out earnings in the form of dividends.

#### **b. Some NGOs providing unsustainable support to SACCOs**

15. In the Ethiopian context, NGOs, by law, are not allowed to directly channel credit to any community that they work with. They are, however, active in promoting SACCOs and Voluntary Savings And Loan Associations (VSLAs) as a way of channeling financial services to their target populations. Most of the SACCOs established with the support of NGOs have proven to be unsustainable and most of them have ceased to operate after the NGOs phased out their support. The reorganization and restructuring of these SACCOs has created an additional burden to the WoCPs and Regional Cooperative Bureaus. In contrast PCDP-promoted SACCOs will not depend on continued donor/government support after the initial stages. PCDP-3 will follow a strictly savings-based approach and will only provide a one-time savings leverage seed capital grant (in two stages), with close supervision by the project accountant, in addition to considerable capacity-building and complementary non-financial services activities. Therefore it is not expected that PCDP SACCOs will need to be reorganized and restructured, especially since they already are under the oversight of the WoCPs and Regional Cooperative Bureaus.

#### **c. Deviations from the core activities of SACCOs**

16. SACCOs are financial institutions at the grassroots level which should specialize in delivering financial services to members. However, there have been incidences within PCDP-2 project areas where SACCOs have used the liquid funds available (usually for reserve) to buy goods which can be sold in their kebele and nearby villages at a relatively higher price—diverting into marketing activities away from the core function to provide financial services. Although this is tempting and may raise much-needed capital, it dilutes financial services.

#### **d. Absence of SACCO unions**

17. Vertical integration of SACCOs in the pastoral communities, through the creation of SACCO unions, can play a critical role to address the need for support to primary SACCOs (reducing the dependency of financial cooperatives on the WoCP) as well as liquidity problems where demand for credit exceeds loan capital from mobilized savings. Unions can also assist primary SACCOs in linkages with formal finance providers such as banks and MFIs and enforcing self-regulation, including audit. There is, however, a gap. Although PCDP-2 and some

NGOs have supported the establishment of a large number of SACCOs among pastoral and agro-pastoral communities, there are currently no SACCO unions that serve these primary cooperatives, except in the Oromiya region where there is at least one Union and where a number of SACCOs are now meeting the Union's criteria and have applied for refinancing, at appropriate interest rates.

#### **e. Lack of diversity among SACCO members**

18. The SACCOs established among pastoral communities are open for all people in a kebele. However, there is a tendency for community members of similar status and with similar demands to come together. Often, SACCOs tend to exclude very poor people (who cannot pay monthly contributions) and are not attractive to richer members whose would have been interested by flexible savings products. In the first case SACCOs are not living up to their potential of broadly servicing their target communities. In the second case, their own sustainability is affected by the loss of a potential source of loan capital (i.e., voluntary savings from the better-off community members who would not demand loans) and imbalance between savings mobilization and credit demand.

#### **A framework to promote inclusive finance in pastoralist areas**

19. A strategic approach is required to build financial systems that address the needs of pastoral communities on a sustainable basis including macro-level interventions (i.e., putting in place enabling policies as well as a creating a conducive legal and regulatory environment) which though important will not be treated here. Interventions to strengthen financial intermediaries and client capacity are discussed below. These form the basis of PCDP-3 support.

##### **(i) Interventions at the level of financial intermediaries**

20. Extending financial services to rural communities by formal financial institutions is both a high cost and high risk initiative. Most formal financial institutions therefore prefer to serve high net worth households, trade, commerce and industry for their business. This is the more so in pastoral areas where transaction costs are higher due to the dispersed and mobile nature of potential clients and where business is risky since livestock based livelihoods in arid and semi-arid lands are exposed to variable climatic conditions, uncertain sources of fodder and water, fluctuating markets and livestock disease pandemics. Promoting access to financial services will therefore necessarily depend on the initiatives of pastoral communities to organize themselves. This would allow them to link up with formal financial institutions—either directly or through federated bodies, and also to mobilize their own resources and extend financial services to each other. Thus the first step to building financial systems in pastoral areas is the establishment and support of grassroots financial institutions, particularly SACCOs. A second step should be the establishment of SACCO Unions and encouraging SACCO membership in their respective Union. Consideration has also been given to providing capacity building support and incentives for MFIs interested in delivering financial services in the pastoral areas but as of now there is no noticeable interest.

#### **a. Establishing and supporting the expansion of SACCOs**

21. SACCOs are expected to: (a) provide easy access to financial services, (b) develop financial products that relate to actual demands because of better knowledge of clients (e.g., their income levels, business acumen, potential investments including cash flows, profitability, distribution channels, input sources, etc.) that have close social ties with each other, (c) provide a broad range of financial products and services including saving, credit and possibly once SACCOs are mature insurance, pensions, money transfer, financial advice, that can moreover build on existing norms and traditions, (d) provide services at minimum cost as they have limited overheads and risks considering the fact that to be sustainable they must pay an attractive interest on voluntary savings, cover all administrative costs, cover the risk of default which though low is nevertheless positive, and make acceptable profits), (e) reach excluded populations such as the poor and women.

22. Promoting viable financial cooperatives will require addressing the complex issues of ownership, governance, management, systems, and service delivery structures that influence their capacity, performance and sustainability. Given the challenges discussed above, support to SACCOs should include technical assistance to the development of financial products relevant to pastoralists' needs focusing on savings as well as credit and over time diversifying to more sophisticated products such as micro-insurance and money transfer. There is also a need for institutional capacity building in terms of developing organizational, operational and leadership capacity, assuring good governance, putting in place internal controls, building accounting and management information systems<sup>56</sup> and investment in physical capacity. Finally, because of the potential, in the short term, for an imbalance between ability to mobilize savings and demand for credit, SACCOs would benefit from some access to loan capital beyond their own internal resources.

23. Such support needs to be carefully managed. There is a temptation to provide extensive subsidies to SACCOs, which could easily make them unsustainable. In principle the SACCO should invest in its own capacity, so all assistance—particularly in terms of physical facilities to SACCOs, while important because these are small struggling organizations, should be provided with a view of being phased out and as much as possible matched with contributions from the SACCO itself. The development of financial products is central to the operation of SACCOs. There has been some gap in PCDP-2's support to pastoral SACCOs that depended on financial products developed centrally and that do not appear to be appropriate for pastoralists. There also needs to be capacity-building in the area of setting interest rates/service charges. Even though SACCOs agree on the need to charge market-based interest rates there appears to be differences in the actual rates set by the individual SACCOs. A creative approach to the development of financial products is required, to develop flexible products that respond to the needs of mobile SACCO members, putting greater emphasis on mobilizing voluntary savings, and providing financial advice on portfolio management that could include diversifying pastoralists' predominantly non-cash asset based holdings. As products are being developed, there a need to

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<sup>56</sup> Development of management information systems is an area that is often neglected. Yet, to evolve into mature financial institutions, SACCOs require accurate data storage, fast analysis and retrieval of information to inform the management and handle liquidity, loan management, saving mobilization and other transactions. To advance this process, it is necessary to ensure that the existing manual-based accounting and management information systems of SACCOs are functional. Moreover, there is a need to allocate an innovation fund for primary SACCOs and unions to pilot relatively simple computerized system.

develop the capacity of the SACCOs to deliberately avoid interest rate subsidies and caps which distort markets and create internal inconsistencies that could constrain the sustainability of the SACCOs.

24. In general, SACCOs' main source of capital should be share capital and savings mobilized from members, to be leveraged via refinancing from outside sources such as Unions, at an appropriate interest rate. However, as discussed earlier, demand for loans within SACCOs already established with PCDP II support is greater than the capital mobilized. There is therefore an apparent need to diversify the source of loan funding. This is being addressed through a one-time seed capital (discussed further in section IV below). In addition to such support, there is also a need to link SACCOs with commercial banks and SACCO Unions, where available. The banks and especially SACCO Unions can provide wholesale loans and additional training for SACCOs in the area of financial management, liquidity management, credit appraisal and risk management. The Oromiya region is a good example where the Cooperative Bank of Oromiya provides loans to Unions for on-lending to its member SACCOs, all at appropriate interest rates and with careful screening and significant due diligence processes being undertaking at all levels.

25. Finally, support to SACCOs needs to be closely monitored. Counting the number of clients/members who accessed financial services is not an end by itself. There is a need to focus on measuring the quality of financial services provided and to ensure that the financial needs of the poor and excluded population in pastoral areas are addressed properly. Lack of detailed data (financial and non-financial) to measure the performance of SACCOs has been a challenge for the development of the SACCO sector in general. There is a need to monitor the financial performance of the SACCOs in pastoralist areas using Key Performance Indicators (KPIs), which include outreach, financial performance and sustainability, quality of earnings and assets. This is a challenge that needs to be addressed by formulating KPIs, setting up a simple system which guides WoCPs to monitor and supervised the activities of SACCOs and regularly measure KPIs, starting with a baseline survey to show the current status of the existing SACCOs. A separate performance monitoring unit within the WoCPs should be established, which collects the financial and non –financial data to regularly monitor the performance of SACCOs.

#### **b. Expanding the outreach of MFIs to pastoral areas**

26. As the financial services grow in pastoral areas, it is expected that there will be more business opportunities for MFIs. The expansion of MFI activities to serve pastoral areas would, furthermore, be an important complement to SACCOs, particularly if SACCOs can borrow from them and thus diversify their sources of loan capital. Yet, currently, there is very little MFI engagement in pastoral areas. Given a history of limited service, there is a need to provide incentives (e.g., logistics and infrastructural support when branches are opened in remote pastoral areas, partial credit guarantees to share risks of engaging with individual pastoral households, technical support to include pastoral areas in business expansion models, etc.) to help existing MFIs expand more deeply into pastoral areas and start-up funding for the establishment of a new MFI in Afar. However, all these activities are outside the scope of PCDP-3.

#### **(ii) Client level interventions**

27. Pastoral communities' lack of experience with cash based livelihoods (with a few exceptions, particularly among agro-pastoralists that have also diversified into trade related IGAs) has been identified as a challenge for the promotion of financial services among such communities. In particular, the strength of SACCOs is determined by the strength of their members—including their proficiency in cash management, business skills and ability to manage their economic livelihoods. Thus, for the development of a strong financial sector embracing pastoral communities, there is a need to complement support to SACCOs and other financial intermediaries with support to livelihood development and promotion of financial literacy.

### **(iii) Capacity building for regulatory and support institutions**

28. SACCOs are part of the two sectors, namely the cooperative (development) sector and the financial sector. As financial institutions, they need to be properly regulated and supervised and should operate within the framework of the financial sector. As cooperatives, they have to follow the cooperative principles and work for the benefits of their members and the community at large. In Ethiopia as in many countries, there seems to be some merging of these roles and the cooperative sector has oversight over SACCOs' financial operations. Thus, although there is an enabling legal and regulatory framework to promote banks, microfinance institutions, and financial cooperatives for the country as a whole at the macro level, there is a need for a law or proclamation, separate from the Cooperative Law to promote and regulate financial cooperatives. Furthermore, although the government should and does play a very active role in the promotion of cooperatives in general, it should not be involved directly or indirectly in the day-to-day operations of cooperatives particularly of finance providers. While support from government institutions is expected in terms of creating an enabling environment and an appropriate regulatory and legal framework, supporting the creation of appropriate financial and real sector infrastructure, enforcing contracts, social mobilization to encourage rural/pastoral communities to engage with grassroots financial institutions and providing organizational support to financial cooperatives, a lack of understanding of their appropriate roles could push government staff to promote unsustainable practices among SACCO. In many regions of the country though not in PCDP-2I woredas, this has included providing unsustainable subsidies, putting caps on interest rates or advising financial intermediaries to maintain low interest rates to encourage lending, and credit forgiveness measures. Much of these distorting actions arise from a lack of understanding of rural finance principles and low capacity within government support institutions including within the cooperative support structure (as mentioned above). During the design of PCDP-2 a conscious decision was taken to try to prevent such effects from happening and specific training was provided as outlined in the appropriate manuals. Thus, a third leg for effective support to the development of a dynamic financial sector embracing pastoral communities, is a continued strong program for capacity building within public sector support and regulatory institutions and awareness creation of basic financial principles among decision-makers.

### **The provision of seed capital to SACCOs in pastoral communities**

29. The literature and impact studies of projects on rural finance, particularly those providing grant, subsidies, and credit lines to targeted households in the 1990s have shown that such interventions have often been unsustainable and failed to achieve the intended purpose of improving rural livelihoods. However, rural finance projects properly designed to focus on



providing financial services aimed at a community in its entirety, providing a broad range of financial services (saving, credit, micro-insurance, and remittance), rather than credit only, and focusing on the use of market interest rates have proved to be operationally and financial sustainable. The experience of PCDP-2 and the Household Asset Building Program (HABP) in Ethiopia indicates that the provision of the one-time seed capital support has assisted SACCOs to significantly improve their operations.

30. ***Seed capital support of PCDP-2 serving as an incentive to mobilize savings:*** PCDP-2 has provided seed capital determined as a proportion of savings and capped at 100,000 ETB. Members of the SACCOs that have received such support are very clear on the objective and ownership of the one-time seed capital support of PCDP-2—as a suitable entry point for improving access to loans. During focus group discussion, SACCO members have explained that the seed capital is incorporated into the SACCOs capital and is used for the purposes of extending credit in the same way as funds mobilized from savings. They have furthermore expressed that this cannot be divided among members and if any member should elect to leave the SACCO, they would not receive a share from the seed capital. The experience of PCDP-2 has been that the one-time seed capital support has improved the saving mobilization capacity of the SACCOs as well as increasing loan capital. The discussions with SACCO members revealed that the SACCOs promoted through PCDP-2 were not established with the objective of accessing the loan capital support. On the contrary, SACCOs attempted to meet the loan demand of members from savings. However, they indicated that receiving the one-time seed capital support has assisted their SACCOs to increase outreach and increase saving and attract additional members.

31. ***Managing revolving funds by SACCOs under the HABP:*** About 52 percent of HABP supported kebeles (though many are not pastoral or agro-pastoral) have SACCOs. According to the HEDBEZ Business and Consulting PLC (2012), SACCOs have successfully managed the Community Revolving Fund provided by the Food Security Program and have also managed members' funds properly. Where such funds have not available, the study found that there were challenges to maintain membership of the poorest households. Some of the key factors are:

- Increasing disappointment among members due to limited or no access to credit due to shortage of loanable capital. It has been indicated that the cooperatives were organized to create access to credit for their members. From the small saving the members made, adequate loan size could not be given. Thus, many of the SACCO members feel that the cooperatives could not render their purpose.
- SACCO membership requires regular saving which is not always possible for the poor. As the SACCO members are farmers, their income generation depends on agricultural production which is seasonal. Saving requirement has not scheduled to follow the earning pattern. Moreover, alternative ways of saving is not arranged.
- Periodic increment of minimum saving requirement per member (e.g. in Amhara and Oromiya Regions). Although voluntary saving can be decided by individuals, the compulsory saving is often the same for all members. With the interest to increase saving and overcome financial shortage, some SACCOs have increased their saving rate. This has reduced the motivation to continue as members due to financial limitation.

***Risks of providing seed capital to SACCOs:*** There is a strong rationale for providing a one-time seed capital to support SACCOs including (i) a high demand for loans relative to savings mobilized at this early stage of SACCO development among pastoral communities, (ii) access to loans through SACCOs under PCDP-2 has given diverse economic opportunities to pastoral communities, (iii) given that SACCOs are new institutions, there is a need to demonstrate their potential, and (iv) the seed funding has served to both catalyze credit and to spur further savings mobilization and membership growth. However, such support also carries risks.

32. *Distortion to rural financial markets:* A key risk is that the seed capital, which is provided as a grant to the cooperatives, would induce decisions that are both unsustainable for the SACCO and undermine the efforts of other finance providers. For example, whereas the sustainability of SACCOs depends on their ability to mobilize savings and the interest income from lending (and, if other services are provided, service charges related to these) which is in turn affected by the lending and saving interest rates and operational costs, where a large part of the loan capital is obtained freely, interest rates on both lending and, more importantly, savings tend to be depressed—which could undermine savings mobilization efforts. A quick observation of practices by PCDP-2 supported SACCOs in June 2013 indicates that interest rates (or service charges for loans) of SACCOs within a region or woreda are similar and tend to be universally low (often under 8% per annum on loans). However, the experience is diverse cases where interest rates are higher are also observed. For example, during a field visit in October 2013 it was found that some charged interest rates ranging from 10 percent for three months to 10 percent for 10 months and some required equal monthly repayments, while others include a bullet payment at maturity, rendering the calculation of annual rates difficult. In order to avoid distortions theoretically interest rates should be based on prevailing market rates and should vary from product to product (depending on the type of economic activities and risks involved). In Ethiopia's pastoral areas there is no issue regarding the risk of undermining the efforts for other finance providers as there are hardly any financial institutions providing financial services to the pastoral communities and none outside of the major towns.

33. *Ownership and governance:* Savings, as well as equity participation provide members with a strong sense of ownership of a SACCO. Ensuring ownership motivates members to demand transparency and accountability of the SACCO governing body as well as its management. It has been international experience that external funding from government or from donors, especially if ear-marked to special target groups, can diminish the incentive for good governance and management unless members save and take loan from their own savings. This ultimately leads to weak institutions, embezzlement and loss of revenues. It is therefore important to cap the seed capital so that it does not overshadow members' contributions to the loan fund. To date, PCDP-2 has not encountered any cases of corruption and embezzlement and SACCOs are on the most part profitable.

34. *Elite capture:* Where a free resource is provided, there is an incentive for more influential sections of society to seek to seize its benefits. However, by law, SACCOs must have open membership and the experience has been that benefits have accrued primarily to more disadvantaged members of PCDP beneficiary communities, mostly to women.

35. To guard against the above risks, any support towards the capitalization of financial cooperatives should be carefully targeted to avoid capture of elites, be matched to savings mobilized by beneficiary SACCOs to ensure real ownership, and would be accompanied by other types of technical support to build transparent and accountable governance, management and financial systems. SACCOs established with PCDP-2 support and to be promoted under PCDP-3 would only access the one-time seed-capital support when they demonstrate that internal control systems for effective governance and management are in place (including *inter alia* audits completed within six months of the closure of the financial year), and establish a track record (over a year) of strong financial management including regular savings, inter-lending, a satisfactory loan policy, >95 percent repayment rates, lending rates that are market related and cover all costs, and a profitable status.

36. Additionally, support should be provided to ensure that interest rates are set appropriately. During focus group discussions with members of selected SACCOs, it was found that SACCO leadership relies on guidance from cooperative promoters and accountants from the WoCP to suggest interest rates which is then approved by their general assembly. Capacity building should be provided for promoters and accountants at WoCP so that they advise cooperatives that lending interest rate should be high enough to cover all operation and financial costs considering the following factors: (i) administrative expenses, including rent and utilities, salaries, travel and transportation, office supplies, depreciation, etc; (ii) inflation; (iii) cost of loan losses; (iv) the cost of funds that the SACCO borrows or the cost of saving mobilization; and (v) investment income or profit for the SACCO which allows it to increase equity. This review concludes that a one-time seed capital injection to SACCOs will contribute to the development and expansion of sustainable SACCOs. However, it must be complemented by support, follow up, and supervision by WoCPs, whose capacity in this regard must be developed.

37. SACCOs that access a one-time seed capital support should receive tailored capacity building support. This would include skill training and awareness creation interventions, particularly for the management committee members to improve the governance and management of their cooperatives. SACCOs should furthermore be monitored to ensure that they implement transparent decision-making procedures and ensure accountability to members. They should furthermore be provided with technical assistance to design internal regulations (by-laws) and controls. This should protect savings and the seed capital against fraud and mismanagement. Effective member participation is central to the development of sustainable cooperatives. Towards this end, SACCOs should also receive induction and regular refresher training on basic principles of cooperation and cooperative management; conducting meetings; business processes and systems; lending policies, procedures, and portfolio management; accounts and financial statements; legal, regulatory and supervisory framework; compliances etc.

### **PCDP-3's contribution to the promotion of inclusive finance in pastoralist areas**

38. PCDP-3 will promote the establishment of pastoral SACCOs as one intervention to support pastoralists' livelihoods under its Rural Livelihoods Development Component. This support is predicated upon complementary support by the Rural Finance Intermediation Project II (RUFIP-2). PCDP-3 is well placed to help establish SACCOs building on its more general social mobilization efforts. It, furthermore, has a particular interest in promoting their establishment as experience world-wide show that they contribute significantly to engaging communities in local

development endeavors. RuFIP-2 will contribute to the evolution of SACCOs from social organizations into mature financial enterprises. Thus, PCDP-3 will be focusing on the establishment and provision of first generation support for RuSACCOs in the pastoral areas—including (a) social mobilization and financial education; (b) organization support; (c) skills training; (d) systems development; (e) leadership training; (f) physical capacity building; (g) technical assistance and consultations to develop simple financial products appropriate to pastoralists; and (h) provision of a carefully managed savings leverage grant as seed capital. It will also build capacity within WoCPs particularly in terms of providing appropriate advice on financial products. RUFIP will takeover/follow PCDP-3 interventions to provide a second generation support with a focus on networking and enhanced institutional support to the SACCOs and will foster linkages with Unions (still to be established under RuFIP-2) in their respective areas. It will also build capacity within the cooperative support structure to ensure that adequate long-term support can be provided to SACCOs through the government system.



**Annex 9: Governance and Anti-Corruption Matrix**  
**ETHIOPIA: Pastoral Community Development Project III**

Corruption Mapping Area	Level of Initial Risk	Opportunity for Corruption	Mitigation Action	Means of verification	Responsible implementing body
<b>PROGRAM DESIGN AND MANAGEMENT</b>					
<b>1. Insufficient capacity of RPCU, MSTs, WoPD, WOFED and other sectoral woreda staff</b>	S	1.1 Inadequate staffing, turnover of trained and experienced personnel in woreda implementing offices resulting inefficient management and implementation of PCDP at woreda (including disincentive of staff in specific disciplines such as procurement and engineering due to remuneration and workload in pastoral remote areas)	<ul style="list-style-type: none"> <li>- <i>Support woreda implementing agencies by recruiting adequate number of MST staff (six technical staff) apart from the project staff assigned at woreda level (woreda focal person in WOPD and finance officer in WoFED).</i></li> <li>- <i>look into remuneration of staff in specific disciplines such as procurement and engineering staff to reduce turnover; assign personnel to vacant posts without delay within a month and provide induction training for new recruits</i></li> <li>- <i>Although the salary scale for MSTs is higher than the regular staffs, minimize the work load of MST (not to cover more than 3 -4 clustered woredas each)</i></li> <li>- <i>Utilize the existing woreda staff fully by organizing Woreda Technical Committee (WTC) and Woreda Project Appraisal Team and provide training to capacitate the team members</i></li> <li>- <i>Provide bi annual refresher training as incentive to woreda and kebele level personnel including community members besides ToT to core training team and multiple cascaded training at all level</i></li> </ul>	Annual progress report (APR)	FPCU, RPCU, WoPD

Corruption Mapping Area	Level of Initial Risk	Opportunity for Corruption	Mitigation Action	Means of verification	Responsible implementing body
		1.2 Low technical qualification of woreda sector office staff and MST members due to low quality of training and management (less transparent training system; improper planning of capacity building programs outside staff's normal duties) during the first year expanded capacity building program	<ul style="list-style-type: none"> <li>- <i>Verify the TORs and procurement process for outsourcing training; and set up TOR and criteria for selection of core trainers and trainees by FPCU and RPCU</i></li> <li>- <i>Sustain trained personnel by providing TOT to at least to 40-60 core team members and implement the planned number of cascaded training according to the expanded capacity building program</i></li> <li>- <i>Place safeguards mechanisms such as standard /consistent planning and reporting system/format for implementing training</i></li> <li>- <i>Conduct external spot checking of training at all levels during its provision by regional and federal staff or at least quarterly external spot checking of the deliverables as part of the overall M &amp; E system</i></li> </ul>	Quarterly report on implementation of training ; availability of appropriate TOR and selection criteria for ; quarterly external spot checking of training	FPCU, RPCU,
		1.3 Stretched capacities of FPCU, RPCU, WOPD, WOFED due to scaling-up of the project and institutionalization of CDD into woreda planning leading to inefficient management and implementation of PCDP activities and opening leakages to maladministration	<ul style="list-style-type: none"> <li>- <i>Draft and implement strategies, programs for capacity building and management of the project in carrying out activities such as TAs and training ,recruitment of additional MSTs to support new PCDP assisted woredas , defining modalities and responsibilities of providing support by higher administrative tiers to woredas and communities etc.</i></li> </ul>	APR and Bi-annual mission	FPCU
		1.4 lack of adequate transport/ facilities for mobility in remote woredas	<ul style="list-style-type: none"> <li>- <i>Provide vehicles for new woredas, RPCUs , MSTs and WoPDs as a priority</i></li> </ul>	APR and Bi-annual mission	FPCU

Corruption Mapping Area	Level of Initial Risk	Opportunity for Corruption	Mitigation Action	Means of verification	Responsible implementing body
<b>2.Favoritism in personnel management</b>	S	2.1 Appearance of cases of nepotism and favoritism in appointment of staff in RPCU, WoPD and Woreda offices where the procedures for competitive recruitment are not respected	<ul style="list-style-type: none"> <li>- <i>Strengthen the administrative manual containing human resource development policy and staff rules, , procedures for competitive recruitment , sanctions, ethical principles and more rigorous compliance checking mechanisms for staff members at FPCU, RPCU and Woreda</i></li> </ul>	APR	FPCU
<b>3. Accountability of management and executing staff</b>	S	3.1 key staff members (especially MSTs members) inadequate implementation of project activities due to overlapping of responsibilities.	<ul style="list-style-type: none"> <li>- <i>Provide clear terms of reference for division of responsibilities and accountabilities of all types of MST members e.g., defining responsibility of MST engineer , concerned zonal offices or regional bureaus; RPCU and MSTs, WoPD</i></li> <li>- <i>accountability and performance evaluation of MST by FPCU on risk of manipulating project benefits</i></li> </ul>	Clarified responsibilities of MST members in the detail administrative manual	FPCU, RPCU
		3.2 Poor performance of individuals or team staff members (as per performance indicators)	<ul style="list-style-type: none"> <li>- <i>Strengthening performance review system as part of the detail administrative manual (includes criteria and performance indicators for key staff, annual performance review mechanism, setting up procedures to measure absenteeism and sanctions) including guidance procedures for vehicle management and sanctions for abuse</i></li> </ul>	Availability of updated administrative manual	FPCU



Corruption Mapping Area	Level of Initial Risk	Opportunity for Corruption	Mitigation Action	Means of verification	Responsible implementing body
		3.3 Absenteeism - Risk of project staff not attending posts	<ul style="list-style-type: none"> <li>- <i>FPCU reviews absenteeism of RPCU project staff by introducing performance review mechanism as part of the updated administrative manual and seeks early solutions</i></li> <li>- <i>RPCU assesses the causes of absenteeism of staff of MSTs ,WoPD and other implementing offices from the point of view staff members and communities and provide early solutions including training on intrinsic motivations, ethics, norms</i></li> <li>- <i>Ensure the proper functioning of sector specific community based overseeing institutions and grievance/ complaint handling and redress committee to detect absenteeism of project staff, poor quality of service provision and seek early solutions</i></li> </ul>	APR (includes performance reviews and assessments)	<i>FPCU ,RPCU WOPD</i>

Corruption Mapping Area	Level of Initial Risk	Opportunity for Corruption	Mitigation Action	Means of verification	Responsible implementing body
<b>4. Audit Report Publication</b>	<b>M</b>	4.1 Unavailability of timely information on the progress, results of project implementation and utilization of resources (including information on misuse, collusion and nepotism, if any)	<p>- <i>Publicize performance audit reports on the project's website along with the formal government responses to the issues raised in the audits not later than two months of the response by the government semi-annually and after closing of accounts, annually</i></p> <p><i>(semiannual interim performance audits to be conducted from federal down to community level to sufficiently cover annual audit from large number of implementing agencies i.e., over 100 woredas)</i></p>	Publication available in the PCDP Web site and regular update of information in the website	FPCU,( by external independent auditor or independent external audit firm assigned by the Federal Auditor General), BOFED, WOFED
<b>TENDERING AND PROCUREMENT</b>					

Corruption Mapping Area	Level of Initial Risk	Opportunity for Corruption	Mitigation Action	Means of verification	Responsible implementing body
<b>5. Procurement capacity of FPCU, Woreda and Tender evaluation Committees</b>	S	5.1 Non-independent judgment of the consultant evaluation process and decisions bias towards consultants as “instructed” by the higher level officials or other parties	<ul style="list-style-type: none"> <li>- <i>Include independent professionals as part of the proposal evaluation team for any major procurement beyond sub -projects threshold ceilings</i></li> <li>- <i>Strengthening internal control and checking system; internal audit at all levels and woreda appraisal team to ensure separation of power or segregation of duties, check and balance between higher official, finance head / personnel and evaluation committee</i></li> <li>- <i>In the short-run, government to institute an independent procurement audit. In the long term, include procurement compliant mechanism in the Regional procurement proclamation or legislation similar to the Federal procurement proclamation.</i></li> </ul>	APR, Procurement Audit (including review of capacities)	FPCU, RPCU, BOFED
<b>6. Bid /Proposal evaluation</b>	S	6.1 Issuing of Expression of Interest and delay of evaluation not as per the guideline (not able to sufficiently draw competitive consultants/ contractors but benefits exclusive consultants)	<ul style="list-style-type: none"> <li>- <i>The procurement plan, with detailed timeline, will be binding as the basis for any procurement actions including for publication of Expression of Interest and evaluation in order to draw sufficient competitive consultants/ contractors</i></li> <li>- <i>Make clear accountabilities of procurement staff, bid evaluation committee, and CPC on not drawing competitive consultants and delay of evaluations</i></li> </ul>	APR and procurement Audit	FPCU, RPCU, WoPD, WOFED

Corruption Mapping Area	Level of Initial Risk	Opportunity for Corruption	Mitigation Action	Means of verification	Responsible implementing body
		6.2 Significantly high technical scores allocated to the “preferred” consultants/ contractors or proposals are rejected due to reasons unrelated to the capacity of consultants/contractors	<ul style="list-style-type: none"> <li>- <i>Ensure all kebeles conduct bid evaluation publicly and all woredas post results (including financial or technical scores)</i></li> <li>- <i>Ensure that quotations must be read out in public for a limited bid purchases above US\$5,000 each., and for local shopping of smaller purchases, two persons will seek quotations from local suppliers</i></li> <li>- <i>Random supervision and inspection of procurement documents at regional and woreda levels</i></li> </ul>	APR and procurement Audit	FPCU, BOFED
<b>7. Award of Contract</b>	S	7.1 Negotiation with prospective winner on contract amount outside of regular procedures or collusion and nepotism in awarding the contract and significant changes of key staff of consultants at the early stage of the assignment	<ul style="list-style-type: none"> <li>- <i>Mandatory disclosure of contract awards and review of prices based on PCDP-1 and 2 experience carefully by procurement expert</i></li> <li>- <i>well trained appraisal team check readiness and milestones before releasing funds for procurement</i></li> <li>- <i>make use of communication strategy for proper functioning of complaint handling bodies to point out collusion and nepotism practices as well as sanctioning of rules and legal procedure by administrator and responsible body in case of happening by administrator</i></li> <li>- <i>Set procedures for oversight and inspection by procurement experts and committees to ensure that the TOR is designed to be quite rigid not to entertain irregular procedures</i></li> </ul>	APR and Procurement Audit Report	MST WOPD WOFED Woreda administration



Corruption Mapping Area	Level of Initial Risk	Opportunity for Corruption	Mitigation Action	Means of verification	Responsible implementing body
<b>9. Quality &amp; Cost of delivered services</b>	S	9.1 The delivered services are of lower quality than those specified in the TOR, with “savings” possibly used as kickbacks to local officials	<ul style="list-style-type: none"> <li>- <i>Check quality and cost of delivered services by Woreda appraisal committee, civil engineers, procurement staff</i></li> <li>- <i>Involve sector specific community based oversight institutions /groups in monitoring the quality of the consultants’ deliverables at community level upon implementation</i></li> <li>- <i>Training of MST procurement staff, regional procurement staff, project auditors and project managers ,woreda coordinators, tender committee members specific community based oversight institutions /groups and other procurement decision makers</i></li> </ul>	APR (including monitoring and Supervision)	RPCU, Woreda appraisal committee
<b>CONSTRUCTION</b>					
<b>10. Fraud linked to materials and construction (including at community level)</b>	S	10.1 Poor quality of infrastructure/ substandard construction due to inadequate technical capacity to design and supervise civil works or poor quality materials, workmanship by contractors (defeating value for money)	<ul style="list-style-type: none"> <li>- <i>Recruit Civil Engineer within each MST to follow up on quality of construction during implementation of sub-projects. Wherever possible use standard designs (e.g., school buildings, health posts, veterinary clinics, F/PTCs) for infrastructure construction.</i></li> <li>- <i>Training on construction standards for CPMC, CPC,MSTs, WTC and enhanced monitoring/ follow up of the quality of construction by MSTs, WTCs, RPCUs and other professionals</i></li> <li>- <i>TA for review of design standards referred to zonal offices and regional levels Regional Water Resources Bureaus and Regional Rural Roads Authority</i></li> </ul>	APR (including monitoring and Supervision)	MST, Sector offices, concerned sectoral Zonal offices and regional Bureaus

Corruption Mapping Area	Level of Initial Risk	Opportunity for Corruption	Mitigation Action	Means of verification	Responsible implementing body
		10.2 Cover up and silence payments linked to poor construction ;collusion and bribery of inspection staff  10.3 Fraudulent invoicing	<ul style="list-style-type: none"> <li>- <i>Enhanced supervision by regional and federal audit personnel and review of RPCU procurement by FPCU on semi-annual basis</i></li> <li>- <i>Regular random checks of project invoices bi-annual by independent audit</i></li> </ul>	APR (including monitoring and Supervision)	RPCU, FPCU
<b>11. Social and environmental issues</b>		11.1 Inadequate capacity to monitor social and environmental concerns and apply safeguards instruments	<ul style="list-style-type: none"> <li>- <i>PCDP-3 will place social and environmental safeguards advisors at the FPCU and RPCUs for additional backstopping</i></li> <li>- <i>Appraisal team supported by MSTs reviews sub-projects for inter alia social and environmental issues as per the ESMF and RPF checklists (The team will be separate from the WTC so that its members can maintain a certain measure of independence)</i></li> <li>- <i>Indicators related to social and environmental concerns would be included in the Project's monitoring framework to allow close follow-up of any issues</i></li> </ul>		FPCU and RPCUs, Woreda Appraisal team
<b>WOREDA &amp; COMMUNITY LEVEL CORRUPTION</b>					
<b>12. Capture of subprojects/projects by elite or by particular ethnic/clan groups; prioritization of plans/ selection of projects or sub-project at community or woreda level</b>		12.1 Non-transparent selection of projects	<ul style="list-style-type: none"> <li>- <i>Awareness creation of woreda staff on selection / prioritization criteria ,project rules and processes</i></li> <li>- <i>Introduce an elaborated three step planning process and allocate one full year for building capacities of wide range of staff and communities at sub kebele level to increase their capacity for priority setting, surveillance and accountability by MSTs and sector offices</i></li> </ul>	APR	WTC, WDC, MST, Sector offices

Corruption Mapping Area	Level of Initial Risk	Opportunity for Corruption	Mitigation Action	Means of verification	Responsible implementing body
<b>13. Selection of Project committee members selection (at woreda and community levels)</b>	S	13.1 Non-transparent process of committee member selection at woreda and/or community levels resulting in low integrity	<i>Facilitate committee establishment by MSTs, WoPD as per the planning steps and monitor their functioning by social audit committee and help the integration and effective functioning of committee structures based on for Community operational manual</i>	APR, supervision report	RPCU, WoPD, MST
<b>14. Fraudulent Eligibility</b>	S	14.1 Fraudulent eligibility for CIF and RLP support accepted by woredas (e.g., community contributions, and/or SACCO savings mobilization criteria are not met but support still provided)	- <i>FPCU together with RPCU conduct supervision visits to cover 20-25 % project woredas within a year and enhance project monitoring by woreda coordinator, WTC and MSTs to detect fraudulent eligibility</i>	APR, supervision report)	FPCU, RPCU
<b>15. Limited/non inclusive dissemination of information related to PCDP (e.g. accessibility requirements)</b>	S	15.1 Information is kept limited to certain circulation or group of people only such that decisions will not be inclusive and fair, so that non-qualified proposals could be expected	- <i>Make communities aware of the project's goals, its rules and regulations and enable them to hold others accountable for their actions by widely accessible media such as newspaper spots , radio programs as well as other communication strategies of the PCDP-3 in addition to socialization meetings, workshops, focus group discussions</i>  - <i>Ensure posting of project decisions ,plans, sources and uses of resources (budgets, expenditure) performances, and services as applicable at sub kebele , kebele and woreda levels; and set- up kebele information and learning center and help kebele to set- up execution rules and ,institutional arrangements implementation</i>	APR (including Performance review report)	FPCU, RPCU, WOPD, WOFED



Corruption Mapping Area	Level of Initial Risk	Opportunity for Corruption	Mitigation Action	Means of verification	Responsible implementing body
<b>16.Implementation of the sub-project investments</b>	S	16.1 Misuse of investment funds by the community and/or Woreda	<ul style="list-style-type: none"> <li>- <i>Minutes of meetings, community quarterly financial status, project names and amounts for funded proposals are posted on signboards at woreda , RPCUs and kebele offices</i></li> <li>- <i>All communities and woredas submit reports on progress and their use of project funds to the RPCU and the FPCU as per the M &amp; E</i></li> <li>- <i>Discretion by setting rules that all financial transactions require at least three signatures, two from the elected community members and one from the project woreda procurement expert</i></li> <li>- <i>Conduct at least one community accountability meeting per sub-project cycle</i></li> </ul>	APR (including report on progress and their use of project funds )	RPCU , FPCU, WoPD, MST
		16.2 Resource abuse, especially abuse of facilities, vehicles for private use	<ul style="list-style-type: none"> <li>- <i>Logistics officers to be assigned at federal and regional levels to improve project asset management and support woreda teams with better logistics as incentives to improve performance and accountability to communities</i></li> <li>- <i>Training of concerned woreda office heads ,experts and administrative and other service providers on code of conduct, fraud and corruption</i></li> </ul>	APR (including report on progress and their use of project funds )	RPCU , FPCU, WoPD, MST

## **Annex 10: Communication Strategy**

### **ETHIOPIA: Pastoral Community Development Project III**

#### **Objectives**

1. ***Build awareness and understanding*** of PCDP-3 among the intended beneficiaries and relevant stakeholders to ensure that the development objectives of the project are understood.
2. ***Ensure transparency and access to information***—The Bank’s reputation is exposed relative to activities executed by the GoE and other players in certain areas including: the commune/ resettlement program, large scale irrigation developments related to commercial agriculture, and mineral explorations. Although these activities are not supported by PCDP-3, the risk is real that issues will flow over as has happened in the PBS project. Making transparency the foundation of PCDP-3 development and implementation will help to correct/ clarify any misunderstanding about the project and create a favorable condition for adequate access to accurate information.
3. ***Encourage policy dialogue and strategic thinking around pastoralist development issues emerging from PCDP-3 implementation***—Working closely with relevant stakeholders, create a forum for knowledge exchange, document and disseminate results, promote communication, learning and good practices to increase greater dialogue on pastoral issues and publicize the wealth of knowledge accumulated under the project on key topics.
4. ***Increase coordination among Bank, relevant government agencies and implementing units at all levels***—for efficient and effective implementation of the project activities and utilization of resources.
5. ***Consultation and Feedback*** — Regular consultations with relevant stakeholders will not only ensure transparency but a better understanding of the project. It will also provide the Bank with valuable insight about people’s perceptions of the project. Through regular discussions, the project team will stay continuously connected to beneficiaries and more importantly receive periodic feedback from them, enabling it to take stock of what the public is saying about the program, identify some emerging risks and challenges and address them in a timely manner. Enable informed decision making at grass root level.

#### **Key Messages**

6. The following are key messages to be communicated with the target audiences. (These and other messages will be further elaborated during the development of a detailed work plan and outreach/ communications materials)
  - The World Bank has been supporting the Government of Ethiopia’s Pastoral Community Development Program (PCDP), which is designed to empower communities and local governments to manage local development in pastoral and agro-pastoral areas as per the articulated priorities of target communities. Since the start of PCDP, the project has

helped to develop relevant institutions serving pastoralist communities and establish effective models for demand driven investment.

- PCDDP has been helping improve and diversify the livelihoods of pastoral by promoting Savings and Credit Cooperatives, community-based disaster risk management, and improved basic service delivery (including health, education, water supply and agricultural services).
- PCDDP contributes to the country's' poverty reduction and development by empowering the communities it serves, expanding access to basic services, and promoting stronger livelihoods.
- The pastoralist population is estimated to be 12 million. In its first two phases, PCDDP reached 1.9 million beneficiaries. PCDDP-3 is expected to reach a further 2.6 million pastoralists in a maximum of 113 pastoral and agro-pastoral woredas of the Afar, Somali, Oromiya, and SNNP National Regional States. Over its 15 year implementation period PCDDP will cover most pastoral and agro-pastoral woredas in the country, providing improved access to public services and supporting the livelihoods of about 4.7 million pastoralists and agro-pastoralist.
- PCDDP contributes to the Government of Ethiopia's strategy for pastoralist development by supporting local development in pastoralist areas. However, without prejudice to the Government's policies for long term development of pastoralist communities, it is distinct from the wider developments in these areas, including policies related to settlement of pastoralists, large scale irrigation development or promotion of commercial enterprise.
- PCDDP-3 will take successful interventions of the first two phases of the program to scale reaching all accessible pastoral and agro-pastoral woredas in Afar, Somali, Oromiya and the Southern Nations Nationalities and Peoples Regional States. In so doing, it will seek to expand access to community demand-driven social and economic services for pastoralists and agro-pastoralists in the Ethiopian lowlands, improving their livelihoods in terms of growth and stability of incomes; health, nutrition, education and greater empowerment.
- PCDDP-3 will deepen the community driven development approach initiated under earlier phases. It will (a) help target communities think through more comprehensively their development issues, (b) promote greater inclusiveness and accountability in planning for local development, (c) proactively target the priorities of the most vulnerable sections of the target communities, and (d) identify interventions that are the priorities of the target communities. As such, all its interventions are based on a community consensus, and serve as a best practice for public service delivery and local development.
- The significant knowledge accumulated under this project will also provide an information base which will fill the information gap on pastoral development.
- PCDDP-3 supports a number of strategic objectives of the World Bank's Country Partnership Strategy (CPS), including increasing access to quality infrastructure –roads, water and sanitation; increasing access to quality health and education services, and contributing to the foundation pillar of good governance and state building.

## **Target Audiences**

7. While some proposed communications activities would be targeted at specific audiences, most activities would cut across all constituencies, with messages being relevant to all groups. Suggested target audiences are the following:

- a. Community Level
  - Pastoralists
  - Women
  - Youth Group
  - Community Animal Health Workers (CAWs)
  - Teachers
- b. Woreda Level
  - Woreda Administrators
  - Woreda Office Heads
  - Woreda Gov't office technical staff
  - NGOs
  - Project Staff
- c. Regional/Zonal Level
  - Regional/Zonal Administrators
  - Regional/Zonal Bureau Heads
  - Regional/Zonal Bureau technical Staff
  - NGOs
  - Project Staff
- d. Federal Level
  - Federal Inter-Ministerial Board Members
  - Federal Ministries Department Heads and technical staff
  - NGOs
  - Project Staff
- e. Donor Agencies Representatives and staff
- f. The Media
- g. Opinion leaders (PM's economic team and other decision-makers in and outside government—parliamentarians; NGOs; the academic community, CSOs, the Private Sector)
- h. Academia, think tanks, researchers
- i. The public (to a limited extent; will be done mostly through opinion leaders)

## **Performance Indicators**

8. In order to review and refine the communication strategy and evaluate whether the objectives set are met or not the following performance indicators will be used.

- Level of awareness among stakeholders at all levels
- Number of audiences reached through different communication tools
- Number and types of communication tools used
- Level of decision making based on the awareness created/increased

- Press coverage
- Number of participants in awareness creation workshops
- Number of visitors to websites
- Number of visitors to resources centers
- Feedback collected



## Communications Plans/ Activities

Audience / Type of Communication	Objectives	Messages	Communications Channel	Deliverables Communications tools
<b>Internal</b>	<p><i>Regular communication within/ between the Bank, IFAD and the Government teams to ensure consistent messaging</i></p> <p><i>Increase coordination among Bank, IFAD and implementing agencies at all levels</i></p> <p><i>Risk management</i></p>	The messages, mission, goals and objectives of the program	Internal events, Print Materials	<p>Development of a transparency matrix of documentation relating to project; i.e., what should be disclosed and how as well as responsibilities</p> <p>Establish a team consisting of FPCU coordinator and KM officer and representative from the Bank (communications specialist) and IFAD that meet regularly to develop a clear and detailed communications work plan and calendar of events, follow-up on implementation, resolve challenges and build on achievements</p> <p>Capacity building on development learning and knowledge management to PCDD implementing agencies and project teams.</p> <p>Talking Points and Q&amp;A</p> <p>Based on risks identified in the Project Appraisal Document (ORAF and GAC matrices), and agree on a public information and awareness creation strategy regarding the project in general and progress on risk mitigation measures in particular</p>
<b>All stakeholders</b>	<i>Build awareness and understanding of PCDD-3 among the intended beneficiaries and relevant stakeholders- ensure that the objectives of the projects as well as the methods for attaining them are clearly understood.</i>	The messages, mission, goals and objectives of the program		<p>TODAY and Inside AFR stories, sharing of mission reports.</p> <p>Create public information materials and ensure the availability of accurate and timely information to interested stakeholders in a format and language they can readily understand.– briefs, background notes, PowerPoint presentation, radio programs, and video clips, FAQ—and disseminate, proactively including on Ethiopian Pastoralism Website</p>

Audience / Type of Communication	Objectives	Messages	Communications Channel	Deliverables Communications tools
<p><b>Media (print &amp; broadcast) and web</b></p>	<p><i>Ensure transparency and access to Information</i></p>		<p>Publicity materials</p> <p>Increase outreach to Media</p>	<p>PCDP-3 Information Kit; and Brochure</p> <p>Include project in documentary/ book showcasing Bank-funded programs/projects</p> <p>News releases (past and present) on project development</p> <p>Media monitoring to track and share issues</p> <p>Media enquiries – prompt response and tracking of issues raised, questions and misperceptions</p> <p>Schedule a series of interactive media meetings between media and project team</p> <p>Proactive op-ed placement (also can explore looking for 3rd party experts to write op-eds on the Banks’ behalf)</p> <p>Media tours to visit project sites</p> <p>Media events (Interview, press conferences, radio/TV programs)</p> <p>Invite media to signing ceremony and launch Workshop</p> <p>Prepare press releases about PCDP-3 and disseminate to media</p> <p>Media Roundtable or interview with private local, and gov’t <u>Website</u></p>



Audience / Type of Communication	Objectives	Messages	Communications Channel	Deliverables Communications tools
<b>think tanks, academia, decision makers, environmental groups, NGOs</b>			Increase outreach to Opinion-leaders (information sharing)	<p>Regular update of PCDP website            Create link to relevant sites on country office website            Ensure all documents regarding PCDP-3 are available on country office and regional website</p> <p>Use opinion-leader database to spread info about the project</p> <p>Informal meetings with relevant stakeholders to discuss project and its implications and get feedback –keep track of all feedback and ensure it gets filtered back to Project Team and is responded to, as appropriate</p>
<b>All stakeholders</b>	<i>Encourage policy dialogue and strategic thinking around pastoralist development issues in Ethiopia Document and disseminate results, lessons learned/ Good Practices</i>		Materials      Events	<p>Beneficiary testimonials            Project stories            Best practices of collaborations b/n project implementers, project beneficiaries and other stakeholders</p> <p>Promote the PCDP resources centers among target community</p> <p>Documentary film production</p> <p>Organize speakers program for project heads/ beneficiaries to address external audiences at meetings, workshops etc.</p> <p>Facilitate external stakeholders' visit to pastoral communities to learn about local innovation and development activities.</p>
<b>All stakeholder Opinion Leaders, think tanks, Donors, Media, MPs, Donors, and CSOs</b>	<i>Consultation and Feedback</i>		Events	<p>Roundtable discussions about the project and Pastoral development issues</p> <p>Organize speakers program for TTL to address external audiences at meetings, workshops etc.            Meeting with communities and beneficiaries</p>

## Annex 11: Social Development

### ETHIOPIA: Pastoral Community Development Project III

1. PCDP strives to build on and work with indigenous social systems within pastoralist and agro-pastoralist communities. As such, the preparation of PCDP-3 has relied on consultation with key stakeholders in which potential project affected populations were consulted on issues concerning their socio-economic characteristics and social systems. The preparation was also informed by a social assessment that considered the potential social impacts of the project particularly on vulnerable and underserved groups, and identified expected social development outcomes and actions proposed to achieve those outcomes. While it supports participatory development through a CDD approach that lends itself to favorable social outcomes, PCDP-3 nevertheless, faces some key social challenges including: (i) gender disparities in access to livelihood and educational opportunities; (ii) limited access to social services, especially education, health services due to the remote nature of its target communities, and (iii) recurring conflicts over natural resources, particularly related to water management and land tenure arrangements.

2. The project is furthermore prepared in the context of a screening undertaken in five Regional States of Ethiopia, namely Afar, Oromiya, Gambella, Somali, and SNNPR, which found that the vast majority of people in the project area meet the criteria detailed in OP/BP 4.10. These criteria refer to a distinct, vulnerable, social and cultural group, possessing the following characteristics, in varying degrees: (a) self-identification as members of a distinct indigenous cultural group and recognition of this identity by others; (b) collective attachment to geographically distinct habitats or ancestral territories in the project area and to the natural resources in these habitats and territories; (c) customary cultural, economic, social, or political institutions that are separate from those of the dominant society and culture; and (d) an indigenous language, often different from the official language of the country or region. The Ethiopian Constitution recognizes the presence of many ethnic groups, including historically disadvantaged and vulnerable groups, as well as the rights to their identity, culture, language, customary livelihoods, socioeconomic equity and justice. These groups include various nations, nationalities and peoples, pastoralists, and national minorities. Accordingly, PCDP-3 triggers OP/BP 4.10. The project has conducted an enhanced social assessment and extensive consultations with potential project beneficiaries and project affected peoples, including those identified as vulnerable and historically underserved groups to seek broad support from these groups. The Social Assessment with the findings of the consultations has been publicly disclosed in-country and in the World Bank's InfoShop in October 2013. The key findings and recommendations are summarized below:

3. **Social Assessment:** Overall conclusion of the social assessment is that considerable progress has been made by PCDP as a program in improving social development outcomes of pastoralists and agro-pastoralists in terms of: (i) improving the living conditions of pastoral communities, increasing their income and enhancing access to social and economic services; and (ii) strengthening their capacity to manage their own development in sustainable way, through promoting poverty-sensitive planning and decision-making, implementation of development-oriented activities under their ownership, and monitoring developmental outcomes. Despite the progress made, some potential adverse impacts and risks remain in the following areas: (i)

erosion of traditional systems for addressing social tensions among pastoralist communities, particularly over resource use occasionally result in conflicts; (ii) gender disparities in access to livelihood opportunities and decision making tend to sideline women's interests; (iii) low technical capacity among the implementers to properly implement project safeguards instruments limit attention given to social safeguards issues; and (iv) evolving social relationship and resource utilization patterns as a result of external developments including settlement of pastoralists through the government commune program, large scale irrigation development, commercial enterprise – both public and private that claims land for specific uses. Many of the risks identified will be addressed by deepening the CDD process on which PCDDP is based. In addition, the project will require remediation plans that will ensure adherence to safeguards, including monitoring safeguards compliance, institutional capacity building on safeguards and placing adequate and trained personnel in regional and woreda offices, staff that are capable of handling safeguards requirements. More importantly, considering the nature of the project, the Bank's bi-annual supervision missions will pay particular attention to ensuring that the project does not exclude the historically underserved communities or negatively impact them.

4. **Public Consultations with key stakeholders:** During preparation, the Government engaged in a process of free, prior, and informed consultations leading to broad community support for the project. The project has relied on culturally appropriate consultation with underserved communities using participatory approaches, including workshops and focus group discussions with key stakeholders to discuss the PCDDP program and the priority areas of the proposed project. The consultation was voluntary, gender and inter-generationally inclusive and conducted in good faith. The reports of the social assessment and enhanced consultation indicate the broad community support of the affected communities. The main social challenges highlighted and suggested actions include the following:

- (a) *Strategy for women's participation:* There is no guarantee that traditional institutions and organizations will encourage women to participate equitably; therefore, the project will develop mechanisms appropriate for women's participation in decision making throughout its planning process, implementation, and monitoring.
- (b) *Institutional Capacity.* The regional and woreda institutions assigned with the responsibility for project implementation are often weak. The project will therefore actively support relevant implementing agencies and assess their track record, capabilities, and needs as well as the adequacy of the project staff and logistics in the field.
- (c) *External developments:* Pastoralist communities are facing many changes, due to changes in their own livelihood systems (for example, many pastoralists in the Bale Zone of Oromiya are converting to agro-pastoralism) or to broader developments in the Ethiopian lowlands. The project will assess the risk potential of external developments, including the government commune program.
- (d) *Managing conflicts:* Traditional grievance redress mechanisms exhibit inadequacies to address resource use conflict, resulting in distrust and tension between two or more communities. The degree of conflict between different resource users ranges from insignificant to extremely tense in frequency and importance.

5. **Benefit sharing mechanism:** PCDP-3 will continue to promote the CDD-approach, whereby communities prioritize CIF sub-projects and RLP activities and promote culturally appropriate and socially-inclusive, participatory processes for planning, sub-project implementation, monitoring and learning. It will build on and deepen initiatives for broad-based community led development introduced through PCDP-1 and 2 to ensure inclusiveness, downward accountability, community oversight/decision making and in-depth discussion of developmental problems and their solutions. In this way, the people directly affected by the project activities will be treated fairly and equitably; and project funds will be shared in a culturally appropriate and socially inclusive manner among different groups within communities, particularly the underserved and vulnerable.

6. **Grievance Redress Mechanism:** The social assessment indicates that the traditional grievance redress mechanisms need strengthening. While the project will recognize the customary or traditional conflict resolution mechanism, where it is weak or inappropriate to address resource use conflict, alternative arrangements should be implemented. Resolution of different types of grievances will be attempted at different levels: (i) solutions to grievances related to land acquisition impacts or reduced access to natural resources should follow provisions provided in the RPF;<sup>57</sup> and (ii) To avoid any potential grievances arising from PCDP-3 investments outside of a targeted community, the project will promote cross-kebele consultations on sub-projects after they have been appraised and endorsed by the woreda appraisal team and before sub-projects are approved by the woreda.

7. The woreda appraisal team that is responsible for screening PCDP sub-projects as well as for the preparation of a resettlement action plan (in the case of land acquisition) and facilitating consultations (in the case of reduced access to natural resources) both within target communities and across kebeles, will ensure that community members and in particular PAPs are informed about the avenues for grievance redress, and will maintain a record of grievances received, and the result of attempts to resolve these. This information will be entered into the Project Management Information System (MIS) and be included in the regular progress reporting. All PAPs will be informed about how to register grievances or complaints, including specific concerns about compensation and relocation. The table below briefly summarizes the potential implementation risks and challenges, and mitigation actions to address them.

### PCDP-3 Risks and Challenges related to social development

Component	Potential Risks and Challenges	Mitigation Actions
<b>Component 1.</b> <i>Community Driven Service Provision through community investment funds (CIF)</i>	<ul style="list-style-type: none"> <li>Community consultations (through which CIF sub-projects are identified), unless managed well, could reinforce existing social inequalities and exclude women and children, poorest households, outcasts etc.</li> </ul>	<ul style="list-style-type: none"> <li>PCDP-3's community consultation process will start with a PRA for a social mapping to identify inter alia vulnerable sections of beneficiary communities and their groups. The consultation process will directly engage such groups at the sub-kebele level. Special attention will be given to the inclusion of female headed</li> </ul>

<sup>57</sup> PCDP-3 triggers OP/BP 4.12 on Involuntary Resettlement. An RPF has been developed in light of this policy. The RPF has been publically disclosed in-country and in the World Bank's InfoShop.

Component	Potential Risks and Challenges	Mitigation Actions
		<p>households and women groups.</p> <ul style="list-style-type: none"> <li>• Also at the start of the consultation process, communities will agree on ethical principles that guide the planning process. Such principles will include giving priority to the needs of vulnerable groups identified by the social mapping.</li> <li>• PCDP-3 will provide technical assistance and culturally appropriate capacity building for the women and women groups as well as to facilitators of community/ group discussions so that they can draw women, youth and other diffident participants to engage actively in consultative processes.</li> <li>• PCDP-3 will include specific measures such as including women among project staff (to serve as role models), support to women so that they can participate in consultative meetings, and training on gender relations and inclusive methods of facilitation to all facilitators of the consultative process</li> </ul>
	<ul style="list-style-type: none"> <li>• Changing patterns in resource access and ownership in pastoral areas may reduce access to resources and land acquisition for CIF sub-projects, this could result in conflict—particularly if effects spill over across traditional boundaries.</li> </ul>	<ul style="list-style-type: none"> <li>• PCDP-3 triggers OP 4.12 and an RPF has been developed so that issues related to land acquisition and reduced access to natural resources are properly handled. Briefly, where there is land acquisition, if land has been provided voluntarily, this will be documented and shared with the woreda appraisal team so that this team considers the issue before any sub-project is approved by the woreda. If there is involuntary resettlement, a resettlement action plan will be developed and approved by the FPCU or RPCU and the World Bank—and put into practice by the woreda and kebele administrations. Where there is reduced access to natural resources, consultations on how this will be managed will be undertaken with all stakeholders and documented; a plan for managing the resources will be agreed upon, prepared, and disclosed, as and when necessary.</li> <li>• Further, the project will foster the strengthening and creation of forum at woreda level that will allow for cross-kebele consultations on sub-projects after they have been appraised and endorsed by the woreda appraisal team. This would allow for communication and exchange of idea among pastoral community and support</li> </ul>

Component	Potential Risks and Challenges	Mitigation Actions
		appropriate grievance redress mechanism and benefit sharing arrangements.
	<ul style="list-style-type: none"> <li>• Due to high turnover and institutional instability, Woreda specialists and kebele leaders have little experience with social issues (including gender equity) and little culturally appropriate capacity to undertake PRA, social mapping, broad consultations, effective review/appraisal of sub-projects for social impacts, etc.</li> </ul>	<ul style="list-style-type: none"> <li>• PCDP-3 will provide continuous training for MST staff, WTC members, woreda appraisal teams, and KDCs on social development issues, gender equity, PRA techniques, facilitation skills, etc. to ensure that social issues (including inter alia gender equity, intercultural communication) are properly considered in all PCDP-3 processes. Further, the project will assist the PAPs in culturally appropriate capacity building, training and sensitization activities to preserve the potential loss of traditional knowledge, culture, and livelihood patterns.</li> </ul>
	<ul style="list-style-type: none"> <li>• There is a potential risk that vulnerable groups will not be able to participate in the project benefit due to their limited financial resources and will be unable to contribute the required 5% cash contribution</li> </ul>	<ul style="list-style-type: none"> <li>• The consultative process on which PCDP-3 planning is based will explicitly consider how the responsibility of community contributions to PCDP funded sub-projects is distributed so that it is in line with the varying ability of different households to do so.</li> </ul>
<b>Component 2. Rural Livelihoods Program</b>	<ul style="list-style-type: none"> <li>• It is difficult to provide traditional financial products, as (i) pastoral livelihood systems require seasonal mobility, and (ii) pastoralists and agro-pastoralists (in Afar, Somali and Oromiya) are predominantly Muslim and under pure Islamic rules, might not be able to participate in loan schemes. This may affect the viability of SACCOs.</li> </ul>	<ul style="list-style-type: none"> <li>• Introduce appropriate financial products, including interest-free types of loans, but replace this with a ‘service charge’ to ensure that the SACCOs are able to sustain their services. Learn from experience of Islamic Banking worldwide</li> <li>• Based on consultations with beneficiary communities, PCDP-3 will help SACCOs introduce savings and credit products that are culturally appropriate and in line with the needs of mobile households as well as those that are sedentary</li> </ul>
	<ul style="list-style-type: none"> <li>• As in the case of component 1, community consultations (through which RLP interventions are identified), unless managed well, could reinforce existing social inequalities and exclude women and children, poorest households, female headed households, people with disability, etc.</li> </ul>	<ul style="list-style-type: none"> <li>• PCDP-3 consultative process will start with a PRA for a social mapping to identify vulnerable sections of beneficiary communities and groups and the process will directly engage with such groups at the sub-kebele level.</li> <li>• Also at the start of the consultation process, communities will agree on ethical principles that guide the planning process. Such principles will include giving priority to vulnerable groups identified by the social mapping.</li> <li>• The project’s operational manuals will provide</li> </ul>

Component	Potential Risks and Challenges	Mitigation Actions
		for participatory impact monitoring that will include sensitization of the traditional institutions on the needs of women.
<b>Component 3.</b> <i>Knowledge Management and Learning</i>	<ul style="list-style-type: none"> <li>Unless there is a clear portfolio of research topics and agendas, professional bias will lead to the neglect of social issues and/or production of studies that have limited relevance for the formulation of new policies, adoption of new strategies and technologies and solving problems</li> </ul>	<ul style="list-style-type: none"> <li>Under PCDP-3, a social and environment safeguard specialist will be employed within the FPCU to inter alia provide technical assistance for social issues, including knowledge management and internal learning.</li> </ul>
<b>Component 4.</b> <i>Project Management, Monitoring and Evaluation</i>	<ul style="list-style-type: none"> <li>PCDP-3 will be implemented through relevant government offices and community organizations supported by the FPCU, RPCU and MSTs. Limited capacities at the woreda and community level (exacerbated by high staff turnover) could be inadequate for the proper planning, execution of projects, supervision, technical backstopping and addressing social development issues</li> </ul>	<ul style="list-style-type: none"> <li>PCDP-3 will emphasize culturally appropriate capacity building of project staff and implementation agencies which will include social issues as well as project management and monitoring and evaluation.</li> </ul>

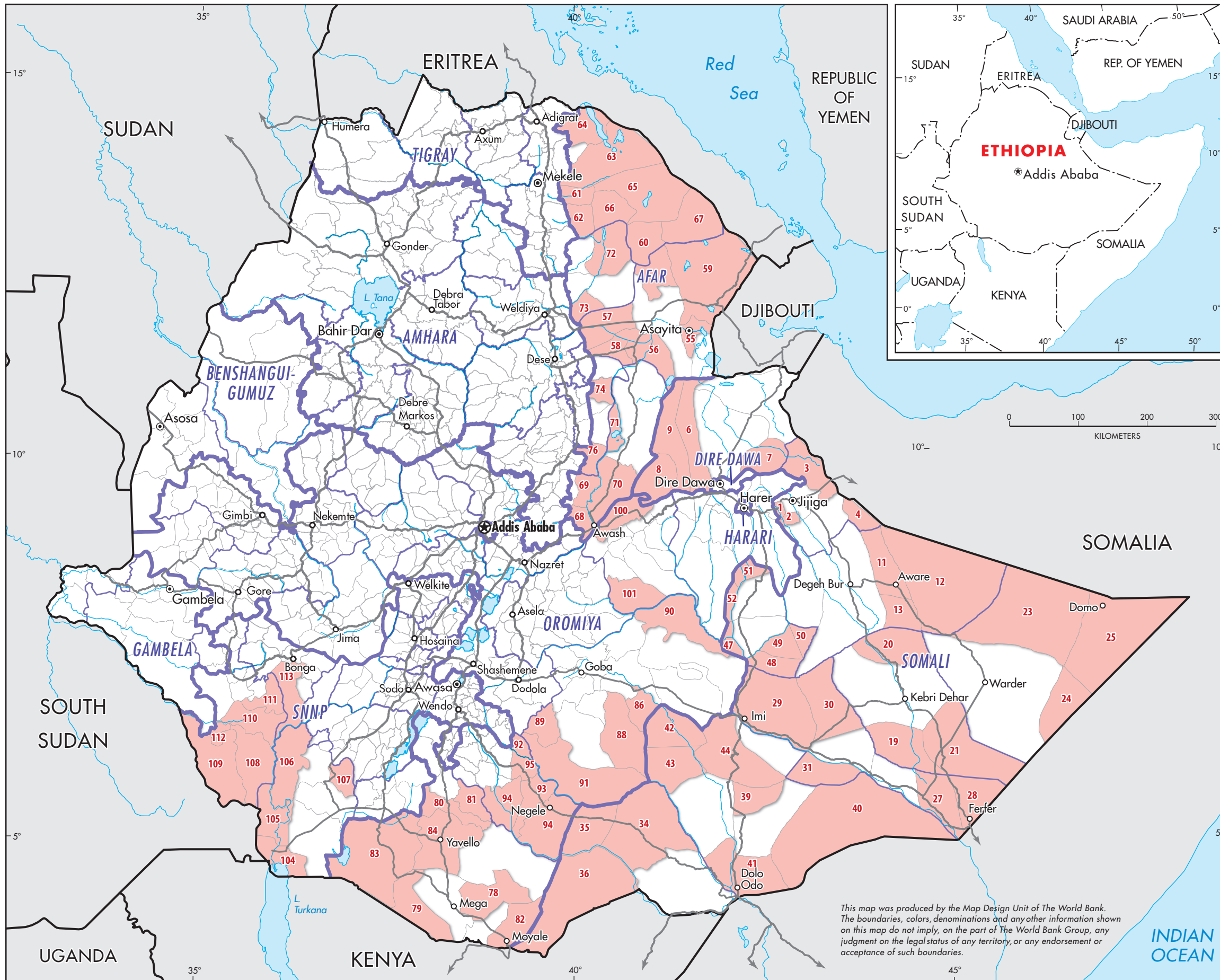
## **Annex 12: Projects on International Waterways**

### **ETHIOPIA: Pastoral Community Development Project III**

1. The proposed PCDP-3, as the third phase of a 15-year program supporting the GoE's efforts to promote development among its largely under-served pastoral communities, follows similar activities as the earlier two phases, but with expansion to more woredas. It was initially introduced into 32 pastoral and agro-pastoral woredas in Afar, Somali, Oromiya and SNNPR and subsequently expanded to an additional 23 woredas in the same regions reaching a total of 55 out of 151 woredas that have been identified by the GoE as being pastoral or agro-pastoral. PCDP-3 will scale up interventions up to most pastoral and agro-pastoral woredas of the country. The project is expected to finance, among other possible interventions selected by communities through a CDD approach, the construction and rehabilitation of small-scale irrigation infrastructure.
2. OP/BP 7.50 "Projects on International Waterways" is applicable to the proposed project because the small-scale irrigation infrastructures financed under the project would be located on streams that eventually discharge to international waterways. While initial riparian notifications were sent to the Governments of Kenya, Somali and Djibouti on March 25, 2003 as part of preparation of the first phase of PCDP, in accordance with the requirements of the policy, the task team agreed with the GoE that renewed notifications were necessary as PCDP-3 is scaling up its interventions to include up to 113 woredas. Accordingly riparian notifications were sent to the Governments of Kenya (GoK), Somalia and Djibouti. The notifications advised of the Bank's determination that the project activities would not cause any adverse impacts and included information on the incremental abstraction expected under the project.
3. The shared rivers of relevance to Kenya are the Omo-Gibe and Genale-Dawa Rivers. The notifications informed the riparians that PCDP-3 would abstract significantly less than one percent, at most, an estimated 0.10% of the Omo-Gibe and Genale-Dawa mean annual discharge. On this basis, the task team made the determination that the project would not cause any appreciable harm to Kenya. This estimated drawdown is also an upper-bound estimate for two reasons: (a) the estimate assumes no reflow of abstracted water into the rivers; and, (b) since PCDP uses a community demand driven modality, the exact nature of sub-projects to be financed is not known at the project outset, and the number of irrigation activities assumed to be financed under the third phase is considerably greater than the actual number financed under the first two phases of the program.
4. On July 3, 2013 the GoK provided its response to the OP/BP 7.50 notification that it would not grant a "No Objection Letter" to the proposed Project "without due diligence". The other riparian countries did not respond to the notification. The GoK response did not convey any concerns directly related to the proposed PCDP-3 activities. Rather, it referred to Kenya's desire that Ethiopia and Kenya engage in a broader discussion of riparian issues related to the Omo-Gibe and the Genale-Dawa Rivers, including through the on-going discussions towards a Bilateral Cooperative Framework Agreement on "the shared water resources of Lake Turkana; Rivers Omo and Daua".



5. Bank staff carefully considered the response from the GoK and determined that the response did not convey any compelling reasons to demonstrate that the proposed PCDDP-3 is not in compliance with the due diligence requirements set out in OP/BP 7.50. In addition, Bank staff considered that no grounds have been advanced to support any conclusion that the proposed project would result in appreciable harm on the quality and quantity of water for the riparian states. Upon senior management concurrence, a letter was sent to the GoK informing of the above assessment.



### ETHIOPIA PASTORAL COMMUNITY DEVELOPMENT PROJECT III

- PROJECT WOREDAS (DISTRICTS)
- MAIN ROADS
- SELECTED CITIES AND TOWNS
- REGION/STATE CAPITALS
- NATIONAL CAPITAL
- WOREDA BOUNDARIES
- ZONE BOUNDARIES
- REGION/STATE BOUNDARIES
- INTERNATIONAL BOUNDARIES
- Can't locate

#### PROJECT WOREDAS (DISTRICTS):

<p><b>SOMALI</b></p> <p><b>Jijiga (Fafen) Zone</b></p> <p>1 Gursum</p> <p>2 Babile</p> <p>3 Aw-Bare</p> <p>4 Harshin</p> <p>5 Tuli-Guleed</p> <p><b>Shinile Zone</b></p> <p>6 Erer</p> <p>7 Dembel</p> <p>8 Meiso</p> <p>9 Af-dem</p> <p>10 Hadagala</p> <p><b>Degahabur Zone</b></p> <p>11 Aware</p> <p>12 Gashamo</p> <p>13 Gunagado</p> <p>14 Dagaxmadow</p> <p>15 Ararso</p> <p>16 Birqod</p> <p>17 Yo'ale</p> <p>18 Daror</p> <p><b>Korahey Zone</b></p> <p>19 Dhobewein</p> <p>20 Shekosh</p> <p>21 Shillabo</p> <p>22 Marsin</p> <p><b>Warder Zone</b></p> <p>23 Danod</p> <p>24 Galaadi</p> <p>25 Bookh</p> <p>26 Daratole</p> <p><b>Godey(Shebele)Zone</b></p> <p>27 Mustahil</p> <p>28 Ferfer</p> <p>29 East Imay</p> <p>30 Danan</p> <p>31 Adadley</p> <p>32 Ber'ano</p> <p>33 Eel Afweyn</p> <p><b>Liben Zone</b></p> <p>34 Filtu</p> <p>35 Hudet</p> <p>36 Moyale</p> <p>37 Mubarik</p> <p>38 Deka-Suf</p>	<p><b>Afdere Zone</b></p> <p>39 Hargele</p> <p>40 Bare</p> <p>41 Dolo Bay</p> <p>43 Gura Damole</p> <p>43 Gura Baqaqsa</p> <p>44 Elkari</p> <p>45 Raaso</p> <p>46 Qarsa Dule</p> <p><b>Fiq Zone</b></p> <p>47 Salahad</p> <p>48 Duhun</p> <p>49 Segag</p> <p>50 Garbo</p> <p>51 Maya Muluqo</p> <p>52 Lege Hida</p> <p>53 Qubi</p> <p>54 Gol Jano</p> <p><b>AFAR</b></p> <p><b>Zone One</b></p> <p>55 Asayta</p> <p>56 Mile</p> <p>57 Chifira</p> <p>58 Adear</p> <p>59 Elidear</p> <p>60 Kori</p> <p><b>Zone Two</b></p> <p>61 Abala</p> <p>62 Megale</p> <p>63 Berahile</p> <p>64 Dalol</p> <p>65 Afdera</p> <p>66 Erebiti</p> <p>67 Bedu</p> <p><b>Zone Three</b></p> <p>68 Awash Fentale</p> <p>69 Dulessa</p> <p>70 Amibara</p> <p>71 Buremudaitu</p> <p><b>Zone Four</b></p> <p>72 Teru</p> <p>73 Uwa</p> <p><b>Zone Five</b></p> <p>74 Dewe</p> <p>75 Hadeleala</p> <p>76 Semurobi</p> <p>77 Yalo</p>	<p><b>OROMIYA</b></p> <p><b>Borena</b></p> <p>78 Dhas</p> <p>79 Dilo</p> <p>80 Dugda Dawa</p> <p>81 Malka Soda</p> <p>82 Moyale</p> <p>83 Taltale</p> <p>84 Yaballo</p> <p><b>Bale</b></p> <p>85 Dalo Mana</p> <p>86 Dawe Qachan</p> <p>87 Dawe Sarar</p> <p>88 Gura Dhamole</p> <p>89 Harana Buluq</p> <p>90 Laga Hidha</p> <p>91 Mada Walabu</p> <p><b>Guji</b></p> <p>92 Girja</p> <p>93 Goro Dola</p> <p>94 Liban</p> <p>95 Saba Boru</p> <p>96 Wadara</p> <p>97 Mayu Muluqe</p> <p>98 Midhaga Tola</p> <p>99 Qumbi</p> <p><b>W/Hararge</b></p> <p>100 Miyeso</p> <p>101 Hawi Gudina</p> <p>102 Burqa Dhimtu</p> <p>103 Chinkesan</p> <p><b>SNNPR</b></p> <p><b>South Omo Zone</b></p> <p>104 Dassenech</p> <p>105 Gnanegatom</p> <p>106 Salamago</p> <p>107 Malee</p> <p><b>Bench Maji Zone</b></p> <p>108 Maji</p> <p>109 Surma</p> <p>110 Meanit – Shasha</p> <p>111 Meanit – Goldia</p> <p>112 Bero</p> <p><b>Kafa Zone</b></p> <p>113 Decha</p>
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