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Investing in rural people

President's memorandum

Proposed additional financing to the Federal Democratic Republic of Ethiopia for the Pastoral Community Development Project III

Note to Executive Board representatives

Focal points:

Technical questions:

Ulaş Demirag
Country Director
East and Southern Africa Division
Tel.: +25 11 1617 2430
e-mail: u.demirag@ifad.org

Dispatch of documentation:

William Skinner
Chief
Governing Bodies
Tel.: +39 06 5459 2974
e-mail: gb@ifad.org

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For: Approval

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Updated project results framework

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed additional financing for the Pastoral Community Development Project III in the Federal Democratic Republic of Ethiopia, as contained in paragraph 24.

Proposed additional financing to the Federal Democratic Republic of Ethiopia for the Pastoral Community Development Project III

I. Background

1. The Pastoral Community Development Project III (PCDP III) was approved by the Executive Board in December 2013 (EB 2013/110/R.20/Rev.1) and became effective the following April. The original project cost of approximately US\$233.5 million consisted of: (i) an IFAD loan of US\$100 million (US\$85 million at project approval and additional financing of US\$15 million to cover a funding shortfall under the performance-based allocation system (PBAS) cycle, approved under the lapse-of-time procedure on 28 November 2015, EB 2015/LOT/P.30); (ii) cofinancing of US\$110 million from the World Bank/International Development Association (IDA); (iii) a government contribution of approximately US\$18.6 million; and (iv) a contribution from beneficiaries of roughly US\$4.9 million.
2. Following the request from the Government of the Federal Democratic Republic of Ethiopia, this memorandum seeks approval from the Executive Board for additional financing to the PCDP III of US\$28.9 million. This amount represents the remaining balance available for commitment under the 2016-2018 PBAS cycle.
3. The purpose of the additional financing is to consolidate and scale up activities under the community investment fund (CIF) in component 1, which has exceeded performance targets, as confirmed by the project's progress reporting, supervision mission reports and the recent midterm review. The activities to be supported by the additional financing are consistent with ongoing project objectives and components, and will be implemented in line with existing provisions for the management of the CIF.
4. In the context of climate change, the PCDP III is highly relevant for the dry lowland and pastoral communities most affected by the recurrent extreme droughts that have hit the horn of Africa in the past three years. Clearly, investment for development and resilience needs to be scaled up, to reduce the population's exposure and vulnerability to the recurring hazards in these areas. The borrower's capacity to turn financial resources into results, as demonstrated under the PCDP III, provides an excellent opportunity for scaling up through additional financing, while also maximizing efficiency.

II. Justification for the additional financing

5. This additional financing request fully complies with the eligibility criteria for additional financing specified in President's bulletin PB/2014/01/Rev.1, since:
 - (a) The borrower's request for additional financing aims to expand the successful community-demand-driven approach to empower pastoral communities to lead their own development in a cost-effective manner, reaching a further

487,546 households in additional kebeles (subdistricts) within the original 113 target woredas (districts);

- (b) Implementation of the CIF has been impressive. The number of completed subprojects and outreach activities have exceeded the 2017 target by 66 per cent;
- (c) The disbursement rate for overall IFAD financing is 85 per cent, indicating a thoroughly satisfactory performance. In fact, due to this excellent implementation performance, the completion and closing dates have been brought forward by two years;
- (d) The PCDP III has never been classified as a problem project; and
- (e) The additional financing does not require any modification of the original project design report; and the activities to be supported by the additional funds, as described below, are consistent with the ongoing project objectives, components and subcomponents, all of which remain unchanged.

A. Project implementation performance

6. As noted above, three years into implementation, the project's performance exceeds expectations. Specific achievements under the project components include the following:
 - (a) Impressive outreach with an adequate gender focus. The functional subprojects are benefiting approximately 1.7 million people, of whom 50 per cent are women. In addition, about 1.8 million head of livestock are now covered by health and veterinary facilities and target households have benefited from various services such as access to water for domestic use, animals and irrigation; primary education; and access roads.
 - (b) Strengthened public and local institutions, enabling community-led local development. The project serves as a tool to support decentralization to the lowest administrative units, i.e. woredas and kebeles. The institutionalization of an inclusive, participatory, bottom-up development planning process allows communities to prioritize their needs and mobilize their own resources to plan, implement and manage investment in local development. Three-year rolling community development plans form the basis for kebele and woreda development plans, and for mobilizing public resources and support, together with complementary investments under other development partners' initiatives.
 - (c) Empowerment of target communities. The community-driven development approach has increased opportunities for pastoral communities to share knowledge and to identify and document local innovations and best practices. Active participation by communities at all stages of project implementation has not only strengthened their participation in policy dialogue, but has also promoted a strong sense of ownership of the investments made, including by mobilizing their 15 per cent own contribution. This ownership has a positive effect on efficiency. Preliminary estimates suggest that the average investment cost of a community-owned subproject is some 27 to 47 per cent lower than the cost of comparable subprojects in which communities have no control over decision-making and resources.
7. As of June 2017, a total of 917 community subprojects were completed and fully operational, representing a 166 per cent achievement rate relative to the 551 subprojects targeted at appraisal.
8. This excellent performance makes it highly likely that the project will achieve its development objective. Specific project benefits for pastoral and agropastoral livelihoods include: (i) lower transportation costs; (ii) a larger volume of produce marketed as a result of road building; (iii) savings in terms of vehicle operating

costs and travel time; (iv) reduced post-harvest losses; (v) better access to both educational and health facilities, thanks to better roads and the construction of health posts and water points; and (vi) financial savings derived from the installation of water points and construction of health posts.

B. Description of activities and expected benefits

9. While the project's overall objective, geographic coverage, components, and organization and management will remain unchanged, the additional financing will scale up investment through the well-performing and highly relevant CIF under component 1 (community-driven service provision). The remaining project components will be concurrently expanded with the resources already available, in line with the project's integrated approach.
10. The additional financing will support community subprojects in the original 113 pastoral and agropastoral woredas. It will also provide investment funds in additional kebeles that were initially not targeted owing to the limited funding available. In line with the project's proven implementation approach, investments will be identified, prioritized, implemented and monitored by the beneficiary communities; and these will also be responsible for procurement and the financial management of subprojects.
11. CIF will continue to serve as a catalyst enabling woredas to engage local communities in decisions on the use of all public funding, and to provide incentives for communities to invest their own resources in local development. In line with the initial design, the eligibility criteria for financing under CIF will be kept as broad as possible to respect the pastoral communities' priorities.
12. The additional financing will enable implementation of about 507 additional subprojects. Based on prior experience, a large portion will likely focus on enhancing access to water, such as community ponds, traditional ponds (birkas), river diversions, irrigation facilities and water pipes to extend the outreach of deep wells provided by the Government and other development partners. Other subprojects benefiting livelihoods and resilience include rangeland development, soil and water conservation, market-centre development, and bridge and solar panel construction.

III. Monitoring and evaluation

13. IFAD's quality assurance review noted that there was room to enhance the project's logical framework so as to strengthen the focus on measurable outcomes and results. Following consultations with the borrower and the cofinancing partner, the IDA, it was agreed that the outcome indicators specified in the revised results framework (see appendix) would be added to the project monitoring system to complement the existing logical framework.

IV. Social, environmental and climate assessment procedures of IFAD (SECAP)

14. A SECAP review performed for this additional financing confirmed that the environmental and social category "B" assigned to the original project remains appropriate. The existing environment and social framework will be applied to all new CIF investments.
15. Safeguard experts have been deployed in all the PCDP III regions, and the mobile support teams are committed and aware of the safeguard requirements. These include environmental and social screening procedures, categorization processes, preparation of environmental and social management plans (ESMPs) and implementation of mitigation measures. ESMPs have been duly prepared for subprojects categorized as "B", albeit with some variations in quality. Points of attention for continuous improvement include ensuring sound water resource and

quality assessments, and developing participatory management plans for water points. In terms of addressing pastoralists' needs, the project has piloted innovations to support transhumant mobility such as mobile schools and clinics. Further consideration will be given to specific practical actions such as dryland grazing, water and grazing management, and borehole water-level monitoring.

16. In terms of climate risk, the project is rated "high" and a climate risk analysis was carried out as part of the SECAP review. The climate risk analysis provides recommendations for the entire PCDP III project, highlighting opportunities to: (i) scrutinize more closely what climate change adaptation is and is not, to reduce the risk of maladaptation; (ii) provide clear and useable information on climate change (current trends, expectations, tangible impacts) to implementers and communities; and (iii) partner with ongoing pastoralism and climate-change research programmes to facilitate their research activities and obtain relevant knowledge in return.

V. Project costs and financing

17. The original cost of PCDP III was approximately US\$233.5 million, consisting of: (i) an IFAD loan of US\$85 million; (ii) an additional IFAD loan of US\$15 million; (iii) cofinancing of US\$110 million from the World Bank/IDA, (iv) a government contribution of roughly US\$18.6 million and; (iv) a contribution from beneficiaries of some US\$4.9 million.
18. Considering the proposed additional financing of US\$28.9 million and the corresponding beneficiary contribution of US\$4.3 million, the revised total cost amounts to US\$266.7 million. Project costs by component are summarized in table 1. Communities' contributions will include contributions in kind (10 per cent) and in cash (5 per cent), based on the value of the community subprojects.

Table 1
Project costs by component and financier
(Millions of United States dollars)

Components	IFAD loan ^a		World Bank/IDA		Borrower		Beneficiaries		Additional financing (IFAD loan)		Beneficiaries (additional financing) ^b		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
1. Community-driven service provision	64.0	33.7	69.1	36.4	18.4	9.6	4.9	2.6	28.9	15.2	4.3	2.3	189.6	71.1
2. Rural Livelihoods Programme	20.0	43.4	25.9	56.2	0.2	0.4	-	-	-	-	-	-	46.1	17.3
3. Development learning and knowledge management	2.0	42.5	2.7	57.4	-	-	-	-	-	-	-	-	4.7	1.8
4. Project management and monitoring and evaluation	9.0	43.7	11.6	56.3	-	-	-	-	-	-	-	-	20.6	7.7
5. Unallocated	5.0	87.7	0.7	12.3	-	-	-	-	-	-	-	-	5.7	2.1
Total	100.0		110.0		18.6		4.9		28.9		4.3		266.7	100.0

^a This includes the original loan (US\$85 million) and the additional financing (US\$15 million) that was approved in November 2015 and became effective in December 2015.

^b The beneficiary contribution for the additional financing consists of community contributions to the CIF Investments under component 1: community-driven service provision.

VI. Financial management, procurement and governance

19. The project is supervised jointly with, and administered by, the World Bank (along with its own resources). The financial management assessment concluded that arrangements at the project level are adequate. The same project management unit will be responsible and accountable for the proper use of funds, including the additional financing, in line with the provisions of the ongoing financing agreement. The PCDP III is the third phase of a 15-year project, and controls are firmly embedded. IFAD will make the additional financing available to the Government of Ethiopia under the terms and conditions of the financing agreement. The consolidated financial statements and audit report will be submitted to IFAD within six months of each relevant fiscal year-end. Disbursement has thus far been highly satisfactory. Both the country-inherent risk and the project-specific risk have been rated as medium. The details of financial management, procurement and internal control will remain unchanged from those presented in the President's report (EB 2013/110/R.20/Rev.1).

VII. Proposed amendments to the project financing agreement

20. Subject to the Executive Board's approval, the project financing agreement will be amended to include the provisions for additional financing. The additional financing will become available upon signature of the related amendment by IFAD and the Government of the Federal Democratic Republic of Ethiopia. The main changes to the original financing agreement relate to: (i) section B, article 1: the amount of the loan, to reflect the additional financing of US\$28.9 million equivalent; (ii) section B, article 8: the amount of counterpart financing from the project beneficiary communities, amounting to approximately US\$4.3 million (both in cash and in kind); and (iii) schedule 2: allocation of the proceeds of the additional financing.

VIII. Legal instruments and authority

21. A letter of amendment to the financing agreement between the Federal Democratic Republic of Ethiopia and IFAD will constitute the legal instrument for extending the proposed additional financing to the recipient.
22. The Federal Democratic Republic of Ethiopia is empowered under its laws to receive financing from IFAD.
23. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

IX. Recommendation

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

RESOLVED: that the Fund shall provide a loan on highly concessional terms to the Federal Democratic Republic of Ethiopia in an amount of twenty million four hundred and fifty thousand special drawing rights (SDR 20,450,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Gilbert F. Hougbo
President

Updated project results framework

(Indicators marked with * are additional outcome indicators for the additional financing. In conjunction with the mid-term review, project end-targets are currently under review and may be adjusted to reflect the over-performance of the project.)

Performance Indicators	Baseline (2013)	Current status (2017)	Original target end of project	Target for additional financing	Combined end of project target	Means verification	MoV Frequency
Project outreach	1,900,000	3,650,000	4,500,000	967,557	5,467,557	Progress reports	Annually, starting year 2.
Female beneficiaries	42%	49.9%	50%	50%	50%	Progress reports	Annually, starting year 2.
Outcome indicators							
Percentage of households reporting improved income from livestock/crop activities*	0%	10%	Not applicable	10%	10%	Survey, Impact assessment	Year 3 (MTR) and end of project
Percentage of households reporting adoption of environmentally sustainable and climate resilient technologies and practices*	0%	30%	Not applicable	30%	30%	Survey, Impact assessment	Year 3 (MTR) and end of project
Percentage of households reporting improved physical access to markets, processing or storage*	0%	43%	Not applicable	43%	43%	Survey, Impact assessment	Year 3 (MTR) and end of project
Male and female household heads in project kebeles who report that available public services address their priority needs	43 M 28% F		80%M 80%F	80%M 80%F	80%M 80%F	Survey and qualitative analysis	Baseline, mid-term and end of project
Students enrolled (grade 1-8) in PCDP constructed schools	73,784	153,505	182,600	37,250	219,850	Survey and progress reports	Baseline, mid-term and end of project
People provided with access to improved water sources under the project	800,000	1,425,330	2,000,000	408,000	2,408,000	Survey and progress reports	Baseline, mid-term and end of project
People with access to a basic package of health, nutrition, or reproductive health services	510,000	869,899	1,250,000	255,000	1,505,000	Survey and progress reports	Baseline, mid-term and end of project
Households undertaking a viable IGA supported by a business plan	11,200	19,987	32,200	6,569	38,768	Progress report, Case studies	Annually, starting year 2.
Households who are members of SACCOs as a proportion of total households in target communities	5.4%	7%	10%	10%	10%	Survey and progress reports	Annually, starting year 2.

Outputs for component 1: Demand-driven service provision							
CIF subprojects completed and fully operational	3,449	4,366	5,289	507	5,796	Progress reports	Annually, starting year 2. Process indicators used up to mid-term
Woredas targeted by the project with woreda development plans that follow a CDD planning process	0 per cent	20 per cent	50 per cent	50 per cent	50 per cent	Progress reports	Annually, starting year 2.
Subprojects with post-project community engagement or O&M arrangements	64 per cent	100 per cent	81 per cent	100 per cent	100 per cent	Progress reports, qualitative studies	Annually, after mid-term. Process indicators used up to mid-term
Outputs for component 2: Rural Livelihoods Programme							
SACCOs formed and operational	448	1,298	1,110			Progress reports and case studies	Annually, after mid-term. Process indicators used up to mid-term
Clients who have adopted an improved agriculture technology promoted by the project	0	547	2,200			Progress reports	Annually, starting year 3
Outputs for component 3: Development learning and knowledge management							
Lessons from community discussions and experience sharing documented by KDCs/learning and knowledge centres	No	Yes	Yes	Yes	Yes	Progress reports	Annually