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President's Report

Proposed Loan to the

Federal Democratic Republic of Ethiopia for the Lowlands Livelihood Resilience Project

Project ID: 2000001598

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Abbreviations and acronyms

COSOP	country strategic opportunities programme
DHC	blend of DSF and highly concessional lending terms
ESMF	environment and social management framework
IDA	International Development Association
M&E	monitoring and evaluation
PAP	pastoral and agro-pastoral
PCDP	Pastoral Community Development Project

Map of the project area



The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.
Map compiled by IFAD | 18-03-2019

Financing summary

Initiating institution:	World Bank and IFAD
Borrower:	Federal Democratic Republic of Ethiopia
Executing agency:	Ministry of Peace
Total project cost:	US\$451 million
Amount of IFAD loan:*	SDR 65.33 million (equivalent to approximately US\$90 million)
Amount of IFAD climate finance:**	US\$34.08 million
Terms of IFAD loan:	Highly concessional***
Cofinancier:	International Development Association (IDA)
Amount of cofinancing:	IDA: US\$350 million
Terms of cofinancing:	80 per cent IDA loan (highly concessional), 20 per cent IDA Debt Sustainability Framework grant
Contribution of borrower:	US\$0.00
Contribution of beneficiaries:	US\$11 million
Appraising institution:	IDA and IFAD
Cooperating institution:	IDA

* Lending terms softened from highly concessional to a blend of blend of Debt Sustainability Framework (DSF) and highly concessional (DHC) terms. The borrower committed to using the grant portion of the performance-based allocation system allocation for another project.

** As per the Multilateral Development Bank Methodologies for Tracking Climate Adaptation and Mitigation Finance.

*** The grant portion of the IFAD11 performance-based allocation system allocation will be used for another project.

Recommendation for approval

The Executive Board is invited to approve the recommendation contained in paragraph 55.

I. Context

A. National context and rationale for IFAD involvement

National context

1. With an estimated population of 102.4 million in 2016, Ethiopia is one of the fastest growing economies in the world. The IMF forecasted the country's growth rate to be 8.5 percent in 2018. Extreme poverty fell from 55 per cent in 2000 to 24 per cent in 2016. Ethiopia's national per capita income increased from US\$350 in 2010 to US\$993 in 2017. Despite these gains however, Ethiopia is still one of the poorest countries in the world and ranks 173 out of 189 countries on the United Nations Development Programme 2017 Human Development Index (0.463).
2. The country's arid and semi-arid lowlands account for 60 per cent of its land area, and between 12 per cent and 14 per cent of its population, which mainly consists of pastoral and agro-pastoral (PAP) communities. The majority of PAP communities lag behind in most social and economic indicators, and their livelihoods are highly vulnerable to a multitude of shocks.
3. PAP livelihood systems are complex and have been subject to: (i) increased frequency and severity of droughts; (ii) rapid degradation of rangelands with expansion of invasive species (i.e. Prosopis); (iii) a volatile geo-political environment and insecurity in some regions; (iv) reduced access and availability of pasture land driven by private enclosure of pastures, small- and large-scale commercial agriculture, urbanization and mega-projects; and (v) a weakening traditional clan system, reciprocal arrangements and cultural norms.
4. There are however significant economic opportunities in PAP areas. The major drivers of growth in these regions include: (i) market demand for animal protein, which is expected to double by 2030; (ii) opportunities for the export of live animals and livestock products, especially red meat within Africa and to the Middle East; (iii) opportunities for expansion of rainfed, water-conservation and irrigated agriculture, which can be leveraged without interfering with PAP communities' mobility; (iv) alternate livelihood and employment opportunities; and (v) increasing connectivity through roads, railways and cell phones, which facilitates market access. The dairy, red meat, leather, crop and forage value chains – the focus of investments in the proposed project – will drive inclusive livelihood development in the Ethiopian lowlands.
5. Climate change, as evidenced by increased frequency and severity of droughts and floods in the past two decades, will continue to be a major stress factor for Ethiopia's economy and livelihoods – particularly for the large proportion of the population that depends on rainfed agricultural and pastoral activities. Desertification, drought and flooding are expected to negatively impact water resources, impacting biodiversity, crop, tree and livestock production, nutrition, human health and hydropower electricity production.
IFAD's corporate mainstreaming priorities
6. The project is fully compliant with IFAD policies, including the Gender Equality and Women's Empowerment Policy (2012), the Policy on Improving Access to Land and Tenure Security (2008); the Environment and Natural Resource Management Policy (2012); and IFAD's Social, Environmental and Climate Assessment Procedures (SECAP, 2017).

7. Gender strategy. Women will comprise 50 per cent of beneficiaries. To strengthen women's participation as economic actors and enhance their social status, the project will: (i) promote their participation in community-based and local government institutions and strategic planning processes for investment; (ii) support their equal participation in value chain development; (iii) assist women in developing skills and entrepreneurial capacities; and (iv) enable them to gain equal access to extension and financial services.
8. Nutrition. Recognizing the important role of the livestock and crop subsectors in combatting malnutrition, the project will address gaps in nutrition knowledge, food handling and preservation for improved dietary intake within households. In coordination with health-extension providers, a curriculum on nutrition will be developed and integrated into the training plans of PAP field schools focusing on nutrition-sensitive agriculture and consumption of nutritious foods in varied agroecologies. Irrigated production will be focused on high-nutrition crops for local markets. Nutrition-sensitive agriculture will be promoted through access to: (i) nutrition-sensitive technologies (e.g. bio-fortified seeds); and (ii) nutrition-centric agriculture extension services (diversification of crops, technical assistance and post-harvest handling).

Rationale for IFAD involvement

9. The proposed project aims to enhance livelihood resilience at scale in the most marginalized regions of Ethiopia. It will create synergies with the third phase of the Rural Financial Intermediation Programme, which is currently in the design stage. The cofinancing partnership with IDA delivers important benefits, as recognized by the Government, IDA and IFAD. These include: (i) strong technical quality through knowledge partnership, particularly regarding gender and youth targeting, nutrition and climate change; (ii) investment at scale; (iii) efficiency through harmonized finance administration, safeguards, climate risk management, supervision and implementation support; and (iv) a recognized leadership role in supporting government-led development efforts in PAP areas.
10. During implementation, IFAD will offer its unique expertise in: integrated natural resource and range management; gender transformational approaches such as household methodologies; indigenous peoples' issues; pro-poor value chain development; and rural finance, which will serve as entry points for policy engagement. IFAD will leverage in-country partnerships, particularly with the Rome-based agencies, the German Agency for International Cooperation (GIZ) and centers of CGIAR.

B. Lessons learned

11. Previous projects, including the Pastoral Community Development Project (PCDP), have yielded lessons that influenced the design of this project:
 - (i) A spatial and holistic approach is required to support pastoral livelihoods based on a thorough understanding of the mobility requirements and dependence on natural resources.
 - (ii) Rangeland and natural resource management, and PAP value chains should be promoted in parallel with investments in social services, and not compete with them.
 - (iii) Investments in enhancing the PAP economy require specialized technical skills, implying a need to improve coordination and collaboration with government ministries for implementation.
 - (iv) Enhancing livelihood resilience requires a value chain orientation and attention to commercially viable market linkages.
 - (v) Decentralized decision making offers flexibility to respond to evolving community requirements. In order to respond to community demand and

provide the flexibility needed to adapt to changing market, environment, and community dynamics, the project will rely on decentralized project implementation structures.

II. Project description

A. Project objectives, geographic area of intervention and target groups

12. The project will benefit approximately 2.5 million people (500,000 households) as primary beneficiaries, including: (i) pastoralists and agro-pastoralists in the targeted rangelands; (ii) those opting out of pastoralism or interested in alternative livelihoods; and (iii) communities in selected woredas that have access to social services (education, health, water, veterinary services, etc.).
13. The project's geographical coverage includes PAP areas in the: Afar; Somali; Oromia; Southern Nations, Nationalities, and Peoples'; Gambela; and Benishangul-Gumuz Regions. Within these areas, the project will intervene in approximately 100 woredas, adopting a woreda-clustering approach to cover rangelands.
14. By improving the livelihoods of people living in PAP areas, the project will contribute to Sustainable Development Goals 1: No poverty, 2: Zero hunger, 3: Good health and Well-being, 5: Gender Equality, 6: Clean Water and Sanitation, 8: Decent work and Economic Growth, 13: Climate Action and 15: Life on Land.
15. Key outcomes will be measured in terms of: (i) outreach (number of beneficiaries, disaggregated by gender and age); (ii) increases in the yields of selected crops and livestock; (iii) increased land area (in ha) benefiting from integrated sustainable natural resource management practices; (iv) number of people with improved access to economic and social services (disaggregated by service type and gender); and (v) increase in volume and value of commodities in targeted value chains marketed by beneficiaries.
16. Increasing productivity per animal will also reduce the negative environmental impacts of livestock production, thus producing important climate benefits.

B. Components, outcomes and activities

17. The project will take a spatial and landscape approach to planning productive natural resource management, and support government efforts to strengthen planning processes across administrative boundaries. Building on the experience and results of PCDDP in institutional development and service delivery, the community-driven development approach will be integral part of the project's high-level inclusive and participatory planning mechanism, enabling structural and transformative investments in land use, range and market development. The value chain approach will leverage private investment, productivity gains and commercial linkages along value chains, enabling target groups to sustain and continue scaling up results after completion. Strong market demand will be a key criterion for activity selection. The project will be implemented through four integrated components, as summarized below.
18. Component 1: Integrated rangeland development and management will support management of the rangelands under which PAP production systems operate. The objective is to reverse degradation, manage encroachment, rehabilitate rangelands and enhance production of improved forage. Subcomponent 1.1 will support integrated rangeland management planning. Subcomponent 1.2 will support strategic investments.
19. Component 2: Livelihood improvement and diversification aims to offer economic opportunities for women, men and youth in PAP communities. Subcomponent 2.1 will enhance PAP production systems. Subcomponent 2.2 will promote livelihood diversification and market access.

20. Component 3: Improving basic services and capacity-building aims to enhance access and utilization of basic social and economic services using a community-driven development approach. Subcomponent 3.1 will provide basic social services and infrastructure. Subcomponent 3.2 will promote institutional capacity-building. Subcomponent 3.3 will support knowledge management, research and policy support.
21. Component 4: Project management, monitoring and evaluation (M&E) will ensure that the project is managed and implemented efficiently in accordance with the programme development objective and financing agreement, and that its performance and impact are carefully tracked.

C. Theory of change

22. The project will build resilience by strengthening: (i) absorptive capacity through rangeland and natural resource management interventions, strategic investments and improved basic social service delivery, which will help communities and PAP systems to absorb drought shocks and reduce asset losses; (ii) adaptive capacity, through livelihood improvement by helping beneficiaries to adopt climate-smart agriculture, and by investing in research systems that facilitate adaptation to climate change; and (iii) transformative capacity through market links, small-scale irrigation and livelihood diversification, which provide a basis for socio-economic advancement and enable beneficiaries to reduce their dependence on rainfed agricultural systems.¹

D. Alignment, ownership, and partnerships

23. IDA and IFAD have jointly supported the borrower in providing social services and limited livelihood support to PAP communities through the three phases of the PCDP in the past 15 years. In line with the borrower's Growth and Transformation Plan, future investments should focus on livelihood resilience, strengthen impact, further the achievement of the Sustainable Development Goals and embrace the "New Way of Working" piloted by the Government and its development partners.
24. The 2017-2022 country strategic opportunities programme (COSOP) highlights IFAD's engagement in the country's "emerging regions", which largely coincide with the PAP areas, given their high incidence of poverty, marginalization, and their populations' vulnerability to shocks and adverse trends. This project is fully consistent with the COSOP's strategic objectives.²
25. Alignment. The project is fully aligned with Ethiopia's Growth and Transformation Plan and the Pastoral Areas Development Policy and Strategy Framework, which is being developed under the leadership of Ethiopia's Ministry of Peace to enhance coordination and guide investments in PAP areas.³ Alignment will be ensured through existing government coordination platforms including the Emerging Regions Coordination Council, which is comprised of ministries involved in the sector, and the Rural Economic Development and Food Security Sector Working Group, which includes several government institutions and development partners.
26. Harmonization. This project is being envisaged as a flagship initiative to mobilize additional investment from development partners. Knowledge partnerships have been forged with the United States Agency for International Development and GIZ. Collaboration with the Food and Agriculture Organization of the

¹ Appendix II provides a graphic representation of the results chain.

² COSOP strategic objectives include: (i) enhanced resilience and productivity of ecosystems and livelihoods through improved management of natural resources, particularly water; and (ii) enhanced linkages with the private sector to ensure increased and sustained access to markets, finance and agricultural technology.

³ This framework aligns with the strategy of the Intergovernmental Authority on Development Drought Disaster Resilience Sustainability Initiative, which: (i) recognizes pastoralism as a viable economic activity that is suitable and adapted to vast rangelands; and (ii) accepts pastoral mobility as fundamental for ensuring sustainability. Such alignment fosters engagement with the commune settlement programme, mega-projects and irrigation schemes to ensure that they contribute towards the betterment of PAP communities.

United Nations (FAO) is expected to provide technical assistance. Ethiopia's Productive Safety Net Programme will serve as a platform to engage humanitarian actors, including the Government, the World Food Programme and others towards harmonizing planned development interventions with the delivery of humanitarian assistance.

E. Costs, benefits and financing

27. Project components 1: integrated rangeland development and management, 2: livelihood improvement and diversification, and 3: improving basic services and capacity-building have been partly counted as climate finance. The total amount of IFAD climate finance for this project is US\$34,077,221.

Project costs

28. The project will leverage additional financial resources from the private sector, community contributions and the Government at various levels. IFAD will continue to engage with the borrower to increase and monitor the counterpart contribution to project activities.

Table 1

Project costs by component and financier

(Thousands of United States dollars)

Component	IFAD loan		IDA		Beneficiaries		Total	
	Amount	%	Amount	%	Amount	%	Amount	%
A. Integrated rangeland development and management	46 757	20.9	173 239	77.5	3 400*	1.5	223 396	49.5
B. Livelihood improvement and diversification	22 448	20.5	87 322	79.6	-	-	109 770	24.3
C. Improving basic services and capacity-building	12 208	16.1	55 924	73.8	7 600**	10.0	75 732	16.8
D. Project management, M&E	8 587	20.4	33 514	79.6	-	-	42 101	9.3
Total	90 000	20.0	350 000	77.6	11 000	2.4	451 000	100.0

*In-kind contribution

**Combination of in-kind and cash contributions

Table 2

Project costs by expenditure category and financier

(Thousands of United States dollars)

Expenditure category	IFAD loan		IDA		Beneficiaries		Total	
	Amount	%	Amount	%	Amount	%	Amount	%
I. Investment costs								
A. Civil works	-	-	-	-	-	-	-	-
B. Workshops and training	12 564	20.4	48 894	79.6	-	-	61 458	13.6
C. Goods and equipment	8 004	20.5	31 137	79.6	-	-	39 141	8.7
D. Vehicles and motorcycles	746	20.5	2 900	79.6	-	-	3 646	0.8
E. Services	14 530	20.5	56 401	79.5	-	-	70 931	15.7
F. Investment funds	48 078	19.5	187 025	76.0	11 000**	4.5	246 103	54.6
G. Crisis response window	-	-	-	-	-	-	-	-
Total investment costs	83 922	19.9	326 357	77.5	11 000	2.6	421 279	93.4
II. Recurrent costs								
A. Salaries	2 190	20.5	8 518	79.6	-	-	10 708	2.4
B. Operational costs	3 888	20.5	15 124	79.6	-	-	19 012	4.2
Total recurrent costs	6 078	20.5	23 643	79.6	-	-	29 721	6.6
Total	90 000	20.0	350 000	77.6	11 000	2.4	451 000	100.0

**Combination of in-kind and cash contributions.

*** Schedule II of the financing agreement will mirror that of IDA.

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

Component	2019		2020		2021		2022		2023		2024		Total
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount
A. Integrated rangeland development and management	16 317	7	65 815	29	70 055	31	58 292	26	11 619	5	1 298	1	223 396
B. Livelihood improvement and diversification	735	1	24 721	23	24 992	23	22 536	21	21 682	20	15 104	14	109 770
C. Improving basic services and capacity-building	1 221	2	20 495	27	18 653	25	20 877	28	11 967	16	2 519	3	75 732
D. Project management, M&E	10 783	26	6 007	14	5 972	14	6 702	16	6 082	14	6 555	16	42 101
Total	29 055	6	117 039	26	119 672	27	108 408	24	51 350	11	25 476	6	451 000

Project financing and cofinancing strategy and plan

29. The total project cost is estimated at US\$451.0 million over a six-year period. In addition to the proposed IFAD loan of US\$90.0 million, IDA has provided US\$350.0 million comprised of a loan (80 per cent) and grant (20 per cent). Beneficiaries are expected to provide US\$11.0 million in cash and in kind.

Disbursement

30. Fund flow and disbursement. The project will follow the Government's fund-flow mechanism. IFAD and IDA funds will be deposited into two separate designated accounts to be opened by the Ministry of Peace Federal Project Coordination Unit at the National Bank of Ethiopia. The authorized ceiling for the designated accounts will be one semester of forecasted expenditures based on the approved annual workplan and budget. Funds from the designated United States dollar accounts will be transferred to a pooled account in Ethiopian birr to be held by the Federal Project Coordination Unit. From the pooled local-currency account, funds will be transferred to separate local-currency bank accounts to be opened by the other federal-level implementing entities and regional pastoral bureaus. The regional pastoral bureaus will transfer funds to separate project accounts for woredas, rangeland cluster support teams and other regional entities. The project will use the report-based disbursement method. Disbursements will be made quarterly and will cover cash requirements for the next six months based on the forecasts provided in interim financial reports. Project expenditures will be proportionate between IFAD and IDA. IFAD will finance taxes in line with IDA practice.

Summary of benefits and economic analysis

31. The financial analysis shows that the targeted activities are commercially sound. The economic analysis shows that the project is economically viable. Taking into account the current assumptions, the project's economic internal rate of return is equal to 20.4 per cent and the net present value equals US\$510.2 million. The project is sensitive to changes in some of the models' variables (i.e. variations in benefits and costs, lags in the realization of benefits, adoption rates and social carbon price), confirming that sustainable investments towards animal nutrition and health are critical to the project's success.
32. The economic value from greenhouse gas mitigation was calculated by using EX-ACT, a tool developed by FAO. The results show marginal carbon emission savings of 1,247,972 tons of carbon dioxide equivalent, corresponding to 62,399 tons of carbon dioxide equivalent per year.

33. The project will be transformative at different levels. The enhanced resilience of beneficiary households will translate into future cost savings for humanitarian response to crises, given that fewer households will depend on life-saving assistance in the event of drought or other shocks. It is also expected that:
- (i) improved nutrition will enhance children's educational performance;
 - (ii) strengthened social and economic empowerment of women and youth will translate into stronger economic growth; and
 - (iii) enhanced adaptation to and mitigation of climate change will reduce conflict over scarce resources in fragile PAP ecosystems. These outcomes will contribute to sustainable and resilient livelihoods, and sustainable growth in PAP areas.

Exit strategy and sustainability

34. The project is focused on private-sector engagement in order to provide more sustainable and long-term solutions for the delivery of goods and services.
35. Sustainability will be ensured through: (i) development of participatory pastoral management plans, anchored in tradition and in line with best practices in natural resource management; (ii) the efficiency and sustainability of PAP advisory systems; (iii) development of market-driven priority value chains for dairy, red meat and leather with the full participation of the private sector; (iv) improvement of animal feed development to reduce production costs; and (v) beneficiaries' adoption of highly productive, financially viable technologies, which are expected to strengthen the sustainability of project activities.

III. Risks

A. Project risks and mitigation measures

36. Mitigation of environmental and social risks is a core objective of the project. Integrated rangeland development and investments in natural resource management will contribute to reducing land degradation, which enhances the provision of ecosystem services and promotes conflict resolution. Anticipated risks and mitigation measures have been studied during project design, as elaborated in the section on the SECAP below.
37. The financial management risk for the project is substantial. The mitigating measures outlined in the design document will help to reduce this risk during implementation. The project will benefit from the strength of the country's public financial management system. Several aspects of this system function well, including the budget process, classification system and its compliance with financial regulations. An additional strength of the proposed project is the extensive experience of the Ministry of Peace and regional authorities in handling externally funded projects. Its main weaknesses in terms financial management are high staff turnover, a shortage of qualified accountants and auditors, delays in implementing audit recommendations, persistent internal control weaknesses, the limited focus of internal audit and delayed budget approvals.

B. Environment and social category

38. Environmental, Social and Climate Assessment Procedures. The project has been categorized as "B" based on IDA standards, which will be applied throughout the project. An environment and social management framework (ESMF) has been developed to ensure that adverse impacts are avoided or mitigated, and that affected communities are compensated for any assets lost due to project implementation. Implementation of the ESMF will ensure compliance with national laws and regulations, and IDA standards. In addition, resettlement policy framework and social assessment documents have been prepared to address specific concerns related to land acquisition, property loss, restriction of access to natural resources and other social issues that may affect vulnerable groups and underprivileged communities. No investments will be made before any affected people are fully compensated.

39. The full scope of sub-projects and related works is not yet known since they will be identified through a participatory approach. The screening of sub-projects will involve: (i) conducting environmental and social analyses; (ii) preparing an environmental and social management plan if required; (iii) review and approval of sub-projects; (iv) public consultation; and (v) disclosure at the woreda and regional levels. Prior to implementation, site-specific environmental impact analyses and environmental and social management plans will be reviewed and cleared by the World Bank as needed based on the guidance and standards set forth in the ESMF, with special attention to social and economic infrastructure sub-projects like roads and small-scale irrigation.

C. Climate risk classification

40. Recognizing and mitigating climate change-related risks – including drought, flooding and disease outbreaks – are critical for effective implementation and the achievement of project outcomes. The proposed adaptation measures are embedded in the project design, which aims to build the resilience of PAP communities' livelihoods. Improving the planning, monitoring, and management of rangelands is at the core of the climate change adaptation strategy for PAP communities. Based on participatory rangeland management and improvement plans, investments such as small-scale irrigation, water development and market infrastructure all contribute to climate change adaptation in the Ethiopian lowlands. Improving the productivity of existing PAP systems enhances their robustness against climatic changes and extreme weather events. In addition, reducing reliance on a single production system by diversifying livelihoods and enhancing market integration and access contribute significantly to adaptation.

D. Debt sustainability

41. During 2016 and 2017, stagnant exports, declining external reserves and the maturing of non-concessional borrowing contracted in the last five years resulted in a deterioration of the country's 2017 International Monetary Fund Debt Sustainability Analysis indicators. The risk of external debt distress increased to "high" throughout 2018. As a result, IFAD's 2018 lending terms softened to DHC (a blend of DSF and highly concessional lending terms) from highly concessional terms.

IV. Implementation

A. Organizational framework

Project management and coordination

42. The project will be implemented under the overall responsibility of the Ministry of Peace. It will establish slim, dedicated project coordination units at the federal and regional levels, which will be guided by federal and regional steering committees, and technical committees. Implementation will rely largely on decentralized government structures. Project activities will form an integral part of sector and regional development plans approved by regional parliaments. Partnerships will be established with research institutions, universities, the private sector and others, and service providers will be recruited for support in areas where they have a comparative advantage and high capacity.
43. In recognition of the need to build capacity on the ground, woreda cluster support teams will be established. They will have the dual mandate of: (i) providing technical support and building capacity for woreda-level implementation; and (ii) supporting holistic cross-woreda development planning. A project focal point and financial officer will directly support the project in each woreda.

Financial management, procurement and governance

44. Financial management. The Government of Ethiopia utilizes the double-entry bookkeeping system and modified cash basis of accounting, as documented in its

accounting manual. A financial management manual has already been developed for the project. Stand-alone accounting software will be used while government systems will be employed to prepare separate reports for the Government. A chart of accounts for the project will be developed using the Government chart of accounts to capture project expenditures by financier, component, subcomponent, category, and activity. The Federal Project Coordination Unit will be staffed by a senior finance officer, two finance officers, one senior internal auditor and an accountant. Each region should also have finance officers, accountants, and an internal auditor. Each rangeland cluster support team and woreda should have an accountant. Training in financial management is essential for the proposed project to succeed, especially considering the decentralized environment in which it will operate and the persistent risks of low capacity and high staff turnover. The project will utilize the Government's internal control systems and procedures, including those related to authorization, recording, and custody. The project-specific control requirements are stipulated in the project financial management manual. While all implementing entities have internal audit units, an internal auditor will be employed for the project at each federal and regional coordination unit. The project will prepare consolidated unaudited interim financial reports by collecting the reports of federal-level entities and regional authorities. These reports will be submitted to IFAD and IDA within 45 days of the end of each quarter. The Federal Project Coordination Unit will produce annual financial statements.

45. External audit. The Federal Project Coordination Unit will be responsible for having the project's annual financial statements audited; annual project audit reports will be submitted to IFAD and IDA within six months of the end of each fiscal year. The Office of the Federal Auditor General or a qualified auditor nominated by that office and acceptable to IFAD and IDA will carry out the audit in accordance with the International Standards on Auditing issued by the International Federation of Accountants. Given the large number of institutions involved and to meet the timetable for completion of the annual audit, the auditor will carry out interim audit after six months. In accordance with IFAD and IDA policies, audited financial statements will be disclosed to the public.
46. Governance and anticorruption. The Government established the Federal Ethics and Anti-Corruption Commission of Ethiopia in May 2001. The Ministry of Peace has an ethics and anticorruption unit that is responsible for acting on instances of suspected fraud, waste or misuse of resources or property. Implementing entities' ethics and anticorruption structures, and reporting mechanisms will be applied to the project.

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

47. Annual work plans will be developed through community-driven, bottom-up participatory planning processes, and technically-driven strategic planning will be informed by market and spatial analyses, existing development plans and multi-stakeholder processes. Community committees in each kebele, along with woreda- and regional-level technical committees will ensure inclusiveness, alignment and harmonization, as well as technical relevance and efficiency. A federal-level steering committee involving all relevant ministries will endorse the annual work programme and budget, and ensure broad ownership and coordination of implementation.

The M&E arrangements for the project will combine knowledge-management activities with the establishment of a robust user-friendly web-based management information system for M&E, learning and reporting. This web-based system will include information relevant for planning, self-monitoring and knowledge sharing among all entities involved. It will support and link all project-supported information systems for the various components, including a PAP livelihoods

decision-support information system, a rangeland monitoring system and a system for monitoring implementation progress.

Innovation and scaling up

48. The project design scales up proven approaches by combining the community-driven development approach with a spatial natural resource planning and value chain approach. Based on existing capacity at community, kebele, woreda and regional levels, an inclusive community-driven planning mechanism will be used to inform higher-level participatory decision making. This will be complemented by high-level data analysis to assess environmental and climate issues, and market opportunities – maximizing cross-sector coordination and development impact. The approach will initially be implemented in six rangeland systems (one in each region) to generate lessons for subsequent replication.
49. The project will pilot innovative solutions to bottlenecks in production, processing and marketing arrangements in PAP production systems and value chains. Examples include certification and traceability of livestock products, the use of drones to map rangelands and grazing units, piloting of livestock business incubators and an integrated decision-support system to provide information on prices and markets, the status of pastures and water points, and conflicts. The project will also promote innovative technologies that enhance the productivity and sustainability of rangelands. Priority will be given to technologies that: (i) provide low-cost climate-proof solutions; (ii) are adapted to the needs of youth and women; and (iii) contribute to improved nutrition and food security.

C. Implementation plans

Implementation readiness and start-up plans

50. IDA has provided retroactive financing. The project already started in July 2019.

Supervision, midterm review and completion plans

51. Project supervision will be jointly supervised by IDA, IFAD and the borrower. IFAD will focus on the Fund's priorities such as gender and youth targeting, climate change and nutrition to ensure that implementation generates the expected results.

V. Legal instruments and authority

52. A project financing agreement between the Federal Democratic Republic of Ethiopia and IFAD will constitute the legal instrument for extending the proposed financing to the borrower. A copy of the negotiated financing agreement is attached in appendix I.
53. The Federal Democratic Republic of Ethiopia is empowered under its laws to receive financing from IFAD.
54. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

VI. Recommendation

55. I recommend that the Executive Board approve the proposed 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 equivalent to sixty five million three hundred thirty thousand Special Drawing Rights (SDR 65,330,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Gilbert F. Hougbo
President

Negotiated financing agreement

NEGOTIATED TEXT

17 July 2019

LOAN NO.

Project name: Lowland Livelihood Resilience Project, "the Project" or "LLRP"

The FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA (the "Borrower")

and

The INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT (the "Fund" or "IFAD")

(each a "Party" and both of them collectively the "Parties")

WHEREAS the Borrower has requested financing from the Fund for the purpose of financing the LLRP;

WHEREAS, the Project shall be co-financed by the International Development Association (IDA);

WHEREAS, the Borrower and the International Development Association have entered into a Financing Agreement dated _____ (the "IDA Agreement") to provide financing for the Project;

WHEREAS, the Fund has agreed to co-finance the Project and provide a loan for the activities described in Schedule 1 to this Agreement;

NOW THEREFORE, the Parties hereby agree as follows:

Section A

1. The following documents collectively form this Agreement: this document, the Project Description and Implementation Arrangements (Schedule 1), the Allocation Table (Schedule 2), the Special Covenants (Schedule 3) and the General Conditions. In the event of a conflict between this document and any of the Schedules, the provisions of this document shall take precedence.
2. All provisions of the Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, amended as of December 2018, and as may be amended hereafter from time to time (the "General Conditions") shall apply to this Agreement except for the provisions identified in Section E paragraph 3 below. For the purposes of this Agreement the terms defined in the General Conditions shall have the meanings set forth therein, unless the Parties otherwise agree in this Agreement.
3. The Fund shall provide a Loan (the "Financing") to the Borrower which the Borrower shall use to implement the LLRP in accordance with the terms and conditions of this Agreement.
4. For the purpose of this Agreement:

"PIM" means the Project Implementation Manual prepared under the IDA Agreement;

"Procurement Manual" means the Manual prepared under the IDA Agreement;

"Financial Manual" means the Manual prepared under the IDA Agreement.

Section B

1. The amount of the Loan is sixty five million three hundred thirty thousand Special Drawing Rights (65 330 000 SDR).
2. The IFAD Loan shall be free of interest but bear a service charge of three fourths of one per cent (0.75%) per annum payable semi-annually in the Loan Service Payment Currency, and shall have a maturity period of forty (40) years, including a grace period of ten (10) years starting from the date of approval of the Loan by the Fund's Executive Board.
3. The Loan Service Payment Currency shall be the US dollar.
4. The first day of the applicable Fiscal Year shall be 8th of July.
5. Payments of principal and service charge shall be payable on each 15th April and 15th October.
6. There shall be one segregated Designated Account in USD for IFAD funds, for the exclusive use of the Project opened at the National Bank of Ethiopia (NBE). The Borrower shall inform the Fund of the officials authorized to operate the Designated Account.
7. There shall be a Project Operations pooled Account in Ethiopian Birr opened by the MoP/F-PCU.
8. Beneficiaries shall provide counterpart financing for the Project in an amount equivalent to approximately Eleven Million US dollars (USD 11 000 000), part in cash and part in kind.

Section C

1. The Lead Project Agency shall be the Ministry of Peace of the Borrower.
2. Additional Project Parties include those parties responsible for the implementation of any part of the project and any other parties deemed necessary by the Lead Project Agency.
3. A Mid-Term Review will be conducted as specified in Section 8.03 (b) and (c) of the General Conditions; however, the Parties may agree on a different date for the Mid-Term Review of the implementation of the Project/.
4. The Project Completion Date shall be the approximately six years after the date of entry into force of this Agreement or such other date as the Fund may designate by notice to the Borrower and the Financing Closing Date will be established as specified in the General Conditions. The Agreement shall enter into force on the date of receipt by the Fund of the instrument of ratification.
5. Procurement of goods, works and services financed by the Financing shall be carried out in accordance with the Cooperating Institution procurement guidelines.

6. Financial Management practices shall be organized in accordance with those of the Cooperating Institution.

Section D

The Financing shall be administered by the IDA as the Cooperating Institution. The Project shall be supervised jointly by IDA and the Fund.

Section E

1. The following are designated as additional grounds for suspension of the right of the Borrower to request disbursements under IFAD Financing:

- a) The PIM has been waived or amended without the prior agreement of IFAD and/or IDA.
- b) the right of the Borrower to withdraw the proceeds under the IDA Agreement has been suspended, cancelled or terminated, in whole or in part, or the IDA Loan has become due and payable prior to the agreed maturity thereof.
- c) The Project Manager or other key Project staff have been removed from the Project without the prior consultation with the Fund;
- d) the IDA Agreement has been terminated.

2. The following are designated as additional general conditions precedent to withdrawal:

- a) Establishment of Federal and Regional Steering Committees.
- b) The Effectiveness Conditions under the IDA Agreement have been met by the Borrower.

3. The following provisions of the General Conditions shall not apply to this Agreement:

- (a) Section 7.05 (Procurement); the procurement of goods, works and services to be financed out of the proceeds of the financing shall be subject to and governed by the IDA Procurement Guidelines as amended from time to time.

4. This Agreement is subject to ratification by the Borrower.

5. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the [Borrower]:

[click and type title of the representative]
[click and type the name and address of the ministry]

For the Fund:

[click and type Title]
International Fund for Agricultural Development
Via Paolo di Dono 44
00142 Rome, Italy

This Agreement, dated _____, has been prepared in the English language in two (2) original copies, one (1) for the Fund and one (1) for the Borrower and shall enter into force as provided for in the General Conditions.

[CLICK AND TYPE THE NAME OF THE COUNTRY]

[insert NAME of the Authorised Representative]
[insert his title]

Date: _____

INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT

Gilbert F. Houngbo
President

Date: _____

Schedule 1

Programme Description and Implementation Arrangements

I. Programme Description

1. Schedule 1 "Project Description" of the IDA Agreement applies to this Agreement.

II. Implementation Arrangements

1. Schedule 2 Section I "Implementation Arrangements" of the IDA Agreement apply to this Agreement. This includes, among others, the "Manuals", and the "Safeguards" provisions.

The Borrower shall prepare and furnish to the Fund for its approval, not later than April 30th of each year during the implementation of the Project, or such later date as the Fund may agree, the Annual Work Plans and Budgets ("AWPB"), including procurement plans, containing all proposed sub-projects to be carried out in the following fiscal year, and finalize the AWPB, taking into account the Fund's comments and views thereon.

The Borrower shall cause each Region, Woreda and Kebele to implement, monitor and evaluate its respective activities, in accordance with the provisions set forth in this Agreement and the AWPB approved by the Fund; and shall not revise any approved AWPB without the prior written agreement of the Fund.

10. Project Implementation Manual

The Borrower shall carry out the Project also in accordance with the PIM. The Borrower will finalize the development of the Project Implementation Manual (PIM) for the Fund's consideration and approval. The PIM will include, inter alia, a comprehensive financial management section, will provide more details on roles and responsibilities of Project and implementing parties, the establishment of a grievance redress mechanism and include internal audit requirements. Any revisions to the PIM shall have to be previously approved by the Fund.

Schedule 2

Allocation Table

1. Allocation of Loan Proceeds.

(a) The Table below sets forth the Categories of Eligible Expenditures to be financed by the Loan and the allocation of the amounts to each category of the Financing and the percentages of expenditures for items to be financed in each Category:

Category	Loan Amount Allocated (expressed in USD)	Allocation net of other financiers' contribution, including government
I. Goods, services and input – 1	64 600 000	Such percentage as agreed by the Association and IFAD and communicated to the Borrower.
II. Goods, services and input - 2	730 000	Such percentage as agreed by the Association and IFAD and communicated to the Borrower.
TOTAL	65 330 000	

(b) The terms used in the Table above are defined as follows:

Goods, services and input – 1 – It includes Goods, works, non-consulting services and consulting services for the Project and Operating Costs

Goods, services and input – 2 – It includes Savings Leverage Grants to RUSACCOs under Part 2.2 (c) of the Project as illustrated in the IDA Project Appraisal Document (PAD).

Schedule 3

Special Covenants

In accordance with Section 12.01(a)(xxiii) of the General Conditions, the Fund may suspend, in whole or in part, the right of the Borrower to request withdrawals from the Loan Account if the Borrower has defaulted in the performance of any covenant set forth below, and the Fund has determined that such default has had, or is likely to have, a material adverse effect on the Project:

1. **Planning, Monitoring and Evaluation.** The monitoring and evaluation of environmental indicators will be further refined on the basis of the finding of the ESIA and Feasibility Studies. The ESIA shall include feasible and cost-effective measures to maximize opportunities and prevent or reduce significant negative impacts.
2. **Compliance with Safeguards.** The Borrower shall ensure that the Project will be implemented in compliance with the safeguards provisions specified in the IDA Agreement and as outlined in the Project Implementation Manual. Resettlement of 20 or more people (when sub-projects involve land acquisition, or loss of assets, or access to assets on the land,) will require a resettlement action plan, and no investments will be made before any affected people are fully compensated.
3. **Anticorruption Measures.** The Borrower shall comply with IFAD Policy on Preventing Fraud and Corruption in its Activities and Operations, taking appropriate action to prevent, mitigate and combat Prohibited Practices.

Logical framework

Project Development Objectives(s) To Improve Livelihood Resilience of Pastoral and Agro-Pastoral Communities in Ethiopia

Project Development Objective Indicators

Indicator Name	DLI	Baseline	End Target
To improve Livelihood Resilience of Pastoral and Agro-Pastoral Communities in Ethiopia			
Land area under sustainable landscape management practices (CRI, Hectare(Ha))		0.00	700,000.00
Increase in Yield of Targeted Commodities (Livestock and Crop) (Percentage)		0.00	25.00
People with Improved Access to Economic and Social Services (of which 50% Female and 20% Youth) (Number (Thousand))		0.00	1,250.00
Farmers reached with agricultural assets or services (CRI, Number)		0.00	1,500,000.00
Farmers reached with agricultural assets or services - Female (CRI, Number)		0.00	600,000.00

Intermediate Results Indicators by Components

Indicator Name	DLI	Baseline	Intermediate Targets	End Target
			1	
Integrated Rangeland Development and Management				
Project beneficiaries with Improved Access to Key Natural Resources (of which 50% Female and 20 % Youth) (Percentage)		0.00		50.00
Rangeland Management and Investment Plans (RMIPs) Under Implementation (Number)		0.00		70.00
Project Area with Increased NDVI/Biomass Index Corrected for Climate Change (Percentage)		0.00		30.00
Number of Strategic Economic Infrastructure Investments Operational (Number)		0.00		300.00

Indicator Name	DLI	Baseline	Intermediate Targets	End Target
			1	
Livelihoods Improvement and Diversification				
Beneficiaries Participating in Diversified Livelihoods Activities (of which 50 % Female and 20 % Youth) (Number)		0.00		200,000.00
RUSACCOs and Unions Supported by the Project (Number)		0.00	500.00	520.00
Project Beneficiaries with Access to Rural Financial Services (60 % female and 20 % Youth) (Number)		0.00		50,000.00
Farmers adopting improved agricultural technology (CRI, Number)		0.00		100,000.00
Farmers adopting improved agricultural technology - Female (CRI, Number)		0.00		30,000.00
Farmers adopting improved agricultural technology - male (CRI, Number)		0.00		70,000.00
Increased Volume of Marketed Commodities, in targeted Value Chains by Project Beneficiaries (Percentage)		0.00		25.00
Improving Basic Services and Capacity Building				
Community Sub-Projects Operational (Percentage)		0.00		90.00
Knowledge Products with Policy Implications for Pastoral and Agro-Pastoral Systems Completed (Number)		0.00		30.00
Targeted Clients Satisfied with Livestock, veterinary and Agricultural Extension Services (Percentage)		0.00		80.00
Project Management, Monitoring and Evaluation				
Project Direct Beneficiaries (of which 50% female and 20% youth) (Number)		0.00		2,500,000.00

Results chain

