Executive Board
144th Session
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President's report

Proposed Debt Sustainability Framework grant

Federal Democratic Republic of Ethiopia

Lowlands Livelihood Resilience Project – Phase II (LLRP II)

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Action: The Executive Board is invited to approve the recommendation contained in paragraph 57.

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Contents

Appendices

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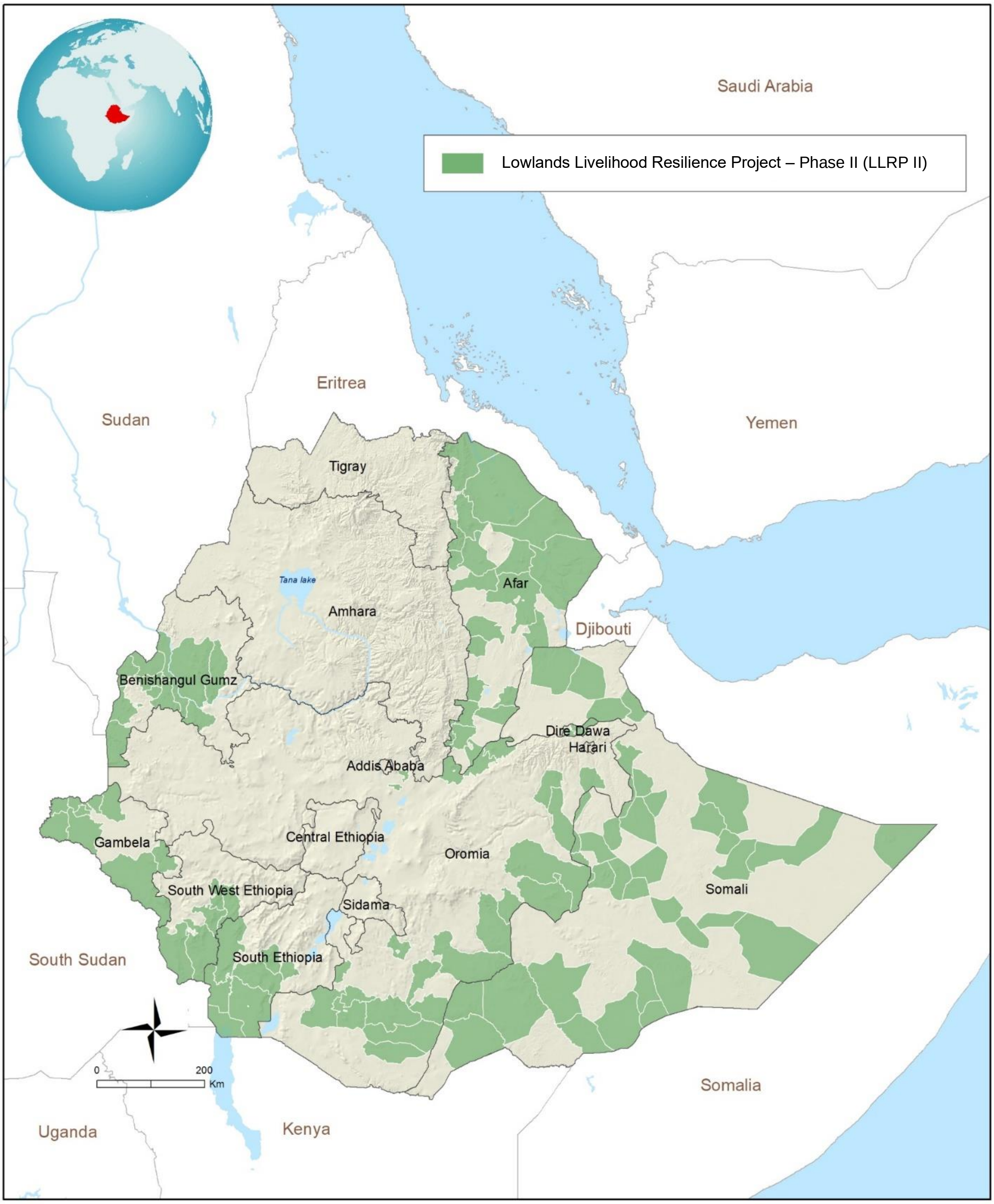
Map of the project area



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Map compiled by IFAD | 21-10-2024

Financing summary

Initiating institution:	International Development Association (IDA) World Bank Group
Borrower/recipient:	Federal Democratic Republic of Ethiopia
Executing agency:	Ministry of Irrigation and Lowlands
Total project cost:	US$424 million
Amount of IFAD Debt Sustainability Framework (DSF) grant (performance-based allocation system [PBAS]):	US$69.243 million
Terms of IFAD financing:	DSF grant
Cofinanciers:	IDA Private sector
Amount of cofinancing:	IDA: US$340 million Private sector: US$4 million
Terms of cofinancing:	IDA loan Private sector contribution
Financing gap:	US$10.757 million
Amount of IFAD climate finance:	US$57.804 million (US$2.4 million of which is a climate top-up)
Cooperating institution:	IDA

I. Context

A. National context and rationale for IFAD involvement

National context

1. Ethiopia is characterized by a complex political landscape, marked by ethnic diversity and historical tensions. Recent conflicts, combined with external shocks such as extreme weather events and COVID-19 have led to high levels of poverty and food insecurity.

2. The country is at a critical stage of transition, grappling with conflict, resource competition and governance issues. IFAD’s focus is on building resilience and adopting conflict-sensitive strategies to promote stability and development.

3. Ethiopia faces significant challenges in advancing towards zero poverty and hunger. About 60 per cent of lowland pastoral and agropastoral households live in extreme poverty with rising malnutrition, worsened by droughts and limited resources.

4. Ethiopia's pastoral and agropastoral areas, vital to the livelihood of approximately 18 million people, face significant challenges from climate change impacts, resource conflicts and market access, while contributing 16 per cent to the national GDP. The Government of Ethiopia has implemented strategies to enhance the livelihoods of pastoral and agropastoral communities and reduce rural poverty, among them the Ethiopian Pastoral Development Policy and Strategies and the Ethiopia 2030 development plan, aimed at improving livelihoods and resilience. Collaboration with NGOs and international organizations, such as IFAD and the World Bank, supports these efforts.

Special aspects relating to IFAD’s corporate mainstreaming priorities

5. In line with IFAD’s mainstreaming commitments, the project has been validated as:

   ☒ Including climate finance

   ☒ Gender-transformative

   ☒ Including adaptive capacity

6. The country faces challenges such as limited women’s economic empowerment, constraining their access to resources, decision-making and economic opportunities. Cultural barriers restrict their participation in agriculture and community activities. Additionally, the large youth population lacks access to education, vocational training and employment, leading to high unemployment and potential instability.

7. Food insecurity and malnutrition, particularly among women and children, are exacerbated by limited access to nutritious food. Climate change impacts, such as increased drought frequency and flooding caused by extreme weather events, threatens agricultural productivity and livelihoods, especially in agropastoral communities.

8. The project addresses these vulnerabilities by promoting climate-resilient agriculture, nutrition education and empowering women and youth economically. Key initiatives include the distribution of drought-tolerant seeds, sustainable land management training and the shifting of social norms. The project integrates gender equality, youth empowerment and climate resilience, aligning with IFAD commitments for effective impact.

Rationale for IFAD involvement

9. The project builds on the positive achievements of the first phase of the Lowlands Livelihood Resilience Project (LLRP), demonstrating encouraging progress at the midterm review (MTR). Key achievements include: (i) providing 222,854 pastoralists and agropastoralists (40 per cent female, 27 per cent youth) with access to 113,071 hectares of rangeland; (ii) developing 28 comprehensive Rangeland Management and Investment Plans (RMIPs) across 100 project *woredas*;

(iii) completing 81 public economic infrastructure projects based on these RMIPs; (iv) supporting 32,878 beneficiaries in the diversification of their livelihoods; (v) promoting agricultural and livestock technologies, with 27,303 farmers adopting improved practices; (vi) establishing/strengthening 482 rural savings and credit cooperatives, benefiting 41,918 individuals; (vii) creating seven productive partnerships to improve commercialization; and (viii) completing 654 community-driven service subprojects, benefiting over 1 million people, 50 per cent of them female and 13.5 per cent youth.

10. LLRP II aims to address challenges in Ethiopia's pastoralist and agropastoralist communities, focusing on climate change impacts, rangeland adaptation, women's economic empowerment, youth and food security to improve resilience and livelihoods. IFAD's experience in pastoralist development and strong partnerships, particularly with the World Bank, facilitate effective financing and coordinated interventions, increasing impact and resilience.

B. Lessons learned

11. In its engagement with LLRP II, IFAD considers lessons learned from past and current projects in Ethiopia (including findings from the country strategy and programme evaluation conducted in 2023) and builds on the achievement of phase I of LLRP. Key lessons include: (i) balancing strategic investments with community priorities, such as integrating large-scale initiatives with community-driven approaches; (ii) leveraging community-driven development to ensure inclusivity and engage vulnerable populations; (iii) strengthening local institutions through capacity-building and technical assistance to improve financial management, procurement and implementation; (iv) improving group dynamics by upgrading successful common interest groups to enterprises while maintaining equal participation by women and young people; (v) integrating financial intermediation through pastoral savings and credit cooperatives, linking livelihood development with access to finance; (vi) enhancing monitoring, evaluation and learning (MEL) systems using satellite data and geographic information system (GIS) tools to monitor rangeland conditions and project outcomes; (vii) implementing targeted financial management arrangements in conflict-affected areas; and (viii) ensuring continuous dialogue with partners to foster gender equality, value-for-money and knowledge management in the implementation of type C projects.

II. Project description

A. Objectives, geographical area of intervention and target groups

12. LLRP II's development objective is to increase pastoral and agropastoral communities' resilience to the impacts of climate change in the lowlands of Ethiopia. Towards this end, it seeks to reduce pastoralists' and agropastoralists' vulnerability to climate variability and increased intensity of weather events, and address the fragility of their livelihoods, including by strengthening livestock value chains. It also promotes more effective private sector engagement in such value chains. Hence, the project is well-aligned with the priorities of the Thirteenth Replenishment of IFAD's Resources (IFAD13) and IFAD's country strategic opportunities programme (COSOP) for Ethiopia.

13. The project will cover 120 lowland *woredas* in seven regional states (Afar, Benshangul-Gumuz, Gambella, Oromia, Somali, South Ethiopia and South West Ethiopia) and the Dire Dawa City Administration. In recent years, Ethiopia's lowlands have been subject to the compounding effects of cyclical droughts, changing weather conditions and conflict, which have resulted in fragile livelihoods, high levels of poverty and food insecurity in the communities living in these areas. LLRP II targets pastoralist and agropastoralist households and is expected to reach three million beneficiaries, or about 16 per cent of Ethiopia's lowland population.

Women and youth will account for 50 and 30 per cent of LLRP II beneficiaries, respectively. Pastoralists and agropastoralists in Ethiopia are extremely vulnerable to climate change and environmental degradation, poverty, malnutrition and food insecurity. In addition to the direct beneficiaries, an estimated 2 million people will benefit indirectly from the project investments.

B. Components, outcomes and activities

14. The project will have the following components:

15. **Component 1. Pastoral risk management for resilience,** including: (i) strengthening lowland early warning and response systems and climate information services; and (ii) strategic investments for disaster preparedness and strengthening resilience.

16. **Component 2. Integrated rangeland management,** including: (i) monitoring rangeland health and institutional capacity-building for rangeland management, particularly for grassroots institutions; (ii) investments in participatory rangeland and pasture management; and (iii) mitigation and management of resource-related conflicts by equipping beneficiary communities with tools and capacities to address root causes of resource-related community-level conflicts.

17. **Component 3. Climate-resilient and sustainable livelihoods,** including: (i) increasing crop and livestock productivity and resilience to climate change impacts through the promotion of climate-smart, nutrition-smart and gender-sensitive technologies, improved animal husbandry and herd management and the strengthening of animal health services; and (ii) commercialization and livelihood diversification through enterprise development and greater access to finance targeting poorer households.

18. **Component 4. Project management, monitoring, evaluation and learning.** This component will finance: (i) project management; (ii) monitoring, evaluation and learning; and (iii) knowledge management and policy support.

C. Theory of change

19. The theory of change establishes the connection between key activities, outputs and outcomes to achieve the project development objective. By strengthening early warning systems, promoting sustainable land management, integrating renewable energy, advancing climate-smart agriculture, diversifying livelihoods and supporting policy development, the project delivers improved disaster response, validated resilience frameworks, better land governance, expanded renewable energy access, increased agricultural productivity, stronger market linkages and strengthened financial institutions. These outputs lead to operational climate-smart infrastructure, effective early warning systems, sustainable land use and higher productivity, ultimately resulting in improved livelihoods and greater climate resilience among pastoral and agropastoral communities in Ethiopia’s lowlands.

D. Alignment, ownership and partnerships

20. LLRP II contributes to the Sustainable Development Goals, in particular: eliminating poverty by improving the livelihoods and resilience of pastoral and agropastoral communities, and achieving zero hunger through sustainable agricultural practices and food security initiatives. By implementing strategies to mitigate the impact of climate variability and increased intensity of weather events, LLRP II promotes climate action and sustainable land management. Additionally, the project aligns with Ethiopia’s Pathway to Prosperity Ten-Year Perspective Development Plan 2021–2030 (Ethiopia 2030), focused on a climate-resilient green economy, and the National Adaptation Plan.

21. The project aligns with IFAD priorities by enhancing resilience and productivity in fragile contexts and investing in climate resilience, which is consistent with the COSOP for Ethiopia. The COSOP identifies the lowlands as a priority investment

area, highlighting the need for targeted interventions to address poverty and vulnerability. It also focuses on improving the livelihoods of pastoral and agropastoral communities through sustainable resource management, greater food security and climate resilience. Furthermore, the COSOP emphasizes the inclusion of women, infrastructure development and policy advocacy to address the unique challenges these communities face. The project employs a multisectoral approach to address the complex challenges faced by vulnerable communities in pastoral and agropastoral areas in Ethiopia. By collaborating with the World Bank, the International Institute for Rural Reconstruction and other development partners, the project aims to increase effectiveness and reduce the duplication of efforts. Engaging local communities, government agencies and civil society ensures that local needs are met.

E. Costs, benefits and financing

22. Project components 1 (pastoral risk management for resilience), 2 (integrated rangeland management) and 3 (climate-resilient and sustainable livelihoods) are partially counted as climate finance. As per the multilateral development banks' methodologies for tracking climate adaptation and climate mitigation finance, the total amount of IFAD climate finance for this project is estimated at US$57.804 million.

Project costs

23. The total project cost will be US$424 million. The total amount of IFAD climate finance for this project is calculated at US$57.804 million, representing 83.5 per cent of IFAD's total investment. US$42.951 million is counted as adaptation finance, and US$14.853 million as mitigation finance.

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

	IDA		IFAD DSF grant (PBAS)		Financing gap		Private sector		Total	
Component/subcomponent	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*
1. Pastoral risk management for resilience										
1.1. Strengthen early warning and response and climate information systems in Ethiopia's lowlands	7 000	77.8	2 000	22.2	-	-	-	-	9 000	2.1
1.2. Support climate-smart disaster preparedness and resilience investments	177 000	80.8	31 243	14.3	10 757	4.9	-	-	219 000	51.7
Subtotal	184 000	80.7	33 243	14.6	10 757	4.7	-	-	228 000	53.8
2. Integrated rangeland management										
2.1. Rangeland health monitoring and institutional capacity-building	3 480	80.0	870	20.0	-	-	-	-	4 350	1.0
2.2. Participatory rangeland and pasture management	42 500	81.0	10 000	19.0	-	-	-	-	52 500	12.4
2.3. Resource-related conflict management and mitigation	6 180	81.0	1 450	19.0	-	-	-	-	7 630	1.8
Subtotal	52 160	80.9	12 320	19.1	-	-	-	-	64 480	15.2
3. Climate-resilient and sustainable livelihoods										
3.1. Support livestock and crop productivity and climate resilience	29 970	81.0	7 030	19.0	-	-	-	-	37 000	8.7
3.2. Livelihood diversification and commercialization	41 475	76.1	9 015	16.5	-	-	4 000	7.3	54 490	12.9
Subtotal	71 445	78.1	16 045	17.5	-	-	4 000	4.4	91 490	21.6
4. Project management and policy support										
4.1. Project management and MEL	29 994	81.0	7 036	19.0	-	-	-	-	37 030	8.7
4.2. Knowledge management and policy support	2 400	80.0	600	20.0	-	-	-	-	3 000	0.7
Subtotal	32 394	80.9	7 636	19.1	-	-	-	-	40 030	9.4
Total project cost	**340 000**	**80.2**	**69 243**	**16.3**	**10 757**	**2.5**	**4 000**	**0.9**	**424 000**	**100**

Table 2
Project costs by expenditure category and financier
(Thousands of United States dollars)

	IDA		*IFAD DSF grant (PBAS)*		*Financing gap*		*Private sector*		*Total*	
Expenditure category	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*	*Amount*	*%*
I. Investment costs										
A. Civil works	199 104	80.8	36 461	14.8	10 757	4.4	-	-	246 322	58.1
B. Workshops and training	14 796	80.8	3 523	19.2	-	-	-	-	18 319	4.3
C. Goods and equipment	46 302	80.9	10 932	19.1	-	-	-	-	57 234	13.5
D. Vehicles and motorcycles	5 211	81.0	1 222	19.0	-	-	-	-	6 433	1.5
E. Services										
1. Technical assistance, international	312	80.9	74	19.1	-	-	-	-	386	0.1
2. Technical assistance, domestic	6 377	78.1	1 788	21.9	-	-	-	-	8 164	1.9
3. Other services	13 339	80.8	3 160	19.2	-	-	-	-	16 499	3.9
Subtotal	20 028	80.0	5 022	20.0	-	-	-	-	25 050	5.9
F. Crisis response window	-	-	-	-	-	-	-	-	-	-
G. Grants and subsidies										
1. Matching grants	29 776	74.0	6 840	17.0	-	-	3 621	9.0	40 238	9.5
2. Savings leverage grants	5 213	83.5	653	10.5	-	-	379	6.1	6 245	1.5
Subtotal	34 989	75.3	7 493	16.1	-	-	4 000	8.6	46 483	11.0
Total investment costs	320 431	80.1	64 653	16.2	10 757	2.7	4 000	1.0	399 841	94.3
II. Recurrent costs										
A. Salaries and allowances	11 855	81.0	2 781	19.0	-	-	-	-	14 636	3.5
B. Operating costs	7 714	81.0	1 809	19.0	-	-	-	-	9 523	2.2
Total recurrent costs	19 569	81.0	4 590	19.0	-	-	-	-	24 159	5.7
Total project cost	**340 000**	**80.2**	**69 243**	**16.3**	**10 757**	**2.5**	**4 000**	**0.9**	**424 000**	**100.0**

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

Component/subcomponent	*2024*	*2025*	*2026*	*2027*	*2028*	*2029*	*Total*
1. Pastoral risk management for resilience							
1.1. Strengthen early warning and response and climate information systems in Ethiopia's lowlands	161	5 764	828	904	753	591	9 000
1.2. Support climate-smart disaster preparedness and resilience investments	9 303	28 007	47 025	105 996	28 492	177	219 000
Subtotal	9 464	33 771	47 852	106 900	29 245	768	228 000
2. Integrated rangeland management							
2.1. Rangeland health monitoring and institutional capacity-building	1 571	847	511	777	528	116	4 350
2.2. Participatory rangeland and pasture management	4 980	7 043	14 276	10 839	9 040	6 322	52 500
2.3. Resource-related conflict management and mitigation	1 043	1 827	2 273	1 996	490	1	7 630
Subtotal	7 593	9 717	17 060	13 612	10,058	6 439	64 480
3. Climate-resilient and sustainable livelihoods							
3.1. Support livestock and crop productivity and climate resilience	2 067	8 116	9 109	8 039	5 896	3 773	37 000
3.2. Livelihood diversification and commercialization	9	14 483	13 486	12 973	13 163	376	54 490
Subtotal	2 076	22 599	22 594	21 012	19 059	4 149	91 490
4. Project management and policy support							
4.1. Project management and MEL	3 979	12 519	5 438	5 638	5 990	3 465	37 030
4.2. Knowledge management and policy support	145	805	720	446	656	228	3 000
Subtotal	4 124	13 324	6 158	6 084	6 647	3 693	40 030
Total project cost	**23 258**	**79 411**	**93 665**	**147 608**	**65 009**	**15 050**	**424 000**

Financing and cofinancing strategy and plan

24. This will be comprised of: (i) US$340 million in IDA funding (SDR, 255.7 million); (ii) US$69.243 million from IFAD's regular PBAS allocation; (iii) US$4 million as the private sector contribution; and (iv) a US$10.8 million financing gap. The IDA loan is already effective and being disbursed. With the IFAD financing, there is no expected financing shortfall.

25. To align with the IDA financing, IFAD funds will be used to pay taxes and will be disbursed on a pari passu basis.

Disbursement

26. The Ministry of Irrigation and Lowlands (MILLs) will open a designated account in United States dollars at the National Bank of Ethiopia to receive IFAD funds. Disbursements will follow quarterly interim financial report submissions and World Bank approval through Client Connection. IFAD will proceed to transfer funds to this designated account, which will then be transferred into pooled Ethiopian birr accounts at various administrative levels. These funds will remain separate from the LLRP project and distinct per financier.

Summary of benefits and economic analysis

27. The ex ante economic and financial analysis shows that the project is expected to be economically viable. Nineteen financial models were developed, covering activities for pastoral and agropastoral (PAP) communities such as irrigation, water conservation, agribusiness and off-farm ventures.

28. The ex ante analysis using the Food and Agriculture Organization of the United Nations (FAO) EX-ACT tool estimates that the project could reduce greenhouse gas emissions by 32,882,407 tCO_2eq over 20 years (1,641,120 tCO_2eq per year), primarily through improved rangeland management and livestock productivity. However, emissions from cropland practices and input use will increase.

29. Economic cost-benefit modeling indicates profitability under all scenarios, with a baseline net present value (NPV) of US$125 million and an economic rate of return (ERR) of 13.3 per cent. When environmental externalities are included, the NPV rises from US$897 million to US$1,671 million, and the ERR from 37.4 to 55.5 per cent. Sensitivity analysis confirms profitability above the 7 per cent discount rate under various conditions, though the project is sensitive to a 30 per cent decline in benefits or a 30 per cent increase in costs.

Exit strategy and sustainability

30. The project's sustainability is based on: (i) a bottom-up participatory planning process, particularly under component 1; (ii) reliance on existing government structures for project implementation; (iii) enhanced partnerships and targeted capacity-building; (iv) promotion of nature-based solutions, investments in natural rangelands, traditional (rotational) rangeland management practices and an automated rangeland health monitoring system to support the natural resource base and environment required to sustainably supply the inputs needed by PAP production systems; (v) private sector engagement, including through productive partnerships, small and medium-sized enterprises (including mobilizing own capital) and efforts to align commercial incentives with the goods and service needs of PAP producers and businesses; (vi) expected improvements in the delivery of public services, such as extension and veterinary services, based on the adoption of innovative models and technologies; (vii) integrated support for the adoption of climate-smart, market-oriented livestock and crop management practices and technologies (for feed, health, breed, market and husbandry bundled as smart packs) that will reduce the carbon intensity of agricultural activities in project-targeted areas; and (viii) support for alternative income and livelihood options that are expected to increase livelihood resilience to climate change impacts in the arid and semiarid lowlands.

III. Risk management

A. Risks and mitigation measures

Table 4
Overall risk summary

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

B. Environment and social category

31. The World Bank Environmental and Social Review Summary and Project Appraisal Document show that the environmental and social risks are substantial. This risk classification is the same as that of IFAD's Social, Environmental and Climate Assessment Procedures (SECAP) 2021 screening tool. The climate screening provided by IFAD shows that the climate risk in the project regions is also substantial. Based on the risk categories of environmental, social and climate risks and the nature of LLRP II activities, certain studies are mandatory for project implementation and mitigation measures to address risks and their potential impacts as necessary. The World Bank is responsible for ensuring the implementation of mitigation measures through the Environmental and Social Commitment Plan, which has already been drafted. Even though the World Bank has developed climate co-benefits per activity, including mitigation measures, the plan is not fully aligned with the IFAD requirement concerning the climate redress risk mechanism. IFAD would therefore conduct a targeted adaptation assessment to ensure climate risk mitigations.

C. Climate risk classification

32. The climate risk classification for LLRP II is "substantial" due to several environmental and contextual factors. Environmental risks include greater water extraction, soil salinization, poor soil nutrient management, high water consumption, potential pesticide use and challenges from crop residue and waste management. Contextual factors, including political instability, conflict and internal displacement, further exacerbate the environmental risks, posing additional challenges to sustainability. IFAD conducted a targeted adaptation assessment study, which recommended incorporating findings related to climate change adaptation and climate mitigation throughout project implementation. This will increase the project's resilience and sustainability, ensuring that it meets the highest standards of environmental, social and climate requirements for both organizations.

D. Debt sustainability

33. The latest International Monetary Fund and World Bank Debt Sustainability Analysis (DSA) report on Ethiopia was released on 29 July 2024. It contained a DSA assessment indicating that the country's debt is unsustainable, mainly due to protracted breaches of export-related external debt indicators. Following a missed Eurobond interest payment in December 2023, the country is in debt distress. Debt-carrying capacity was downgraded to "weak" in October 2022. Timely

implementation of the authorities' reform agenda and debt relief from external creditors are required to alleviate liquidity pressures and restore debt sustainability.

34. The Government has agreed with the World Bank and IMF on a support programme aimed at reducing debt distress and improving macroeconomic conditions. Substantive macroeconomic policy reforms have been instituted by the authorities, leading to a US$10 billion World Bank and IMF support programme.

35. The Official Creditor Committee under the G20 Common Framework agreed to suspend debt service due in 2023 and 2024 on 9 November 2023. Creditors reiterated their commitment to providing debt treatment as part of an IMF-supported programme.

36. The country is currently eligible for grants under IFAD's Debt Sustainability Framework.

IV. Implementation

A. Organizational framework

Project management and coordination

37. The key institutions responsible for implementing the LLRP II include the Ministry of Irrigation and Lowlands (MILLs), which serves as the lead agency, and various other ministries and organizations that will contribute to project execution. The project will build on the current project coordination units (PCUs) at federal, regional and *woredas* levels, creating new PCUs for Dire Dawa and an additional 20 *woredas*. This approach ensures continuity, efficient resource allocation and the active involvement of local stakeholders.

38. MILLs has demonstrated capacity in managing similar projects, having successfully overseen LLRP I. It will host the federal project coordination unit (FPCU), which will provide overall project management and oversight. This unit will coordinate with federal and regional steering committees composed of representatives from the Ministry of Finance, the Ministry of Agriculture and other relevant sector ministries, ensuring a collaborative approach to project execution.

39. Additional implementing partners will include the Ethiopian Environmental Protection Authority and Ethiopian Forest Development, the Ethiopian Institute of Agricultural Research and several international organizations, which will provide technical support and knowledge transfer. The relationships established among these institutions are designed to foster synergy, with regular communication and collaboration facilitated through technical committees at the federal, regional and *woreda* level.

Financial management, procurement and governance

40. Financial management of the project will follow the policies and guidelines of the World Bank. MILLs, which is currently implementing the ongoing LLRP I, has continued to implement LLRP II. The current LLRP I project management units (PMUs) will also continue to support LLRP II. The federal PMU will retain the overall fiduciary responsibility for implementing the project. As the project teams are implementing the two phases simultaneously, they are utilizing ring-fenced financing to avoid double dipping. The project will follow the Government of Ethiopia's budgeting procedure and calendar. The FPCU at MILLs will prepare a consolidated annual workplan and budget (AWPB) and submit it to the World Bank by 31 May of each year. The Peachtree accounting software from SAGE Co. Quantum 2010 Edition will continue to be used, and the Government of Ethiopia's accounting policies (modified cash basis) and procedures will apply to the project.

41. The project will be subject to government internal control policies and procedures. In addition, the project's financial management manual will include detailed control procedures specific to the project, and the FPCU's internal audit unit will conduct quarterly audits.

42. Interim financial reports will be submitted to the World Bank within 45 days of the end of each quarter, and the annual financial statements will be prepared within three months of the end of the fiscal year.

43. Annual financial statements will be audited by an independent auditor, and audit reports will be submitted to the World Bank within six months of the end of the fiscal year. The audit will follow the International Standards of Auditing procedures.

44. Payment of taxes from the World Bank funds is eligible for the World Bank, and IFAD will align its tax payment approach with that of the World Bank.

45. Project procurement will follow the World Bank Procurement Regulations for Investment Project Financing (IPF) Borrowers and relevant anti-corruption guidelines. MILLs, along with regional bureaux, will implement procurement activities through established PCUs. The World Bank has assessed the procurement capacity of the agencies involved, identifying risks such as challenges to attracting qualified experts, limited management capacity and issues with procurement records and competition. Mitigation measures are outlined in appendix III, with a residual procurement risk rating classified as substantial.

Target group engagement and feedback and grievance redress

46. LLRP II builds on the success of the first phase, prioritizing community engagement to increase ownership, sustainability and impact. This collaborative approach strengthens partnerships, ensures relevance and fosters long-term community involvement. To support this, the grievance redress mechanism will address concerns, prevent escalation and ensure effective feedback. Complaints can be submitted through project mechanisms, the World Bank's Grievance Redress Service or IFAD's grievance redress mechanism.

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

47. MEL activities will be carried out under component 4 of the project, as described above. The activities include (i) developing and strengthening a management information system that networks all the entities involved in the project's implementation and is linked to the monitoring and evaluation systems and other online systems supported by the project; (ii) conducting baseline, midterm and final evaluations and annual work planning as a bottom-up participatory exercise involving all stakeholders, including PAP communities; and (iii) generating quarterly, biannual and annual progress reports that consolidate regional and national activities, including reports from implementing and technical partners. The project will collaborate with the International Livestock Research Institute to develop a clear and feasible data collection and analysis methodology and conduct the baseline, midterm and final evaluations for the project. Further details are outlined in the project implementation manual (PIM).

Innovation and scaling up

48. The project will use innovative methods to empower pastoral and agropastoral farmers in livestock adaptation, amplifying local innovations through farmer networks. Agropastoral field schools will offer technical guidance, and satellite data will be used to monitor rangeland conditions. The project will also create tailored "smart packs" of proven innovations from partners like the Ethiopian Institute of Agricultural Research and CGIAR. Best practices will be documented and communicated.

49. Additionally, the project will integrate early warning systems, climate-smart practices, strengthened community networks and improved livestock value chains to boost resilience, alleviate poverty and promote food security. Lessons from the first phase will focus on scaling innovations and building community ownership, integrated into government policies for greater impact.

C. Implementation plans

Implementation readiness and start-up plans

50. LLRP II has already commenced and is in the inception phase, with World Bank financing in effect. The project follows a programmatic approach and will build on the institutional framework established by LLRP I, focusing on collaboration among international organizations, government agencies and stakeholders to support Ethiopia's pastoral and agropastoral communities. It aims to create a coordinated approach by defining clear roles for each agency in governance, coordination and technical assistance. This structure ensures effective implementation and community involvement, extending to the *woreda* level for investment planning and maintenance. The support for Kebele Development Committees will include capacity-building and mobilization costs, enhancing community engagement. Further details are provided in the PIM.

Supervision, midterm review and completion plans

51. As a type C project, periodic missions throughout the project lifecycle will be organized by the World Bank, with IFAD appointing the World Bank as the coordinating institution. IFAD will participate in all supervision missions, midterm reviews, completion missions and reviews of the AWPBs. IFAD will use the World Bank's mission reports to prepare separate mission reports for the Operational Results Management System/IFAD's internal reporting. A letter of appointment will be signed with the World Bank to formalize this arrangement. These missions will focus on assessing progress, identifying challenges and ensuring that project objectives are being met. IFAD will participate in all missions.

52. A joint midterm review will be scheduled to evaluate the project's performance, effectiveness and any necessary adjustments to improve outcomes. This review will involve stakeholders from both IFAD and the World Bank.

53. For the project completion review, requirements will include comprehensive documentation of achievements, lessons learned and financial reports. This review will assess overall project impact and sustainability, guiding future initiatives and ensuring accountability. Regular communication and coordination between IFAD and the World Bank will be essential throughout these processes.

V. Legal instruments and authority

54. A financing agreement between the Federal Democratic Republic of Ethiopia and IFAD will constitute the legal instrument for extending the proposed financing to the borrower/recipient. A copy of the negotiated financing agreement it attached as appendix I.

55. The Federal Democratic Republic of Ethiopia is empowered under its laws to receive financing from IFAD.

56. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

VI. Recommendation

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

> RESOLVED: that the Fund shall provide a Debt Sustainability Framework grant to the Federal Democratic Republic of Ethiopia in an amount of sixty-nine million two hundred and forty-three thousand United States dollars (US$69,243,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Alvaro Lario
President

Negotiated financing agreement

Lowlands Livelihood Resilience Project - Phase II

(Negotiations concluded on 12 March 2025)

FINANCING AGREEMENT

Grant No.: __________

Project name: Lowlands Livelihood Resilience Project - Phase II (the "LLRP II"/the "Project")

The Federal Democratic Republic of Ethiopia (the "Recipient")

and

The International Fund for Agricultural Development (the "Fund" or "IFAD")

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

WHEREAS the Recipient has requested a Debt Sustainability Framework (DSF) Grant from the Fund for the purpose of financing the Project described in Schedule 1 to this Agreement;

WHEREAS the Project shall be co-financed by the International Development Association (IDA), through a credit of three hundred and forty million United States dollars (USD 340 000 000);

WHEREAS the Recipient and IDA have entered into a Financing Agreement dated 4 April 2024 (the "IDA Agreement") to provide financing for the Project, which became effective on 21 June 2024;

WHEREAS IDA has agreed to act as the Cooperating Institution for this Project;

WHEREAS the Cooperating Institution and IFAD will sign a letter of appointment (the "Cooperation Agreement") detailing the responsibilities, arrangements and obligations of the two parties in supervising the Project, including requirements for reporting and accountability from the Cooperating Institution, and IFAD will ensure participation in supervisions;

WHEREAS the Fund has agreed to provide financing for the Project;

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) and the Special Covenants (Schedule 3).

2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, amended as of December 2022, and as may be amended hereafter from time to time (the "General Conditions") are annexed to this Agreement, and all provisions

thereof shall apply to this Agreement, except for the provisions that refer to Loan financing which shall not apply to this Agreement, and the provisions identified in Section E, paragraph 4 below. For the purposes of this Agreement, the terms defined in the General Conditions shall have the meanings set forth therein, unless the Parties shall otherwise agree in this Agreement.

3. The Fund shall provide a DSF Grant (the "Financing") to the Recipient, which the Recipient shall use to implement the Project 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.

"Cooperating Institution" means the International Development Association (IDA).

Section B

1. The amount of the DSF Grant is sixty-nine million two hundred forty-three thousand United States dollars (USD 69 243 000).

2. The first day of the applicable Fiscal Year shall be 8 July.

3. There shall be a Designated Account in USD for the exclusive use of the Project opened in the National Bank of Ethiopia. The Recipient shall inform the Cooperating Institution of the officials authorized to operate the Designated Account.

4. There shall be pooled Project Accounts in Ethiopian Birr (ETB) opened at all levels. The Federal Implementing Agencies shall open a project bank account in local currency at the National Bank of Ethiopia or Commercial Bank of Ethiopia. Regional Implementing Agencies (RPCUs), RCSTs and Project Woredas shall open bank accounts at the Commercial Bank of Ethiopia.

5. The Project beneficiaries shall provide in-kind/cash counterpart financing for the Project in the amount of four million United States dollars (USD 4 000 000).

Section C

1. The Lead Project Agency shall be the Ministry of Irrigation and Lowlands (MILLs).

2. Additional Project Parties are described in the PIM.

3. A Mid-Term Review will be conducted as specified in Section 8.03 (b) and (c) of the General Conditions; however, the Parties, in consultation with IDA, 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 fourth anniversary of the date of entry into force of this Agreement and the Financing Closing Date shall be six (6) months later, or such other date as the Fund may designate by notice to the Recipient.

5. Procurement of goods, works and services financed by the Financing shall be carried out in accordance with the Cooperating Institution's procurement guidelines.

Section D

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

Section E

1. The following are designated as additional grounds for suspension of this Agreement:

   (a) The PIM and/or any provision thereof, has been waived, suspended, terminated, amended or modified without the prior agreement of the Fund and the Fund, after consultation with the Recipient, has determined that it has had, or is likely to have, a material adverse effect on the Project.

   (b) In the event that the Recipient did not request a disbursement of the Financing for a period of at least twelve (12) months without justification.

   (c) The project coordinator or other Key Project Personnel provided for in Schedule 3, paragraph 4 have been removed from the Project without prior consultation with the Fund.

   (d) The right of the Recipient to withdraw the proceeds of the IDA Loan 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; or any event has occurred which, with notice or the passage of time, could result in any of the foregoing.

2. The following are designated as additional grounds for cancellation of this Agreement:

   (a) In the event that the Recipient did not request a disbursement of the Financing for a period of at least twelve (12) consecutive months without justification subsequent to the first eighteen (18) months from the date of entry into force.

3. The following are designated as additional specific conditions precedent to withdrawal:

   (a) The Cooperation Agreement, as further defined in Article III of the General Conditions, or the IDA Agreement, has entered into full force and effect within 180 days of the date of this Agreement.

   (b) The right of the Recipient to withdraw the proceeds of the IDA Loan has not been suspended, cancelled or terminated, in whole or in part; or the IDA Loan has not become due and payable prior to the agreed maturity thereof; or any event has not occurred which, with notice or the passage of time, could result in any of the foregoing.

4. The following Articles of the General Conditions shall be amended to read as follows:

   (a) Article VII, 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: (i) IDA's *Procurement Guidelines* (2007, as amended from time to time); (ii) IDA's *Guidelines on the Use of Consultants* (2007, as amended from time to time).

(b) Article IX, Section 9.03 (Audit of Accounts); Project Accounts and financial statements shall be audited by independent auditors acceptable to the Cooperating Institution in accordance with auditing standards acceptable to the Cooperating Institution.

(c) Article XI, Section 11.01 (Taxation); The Agreement shall permit the Recipient to use the IFAD Grant to finance taxes in alignment with the approach used in section III.A of Schedule 2 of the IDA Agreement signed on 4 April 2024.

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

For the Recipient:

Minister for Finance
Federal Democratic Republic of Ethiopia
P.O. Box 1905
Addis Ababa, Ethiopia
Facsimile Number: + (2511) 551355

For the Fund:

President
International Fund for Agricultural Development
Via Paolo di Dono 44
00142 Rome, Italy

Country Director
International Fund for Agricultural Development
Via Paolo di Dono 44
00142 Rome, Italy

If applicable, the Parties accept the validity of any qualified electronic signature used for the signature of this Agreement and recognise the latter as equivalent to a hand-written signature.

This Agreement has been prepared in the English language in two (2) original copies, one (1) for the Fund and one (1) for the Recipient.

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

____
Ato Ahmed Shide
Minister for Finance

Date: _____________________

INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT

____
Alvaro Lario
President

Date: _____________________

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

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

II. Implementation Arrangements

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

2. Project Implementation Manual (PIM). The Recipient shall carry out the Project in accordance with the PIM. 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 strengthening of the existing grievance redress mechanism and include internal audit requirements. The PIM will be updated during implementation with further input from IFAD. The Recipient will finalize the development of the PIM for the Fund's and the Cooperating Institution's consideration and approval. Any revisions to the PIM shall have to be previously approved by the Fund and the Cooperating Institution.

Schedule 2

Allocation Table

1. *Allocation of Grant Proceeds.* (a) The Table below sets forth the Categories of Eligible Expenditures to be financed by the Grant 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	Amount Allocated (expressed in USD)	Percentage 100% (inclusive of Taxes)
1. Goods, Services and Inputs	61 750 000	100%
2. Grants I (Matching Grants)	6 840 000	100%
3. Grants II (Savings Leverage Grants)	653 000	100%
TOTAL	**69 243 000**	

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

(i) Goods, Services and Inputs – include costs relating to civil works, workshops and training, goods and equipment, vehicles and motorcycles, technical assistance, other services, operational costs, salaries and allowances.

(ii) Grants I (Matching Grants) – include matching grants under the sub-component 3.2 (a)(1) of the Project.

(iii) Grants II (Savings Leverage Grants) - include savings leverage grants under the sub-component 3.2 (b)(1) of the Project.

2. *Disbursement arrangements.*

I. Disbursements will be managed according to the Cooperating Institution's Disbursement and Financial Information Letter.

II. Disbursements will be based on submission of quarterly Interim Financial Reports (IFRs). IFRs and withdrawal applications for the IFAD Grant will be submitted through the World Bank's Client Connection.

III. Once IFRs and the withdrawal applications are reviewed and verified by the World Bank, the World Bank will instruct IFAD to disburse funds. IFAD will disburse the funds to the Project Designated Bank Account specifically opened for the IFAD Grant.

3. *Audit arrangements.*

The Project Accounts and financial statements shall be audited by independent auditors acceptable to the Cooperating Institution in accordance with auditing standards acceptable to the Cooperating Institution. The audit reports shall be submitted to the Cooperating Institution within six (6) months from the end of the Project's financial year. A copy of the audit report and the management letter shall be submitted to IFAD in parallel for IFAD records.

Schedule 3

Special Covenants

I. General Provisions

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 Recipient to request withdrawals from the Grant Account if the Recipient 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. *Gender*. The Recipient shall ensure that the Project has a gender transformative strategy and action plan that informs the implementation of the Project.

2. *Anticorruption Measures*. The Recipient shall comply with the Cooperating Institution's Policy on Preventing Fraud and Corruption in its Activities and Operations.

3. *Sexual Harassment, Sexual Exploitation and Abuse*. The Recipient and the Project Parties shall ensure that the Project is carried out in accordance with the provisions of the Cooperating Institution's Policy on Preventing and Responding to Sexual Harassment, Sexual Exploitation and Abuse, as may be amended from time to time.

4. *The Key Project Personnel* are: Project coordinator; regional coordinator; accountant; procurement specialist at federal and regional level; environmental and gender specialist. In order to assist in the implementation of the Project, the Recipient, unless otherwise agreed with IFAD, shall employ or cause to be employed, as required, key staff whose qualifications, experience and terms of reference are satisfactory to the Cooperating Institution. Key Project Personnel shall be seconded to the Federal Project Coordination Unit (FPCU) in the case of government officials or recruited under a consulting contract following the individual consultant selection method in accordance with the Cooperating Institution's procurement rules or any equivalent selection method in the national procurement system where it is acceptable to the Cooperating Institution. Key Project Personnel are subject to annual evaluation and the continuation of their contract is subject to satisfactory performance. Any contract signed for Key Project Personnel shall be compliant with the national labour regulations or the ILO International Labour Standards (whichever is more stringent) in order to satisfy the conditions of the Cooperating Institution's Environmental, Social and Climate safeguards. Repeated short-term contracts must be avoided, unless appropriately justified under the Project's circumstances.

5. *Environmental, Social and Climate safeguards*. The Recipient shall ensure that the Project will be implemented in compliance with the Environmental and Social Standard requirements specified in the IDA Agreement. The Recipient shall ensure that the Project is implemented in accordance with the Environmental and Social Commitment Plan ("ESCP"), in a manner acceptable to the Cooperating Institution and the Fund. The Recipient shall not amend, repeal, suspend or waive the ESCP or any provision thereof, except as the Cooperating Institution and the Fund shall otherwise agree in writing, as specified in the ESCP, and shall ensure that the revised ESCP is disclosed promptly thereafter.

Logical framework

Results Hierarchy	Indicators				Means of Verification			Assumptions
	Name	Baseline	Mid-Term	End Target	Source	Frequency	Responsibility	
Outreach	**1 Persons receiving services promoted or supported by the project**				Progress Report	Annual	PMU	Key assumptions: - Conflicts and civil disturbances - Natural disasters - Pest outbreaks - Multi-sectoral coordination
	Males - Males	1250000	1375000	1500000				
	Females - Females	1250000	1375000	1500000				
	Young - Young people	500000	700000	900000				
	Total number of persons receiving services - Number of people	2500000	2750000	3000000				
	1.b Estimated corresponding total number of households members				Progress Report	Annual	PMU	
	Household members - Number of people	2500000	2750000	3000000				
	1.a Corresponding number of households reached				Progress Report	Annual	PMU	
	Households - Households	500000	550000	600000				
Project Goal								
Development Objective	**Land area under sustainable landscape management practices CRI (CI 3.1.4 Land brought under climate-resilient practices)**				Progress Report	Annual	PMU	
	Hectares of land - Area (ha)	400000	700000	1000000				
	Beneficiaries with Improved food security and resilience capacities to impacts of extreme weather events				Progress Report, Mid-term and endline survey, reports and satellite imagery	Mid-term/endline	PMU, implementing agencies	
	Households - Percentage (%)	0	30	60				
	Households - Number	0	165000	360000				
	Total number of household members Number of people - Number of people	0	825000	1800000				
	Beneficiaries with 25 % or more annual household income increment due to project interventions				Progress Report, Mid-term and endline survey, reports and satellite imagery	Mid-term/endline	PMU, implementing agencies	
	Households - Percentage (%)	0	30	60				
Outcome Outcome 1: Enhanced resilience of PAP communities and ecosystems through improved disaster risk mgt and better public infrastructure	**Beneficiaries with access to timely information from the early warning and response systems and climate information services**				Mid-term and endline survey, reports	Mid-term/endline	PMU, implementing agencies	
	Households - Number	0	220000	480000				
	Households - Percentage (%)	0	40	80				
	Household members - Number of people - Number of people	0	1100000	2400000				
	Climate preparedness and resilience building infrastructures constructed and operational				Mid-term and endline survey, reports	Mid-term/endline	PMU, implementing agencies	
	Number - Number	230	330	510				
	3.2.1 Tons of Greenhouse gas emissions (tCO2e) avoided and/or sequestered							
	Hectares of land - Area (ha)		0	1030250				
	tCO2e/20 years - Number		0	-35998590				
	tCO2e/ha - Number		0	-34.9				
	tCO2e/ha/year - Number		0	-1.7				
Output Output 1.1: Climate smart public	**Project targeted Woredas with new or updated and automated risk profile**				Progress Report	Annual	PMU	
	Risk Profile - Number	0	60	120				

Results Hierarchy	Indicators				Means of Verification			Assumptions
	Name	Baseline	Mid-Term	End Target	Source	Frequency	Responsibility	
economic infrastructure subprojects implemented	**Regional Disaster Preparedness and Resilience-building Strategic Investment Plans prepared, endorsed by regional councils and automated for public use**				Progress Report	Annual	PMU	
	Investment Plans - Number	0	4	8				
	National Rangeland Monitoring System (RMS) developed and operational				Service providers reports, project M&E data and report, COI survey	Supervision missions, MTR, completion	PMU, services providers and implementing agencies	
	Number - Number	0	0	1				
Outcome Outcome 2: Improved natural rangeland health and productivity to increase the absorptive and adaptive capacity of PAP ecosystems and reduced conflicts	**3.2.1 Tons of Greenhouse gas emissions (tCO2e) avoided and/or sequestered**							- Households willing to adopt technologies and practices promoted
	Hectares of land - Area (ha)		0	1030250				
	tCO2e/20 years - Number		0	-35998590				
	tCO2e/ha - Number		0	-34.9				
	tCO2e/ha/year - Number		0	-1.7				
Output Output 2.1: Demonstrated improvements in the health and productivity of natural rangelands within the target PAP ecosystems	**Climate Smart and Nature based Rangeland Management Investment Plans (RMIPs) updated or formulated and rolled out for implementation**				Progress Report	Annual	PMU	
	RMIPs - Number	28	28	29				
Outcome Outcome 3: Increase, diversify and stabilize incomes to empower PAP households for better absorption of changes and livelihood transformation	**Annual increase in off take of animals from the project supported woredas**					Annual	PMU	
	Woredas - Percentage (%)	0	12.5	25				
	1.2.5 Households reporting using rural financial services					Baseline, Midline and endline survey		
	Total number of household members - Number of people	250000	425000	600000				
	Households - Percentage (%)	10	15	20				
	Households - Households	50000	85000	120000				
	3.2.2 Households reporting adoption of environmentally sustainable and climate-resilient technologies and practices					Annual		
	Total number of household members - Number of people	0	500000	1000000				
	Households - Percentage (%)	0	18	33				
	Households - Households		100000	200000				
	1.2.8 Women reporting minimum dietary diversity (MDDW)							
	Women (%) - Percentage (%)	0	21	42				
	Women (number) - Females	0	125000	250000				
	Households (%) - Percentage (%)	0	21	42				
	Households (number) - Households	0	125000	250000				
	Household members - Number of people	0	625000	1250000				
	2.2.3 Rural producers' organizations engaged in formal partnerships/agreements or contracts with public or private entities				Baseline, Mid-term, endline survey reports: COI survey	Annually	PMU	
	Number of POs - Organizations	15	30	45				
	Total number of POs members - Number	750	1500	2250				
	Women PO members - Number	375	750	1125				
	Men PO members - Number	375	750	1125				
	Young PO members - Number	225	450	675				
	Increase in yield of targeted livestock and crop commodities					Annual		

Results Hierarchy	Indicators				Means of Verification			Assumptions
	Name	Baseline	Mid-Term	End Target	Source	Frequency	Responsibility	
	Livestock type - Percentage (%)	15	20	25	Baseline, Mid-term, endline survey reports: COI survey		PMU, implementing agencies	
	Crop type - Percentage (%)	15	20	25				
	Area provided with new/improved irrigation or drainage services CRI				Progress Report, Mid-term and endline survey, reports and satellite imagery	Baseline, Mid-term, and endline	PMU, implementing agencies	
	Hectares of land - Area (ha)	0	1000	2000				
	MSEs established for targeted value chains and operational 1 year after establishment (of which at least 35 % are women only MSEs)				Progress Report, Mid-term and endline survey, reports and satellite imagery	Baseline, Mid-term, and endline	PMU, implementing agencies	
	Only women-MSEs established and or strengthened - Number	0	574	1148				
	Total SME established - Number	0	1640	3280				
Output Output 3.1: Productive marketing alliances along the value chains promoted; Women focused PASACCOS and MSEs established and functional	**1.1.2 Farmland under water-related infrastructure constructed/rehabilitated**				Progress Report	Annual	PMU	
	Hectares of land - Area (ha)	0	1000	2000				
	Leadership positions held by women in all mixed (women and men) groups created/supported by the project				Service providers reports, project M&E data and report, COI survey	Supervision missions, MTR, completion	PMU, services providers and implementing agencies	
	Percentage - Percentage (%)	0	15	30				
	Private capital Mobilized from MSE groups in conjunction with the matching grant from the project				Service providers reports, project M&E data and report, COI survey	Supervision missions, MTR, completion	PMU, implementing agencies	
	Amount (USD) - Money (USD' 000)	0	2000000	4000000				
	New Pastoral and Agro-Pastoral Saving and Credit Cooperatives (PASACCO) Established and Operational (of which 50 % will be women only PASACCOs				Service providers reports, project M&E data and report, COI survey	Supervision missions, MTR, completion	PMU, implementing agencies	
	Number - Number	500	750	1050				
Outcome Outcome 4: Enhanced project management, improved coordination mechanisms, and expanded multi-stakeholder partnerships	**Feedback (complaints, queries, suggestions) through GRM including SMS service, addressed and responded to within stipulated timeframes publicly communicated by the project**				National statistics, baseline, Mid-term, endline survey reports: COI survey	Baseline, Mid-term, and endline	PMU, implementing agencies	
	Households - Percentage (%)	0	45	90				
	Households - Number	0	247500	540000				
	Total number of household members Number of people - Households	0	1237500	2700000				
	IE.2.1 Individuals demonstrating an improvement in empowerment							
	Total persons - Percentage (%)		10	20				
	Total persons - Number of people		300000	600000				
	Females - Percentage (%)		10	20				
	Females - Females		180000	360000				
	Males - Percentage (%)		15	30				
	Males - Males		120000	240000				
Output Output 4: Policy dialogues organized and facilitated on climate change	**Policy 2 Functioning multi-stakeholder platforms supported**				Progress Report	Annual	PMU	

Integrated project risk matrix

Risk categories and subcategories	Inherent	Residual
Country context		
Political commitment	**Low**	**Low**
Risk(s): The political commitment on the project and its objectives is very high, with a renewed focus on the development of the lowlands by the government. This is demonstrated by the creation of the Ministry of Irrigation and Lowlands, whose mandate id the development of the lowlands into economically active and resilient regions of the country. The government has also initiated and committed to the preparation of an overall Lowlands Development and Investment Programme, of which this project will be part of. However, there is limited risk of a change of policy from government that may change priorities from the lowlands.		
Mitigations: These risks will be mitigated by: • Continued, regular and strategic communication between government counterparts (project teams), World Bank and IFAD. • Enhanced transparency, (downward) accountability, and citizen engagement in project-supported activities. The project will directly contribute by improving citizens' access to improved socio-economic services, key resources (rangeland and water), and diversifying economic opportunities that increase incomes and reduce joblessness.		
Governance	**High**	**High**
Risk(s): The political and governance situation of the country has remained volatile, especially over the last four years. In the north, including the Afar Region where the project will be active, hostilities appear to have ceased following a peace deal between the federal government and the Tigray Regional Government in early November 2022. However, there are still sporadic incidences of conflict. In other parts of the country including parts of Oromia, Benishangul-Gumuz and Gambela Regions, there are localized conflicts, civil unrest and rebel activity.		
Mitigations: These risks will be mitigated by: • Preparation and implementation of a Security Risk Assessment and Management Plan. • Careful planning and execution of implementation support missions that emphasize security. • Continued, regular and strategic communication between government counterparts (project teams), World Bank and IFAD. • Proper implementation and monitoring of Environmental and Social Framework instruments, including Security Risk Analysis and Security Management Plan. • Enhanced transparency, (downward) accountability, and citizen engagement in project-supported activities. The project will directly contribute to alleviating some of the drivers of the political unrest and civil protests, including by improving citizens' access to improved socio-economic services, key resources (rangeland and water), and diversifying economic opportunities that increase incomes and reduce joblessness.		
Macroeconomic	**Substantial**	**Substantial**
Risk(s): Macroeconomic imbalances have deteriorated resulting in high domestic inflation, forex shortages, and depletion of domestic and external buffers.		

Risk categories and subcategories	Inherent	Residual
Foreign exchange shortages are disrupting public and private sector activity and contributing to inflation. High levels of inflation and the distortions in the foreign exchange market could affect the activities envisaged under LLRP II. To get a better sense of potential impacts of the foreign exchange distortions, sensitivity analyses, including for shadow exchange rates, were incorporated in the economic analysis of the project. Private sector participation in the economy is constrained by various economic and financial parameters. Consequently,		
Mitigations: In July 2024, The GoE has agreed to an economic reform package with the IMF and the WB, that is aimed at spearheading the economic recovery of the country, in an orderly and sequenced manner—minimizing social and poverty effects, the policies that are resulting in Ethiopia's macroeconomic distortions. Following theses agreement, the GoE has reached an in-principle agreement with its creditors for debt restructuring that will reduce debt the debt stress that the country was experiencing. The reforms seem to be having early positive results on the economy.		
Fragility and security	**Substantial**	**Substantial**
Risk(s): The country is facing multiple shocks from political and security instability, which has been exacerbated by climate change, regional instability with a war in Sudan and instability in the Red Sea. Internal conflicts are main cause of fragility. This is associated to fragile climatic and environmental conditions with recurrent natural hazards such as droughts, floods and locust invasions. International geopolitics and conflicts disrupt the supply chains and have a significant impact on the socio-economic situation in the country.		
Mitigations: The project is designed to be implemented flexibly through quick reallocation of funds, close community driven interventions and strong reliance on early warning systems. The project is also promoting use of local materials and inputs. Local level interventions help to sustain project activities and impacts. Close monitoring of the situation by the country team.		
Sector strategies and policies		
Policy alignment	**Substantial**	**Substantial**
Risk(s): The policies affecting the lowlands of Ethiopia and livestock systems specific to the lowlands are constrained, by the absence and or inadequacy of sector policies and strategies. Moreover, the existing pastoral development policy and strategy is not comprehensive enough to guide a sustainable management and governance of rangeland resources.		
Mitigations: In relation to policy support, activities will include a number of trainings for government officials and community leaders, in assessing policy gaps and formulating strategies. The project will support efforts such as the formulation of a national rangeland management policy and regulatory framework that guides the sustainable management and governance of rangeland resources and legal frameworks relating to the livestock tracking system. These activities will be carried out in coordination with the recently established Pastoral Advisory Council under MILLs		
Policy development & implementation	**Substantial**	**Substantial**
Risk(s): The lowlands of Ethiopia and livestock systems specific to the lowlands are constrained, among other factors, by the absence and or inadequacy of sector policies and strategies. This includes the lack of land-use policy that considers pastoral production and livelihood systems and		

Risk categories and subcategories	Inherent	Residual
pastoral land tenure policy that recognizes ownership rights of pastoralists and community-based land tenure.		
Mitigations: The project will mitigate these risks by: • Building capacities and engaging the Government to formulate and enforce appropriate pastoral land tenure and land-use policies and strategies. • Facilitating review of the existing pastoral policies and strategies, addressing gaps, and supporting the full-scale rollout of new or revised Policy. • Supporting policy dialogue platforms, think tanks, and coordination platforms including to strengthen the recently established Pastoral Advisory Council under the MILLs. Assist in the development of a lowlands development and Investment Programme, that will identify key policy and investments for the development of the lowlands.		
Environment and climate context		
Project vulnerability to environmental conditions	**Substantial**	**Substantial**
Risk(s): The main environment risks include increase in water extraction, soil salination, soil nutrient management concerns, water consumption, pesticide use (although the project will not finance any), crop residue and solid waste management problems. The social risks include: (a) displacement due to land acquisition; (b) elite capture; (c) social exclusion of disadvantaged and vulnerable groups; (d) escalation of social tensions d; (e) forced labour, child labour, and discriminatory hiring practices; (f) an influx of labour; and (g) accidents and incidents. Contextual risks such as conflict, fragility, political instability, and internal displacement, particularly in some parts of the country, deepen the social risk of the project.		
Mitigations: To mitigate the project's environmental and social risks and impacts, the project will closely monitor implementation of the ESF instruments including the ESMF, LMP, SA, SEP and ESCP. Each project investment will be screened based on the ESMF procedure during implementation phase. Subproject specific environment and social risk mitigation instruments such as environmental and social management plans (ESMPs) will be prepared and implemented following the ESMF guidance.		
Project vulnerability to climate change impacts	**Substantial**	**Substantial**
Risk(s): The project's Climate and Disaster Risk Screening has underscored that the majority of the project area is highly vulnerable to climate variability and extreme weather events. According to both the World Vulnerability Index and the ND-GAIN Matrix, Ethiopia ranks as the 19th most vulnerable and 34th least prepared country in the world to face these challenges. Climate change impacts, notably in the form of floods and droughts, have long exerted adverse effects on crop yields, livestock, natural resources, infrastructure, livelihoods, and water availability in the region. Drought, a recurrent phenomenon in the project's areas of interest, has been intensifying in frequency and severity, directly impacting the resilience and livelihoods of communities involved. Similarly, flooding poses significant risks, potentially causing damage to both existing infrastructure and facilities financed by the project, as well as to rangelands and croplands.		
Mitigations: Effort for mitigation climate resilience will be adopted, initiatives to ensure PAP communities to have reliable access to water		

Risk categories and subcategories	Inherent	Residual
resources will be introduced. This involves employing modern drilling machinery with reduced carbon emissions to create boreholes efficiently. Additionally, a multifaceted approach will be taken aimed at enhancing productivity through the adoption of innovative climate-smart technologies. Addressing conflicts over land using Resolution tools for effective communication to resolve disputes amicably and the enforcement of appropriate land tenure policies. Furthermore, there is a concerted effort to raise awareness and disseminate information in lowland areas regarding strategies for adapting to the impacts of climate change at different levels (federal, regional and Woreda).		
Project scope		
Project relevance	**Moderate**	**Moderate**
Risk(s): Due to some fragile security conditions, development objectives can be constrained by emergency situations. If this happens, the project's development objective and structural long-term investment may give place to emergency. The populations and institutions may also not be opened for development structural activities.		
Mitigations: Close monitoring by the country team Efforts to avoid insecurity of large amplitude from government side and willing political commitment for sustainable development Nexus Peace and Development as strategy for development partners in the country		
Technical soundness	**Moderate**	**Moderate**
Risk(s): The project proposes relatively complex multisectoral interventions and intervenes in disaster-prone areas, some of which are also becoming increasingly insecure. This may require changes in technical designs of specific interventions. Moreover, the project is mainstreaming climate considerations across activities, which brings novelty and is critical for sustainability of the impacts, and this approach may require a slight shift from business as usual, which may encounter some resistance.		
Mitigations: This set of risks will be mitigated by prioritizing interventions in different areas, so that implementation could continue if one area were inaccessible; adopting strong learning elements that will help regions move gradually toward the implementation of larger investments; and increasing their readiness and sustainability, sharing experiences and learning from each other. Moreover, additional staff will be hired to strengthen the PMU, and different national and international organizations will provide additional technical assistance for specific activities/components.		
Institutional capacity for implementation and sustainability		
Implementation arrangements	**Moderate**	**Moderate**
Risk(s): The risk regarding institutional capacity for implementation and sustainability is considered as substantial based on: (a) limited institutional capacity of MILLs, the lead implementing agency, and other federal, regional, and decentralized entities to implement such a complex project—given that they are relatively new institutions; (b) the challenge of designing and implementing new systems introduced in LLRP II such as early warning and climate information systems, RMS, digital and private sector-led extension, mobile-based, interest-free, and other financial products; and (c) weak links and coordination among institutions, sectors, programs and projects at all levels. Additionally, some of the project areas have undergone administrative restructuring (the Southwestern Region, for example, is a newly formed region that was drawn from what used to be the Southern Nationals and Nationalities Regional State) that has weakened their overall administrative capacity.		
Mitigations: The risk will be mitigated through awareness creation and training activities. The particular risk regarding MILLs will be mitigated by		

Risk categories and subcategories	Inherent	Residual
maintaining and strengthening LLRP I's PMU with recruitment additional staff for key positions relevant to the new design features of LLRP II with clearly defined job descriptions and accountability. To help mitigate coordination risk, the project will rely on existing government coordination platforms, including the MILLs-initiated Pastoral Development Council and the MoA-led Rural Economic Development and Food Security Sector Working Group. Furthermore, the project will coordinate with and build institutional partnerships between the PMU/MILLs (and regional implementing agencies) and relevant local and international specialized agencies, such as the ATI, EDRMC, EMI, ECC, MoA, EIAR, MLSs, ICIPE, Heifer International, and CGIAR programs, and institutes such as AICCRA, ILRI, ICARDA, Alliance Biodiversity International, International Centre for Tropical Agriculture (CIAT), and International Maize and Wheat Improvement Centre (CIMMYT).		
M&E arrangements	**Moderate**	**Moderate**
Risk(s): The inclusion of new components on Disaster Risk Management, climate advisory service etc may stretch the capacity of the M&E.		
Mitigations: Strengthening the capacity of the PCMU in general and the M and E specialist in particular. Introducing simple monitoring formats to be used by customary institutional entities to track project milestones focusing on results and budget use and to identify implementation problems and best practices; Digitized resource maps, pictographic information on the RMIPs and its implementation progress; facilitating periodic structured discussions on learning and findings; capacity building of customary institution leaders and committee members on managing relevant information and promoting learning from such information; (v) develop information sharing and learning hubs at range land level. As part of self-monitoring, accountability mechanisms such as social audit committees, public display of information, participation in meetings, and a participatory grievance redress mechanism will be implemented. LLRP II will also work with ILRI and AICCRA to increase data quality and adapt the ILRI's Tracking Adaptation in Livestock Systems tool to track adaptation and resilience to climate change impacts among targeted PAP households. Performance monitoring and review of the effectiveness and assessing project results and outcomes against the Results Framework.		
Procurement		
Legal and regulatory framework	**Moderate**	**Moderate**
Risk(s): (i) Most of the central government institutions do not maintain databases or records for contracts including data on what has been procured, the value of procurement, and who has been awarded contracts. They prepare the performance report directly from the source document at the end. In addition, all central government institutions do not submit their procurement performance reports on time to the FPPA. (ii) Out of six key procurement information (1. Legal and regulatory framework for procurement, 2. Government procurement plan, 3. Bidding opportunities, 4. Contract awards, 5. Data on resolution of procurement complaints, 6. Annual procurement statistics) only legal and regulatory framework for procurement and bidding opportunities are made available to the public through appropriate means		
Mitigations: IFAD, in collaboration with the World Bank, can strongly encourage government through policy dialogue to accelerate the creation of a reliable record/database for monitoring procurement management, ensuring that central government institutions prepare accurate reports and submit them to the FPPA, so that the latter can populate the database. It is		

Risk categories and subcategories	Inherent	Residual
also important to ensure that accuracy and completeness of reports are verified by the FPPA or by an external auditor. At project level, the systematic use of the CMT should be ensured so as to improve procurement monitoring. In addition, policy dialogue between IFAD and the Government should encourage the latter to improve the completeness of procurement information available to the general public. For example, the FPPA website could be used to ensure access to such information, as it is already the case for the legal and regulatory framework and bidding opportunities.		
Accountability and transparency	**Substantial**	**Substantial**
Risk(s): (i) Complaints are not reviewed by a body which is not involved in any capacity in procurement transactions or in the process leading to contract award decisions. Indeed, out of 5 members, only one is seen as independent, while the others are directly involved in procurement activities. (ii) Ethiopia has a score of 38/100 in 2020 in the Corruption Perception Index and ranked 96/198.		
Mitigations: The Government should be encouraged to ensure that national provisions on complaint system are applied, according to which and independent and functional system should be available. Members of the Complaint Review Board should be selected accordingly. (ii) Programme and the Lead executing agency to ensure that any individuals, firms and Government stakeholders involved in the implementation of LLRP II are well informed of the Revised IFAD's Policy on Preventing Fraud and Corruption in its activities and operations.		
Capability in public procurement	**Substantial**	**Substantial**
Risk(s): Procurement risks are associated with capacity limitations at the PMU level, security concerns, market failures, shortages of foreign currency, price hikes, and shortage of construction inputs. MILLs and most regions have acquired adequate experience in procurement; however, the introduction of new federal level implementing agencies (EDRMC, ATI, and EMI), and the geographic expansion of the Project in a new region (Dire Dawa) and 20 new woredas as well as the emergence of new regions is likely to result in some capacity gaps.		
Mitigations: Training on Project procurement policies for the procurement staff. • Timely preparation of project-specific procurement manuals satisfactory to the World Bank and IFAD. • Assessment of the procurement capacity of implementing agencies at all levels and implementation of action plans to address identified limitations as well as continuous capacity building (training). • For new project implementing regions and woredas, careful planning of capacity-building measures, including on STEP. • Timely preparation of the PPSD and Procurement Plan. • Potential deployment of TPMA to monitor and evaluate project activities including procurement aspects in inaccessible woredas and sites.		
Public procurement processes	**Moderate**	**Moderate**
Risk(s): There might be lack of compliance to procurement method.		
Mitigations: The Lead executing agency to ensure that procurement planning and AWPB are joint activities between the procurement, finance and technical officers to ensure consistence and alignment of activities, guided by programme technical delivery to inform procurement plan and financial flow projections.		
Financial management		

Risk categories and subcategories	Inherent	Residual
Organization and staffing	**Substantial**	**Substantial**
Risk(s): (i)Limited FM capacity due to the high turnover of fiduciary staff in the PCUs at federal, regional, and woreda level and the shortage of qualified accountants in the public bodies. The introduction of new implementing agencies at the federal level, the geographical expansion of the project in a new region (Diredawa), and the fact that 20 new woredas will require the recruitment of additional FM staff will increase the risk of lack of capacity; (ii)Out of the 120 woredas, 20 are new woredas that need continued capacity-building activities. This pose of a high FM risks as there are high number of decentralized FM Units, and setting up an effective internal controls and audits will be more challenging.		
Mitigations: (i) FM capacity assessment will be conducted. FM readiness will be assured in all new 20 woredas and recruitment or assignment of one accountant for each new entity implementing the project (federal, regional, and woreda level, including new RSCT and CAs). Notify the World Bank of the assigned personnel within three months of effectiveness; (ii)Providing training to finance staff on the project FM requirements within one month of notification of the assignment of the FM staff to the World Bank and conducting continuous capacity-building trainings during the implementation to strengthen the capacity of the FM staff.		
Budgeting	**Substantial**	**Substantial**
Risk(s): The project will follow the Federal Government of Ethiopia's budgeting procedure and calendar. The FPCU, at MILLs, will prepare a consolidated AWPB. However, there is a risk of delay in the preparation and approval of the AWPB, and low budget utilization. Procurement risks are associated with capacity limitations at the PIU level, security concerns, market failures, shortages of foreign currency, price hikes, and shortage of construction inputs may also result in slow budget utilization.		
Mitigations: (i)The project's Annual Work Plan and budget to be prepared and submitted to the World Bank by the end of May of each year. The budget will be notified before the start of the new FY; (ii)Timely preparation of the Project Procurement Strategy for Development (PPSD) and Procurement Plan; (iii)The FPCU will ensure that robust budget monitoring and control mechanisms are in place. IFRs will have budget monitoring reports including variance reports along with explanations of material variances and the management will take corrective measures based on the quarterly reports.		
Funds flow/disbursement arrangements	**Substantial**	**Moderate**
Risk(s): Funds flow and Disbursement Arrangements LLRP II will become active before the existing Project, LLRP, is closed and the Project Coordination Units (PCUs) for LLRP will also continue to support this project. Therefore, there is a risk that the funds of LLRP II project will be comingled with the funds of the existing LLRP project.		
Mitigations: (i)A Segregated Designated Account (DA) will be opened for the project and managed by the MILLs/FPCU; (ii)For advances to the Designated Account, the project will use report-based disbursement, with the submission of a six-month forecast as part of quarterly Interim Financial Reports; (iii) For the new 20 woredas, an FM assessment will be conducted when the woredas are identified. Unless the FM assessment is done, no project resources will be channeled to the new woredas.		
Internal controls	**Substantial**	**Substantial**

Risk categories and subcategories	Inherent	Residual
Risk(s): (i)The project will be implemented in the 120 woredas and out of 120 woredas, 20 are new woredas. This pose of a high FM risks as there are high number of decentralized FM Units, and setting up an effective internal controls and audits will be more challenging; (ii) The PEFA scored Internal audit poorly (D+ overall). There is a risk of weak internal audit function and weak internal control at MILLs including audit issues; (iii) The project will also fund matching grants and access to finance where there is a high risk of misuse of funds.		
Mitigations: (i)All the applicable Government internal control policies and procedures will be applied to the project. In addition, the project's Financial Management Manual (FMM) will incorporate detailed control procedures specific to the project; (ii)The internal audit unit of the FPCU will conduct quarterly internal audits and share the internal audit reports with the World Bank. Training will be provided to the internal auditors to enhance their capacity. The management will take the necessary actions to address the findings. Quarterly IFRs will disclose the status of the implementation of the findings; (iii)Assessment of the fiduciary capacity of implementing agencies at all levels and implementation of mitigation measures (action plans); (iv)Issuance of guidance notes to implementing entities to mitigate expenditure double-dipping; and potential deployment of a Third-Party Monitoring Agent (TPMA) to monitor and evaluate project activities including fiduciary aspects in inaccessible woredas and sites; (v) Matching grants to MSEs and access to finance- seed funding will have separate guidance on selection, implementation, administrative, and other procedural issues regarding the components which will include FM procedures and this will be effectiveness condition. The project's internal auditor will also check periodically on the proper management of this activity. The TPM will also include this in due diligence exercise to ensure that the funds are disbursed and being used for purposes intended as one of its roles. In addition, the FMM will also include detailed FM arrangements and requirements to manage this.		
Accounting and financial reporting	**Substantial**	**Substantial**
Risk(s): The fact that the Project will continue to operate along with the existing LLRP poses the risk of double dipping whereby expenditures may be comingled among the two projects given the capacity limitations. In addition, this may create some FM risks in conflict-affected woredas with accessibility limitations.		
Mitigations: (i)Designing appropriate controls, including assigning separate accountants from the PIU to each project; maintaining separate accounting records and document filing systems for each project. These controls will help to ensure that the accounting records for the two projects are kept separate and that there is no risk of mixing them up; (ii)LLRP II will prepare a Financial Management Manual (FMM), which includes an acceptable Chart of Accounts within three months of the approval date, based on the experience of the existing LLRP FMM, and disseminate it to all implementers; (iii) The project will develop a chart of accounts that is adequate to capture the project expenditures by component, category and financier for LLRP II and share the COA with all implementers including the new woredas and federal entities. In addition, to comply with government reporting requirements, the project will have to maintain records through IFMIS; (iv)The FPCU will prepare the quarterly IFR for LLRP II and submit it to the World Bank within 45 days after the end of the quarter. Project annual		

Risk categories and subcategories	Inherent	Residual
financial statements will be prepared on time and strict follow-up on timely closure of accounts will be made.		
External audit	**Substantial**	**Substantial**
Risk(s): (i)The Project is highly decentralized and there is a risk that external audit scope may not cover the high-risk areas, and may be not adequate; (ii) Risk of late submission of the audit reports and the management letter.		
Mitigations: (i)Recruitment of external Auditors within 6 months of effectiveness; (ii) Agree on the Audit ToR & IFR format; Matching grants and access to finance activities will be included in the external audit TOR and will be covered by the auditors during the external audit process; (iii)Submission of annual audited financial statements and audit report including the management letter within 6 months of each fiscal year; (iv) The audit will be carried out as per the International Standards of Auditing issued by the International Federation of Accountants. The Project will also have an interim audit report arrangement which is part of the annual audit report; (v)An update will be made by MILLs on whether entity audit findings are being addressed or actioned.		
Environment, social and climate impact		
Biodiversity conservation	**Moderate**	**Moderate**
Risk(s): Climate variability and extreme weather events, use of agrochemicals (project will not fund the procurement and use of agro chemicals), as well as use of forest clearance may cause loss of biodiversity		
Mitigations: The ESCMF will adequately consider this and a budgeted mitigation measure, including integrated pest management, will be considered		
Resource efficiency and pollution prevention	**Substantial**	**Substantial**
Risk(s): Wasteful/in-efficient use of water for irrigation and drinking. Construction of infrastructures such as irrigation schemes, storage facilities, market will lead to pollution of environmental media such as water, soil and air.		
Mitigations: Capacity building and awareness creation will be organized for the beneficiaries and Kebele/Woreda level experts and Das to ensure efficient use of water. Furthermore, water use regulations and bylaws will be prepared and implemented. Compliance to SECAP and national law on pollution prevention and precautionary approaches and increase use of organic fertilizer		
Cultural heritage	**Moderate**	**Moderate**
Risk(s): Some construction activities may impact historical, religious or cultural resources.		
Mitigations: Appropriate screening of project/sub project, consultation with responsible government representatives and communities as well as SECAP compliance		
Indigenous peoples	**Moderate**	**Moderate**
Risk(s): The project will be implemented in PAP areas which are considered as indigenous by IFAD		
Mitigations: Adequate consultations and engagement with the targeted PAP communities and their institutions.		

Risk categories and subcategories	Inherent	Residual
Community health and safety	**Moderate**	**Moderate**
Risk(s): Construction activities, may have a negative impact on community health and safety. Furthermore, some project activities such as water ponds/diversions may cause water-borne or other vector-borne diseases (e.g., temporary breeding habitats), and/or communicable and non-communicable disease. COVID-19 is still potential health threat		
Mitigations: Provision of PPE, Integrated Pest management practises and also deploying of COVID-19 preventing measures as well as SECAP compliance		
Labour and working conditions	**Substantial**	**Substantial**
Risk(s): Project activities may cause forced or child labour, gender-based violence, discriminatory and unsafe/unhealthy working conditions		
Mitigations: Awareness creation and capacity development to ensure project activities are conducted in a safe working environment. Contractor contracts will include clauses to ensure adequate working conditions. Furthermore, GRM system will be established/strengthened so that affected people have access to address and resolve their complaints. Sensitisation will also be done in collaboration with relevant authorities to prevent GBV. As part of the ESCMF, Labour Management Plan will be prepared and implemented accordingly to ensure presence of conducive working environment and avoid/reduce exploitative labour practices		
Physical and economic resettlement	**Moderate**	**Moderate**
Risk(s): The proposed infrastructure development such as irrigation schemes, warehouses, and rural roads may cause physical, economic and involuntary resettlement and limit access to natural resources.		
Mitigations: Adherence to SECAP and national laws entails screening of project activities and elaborating ESCMPs for the infrastructure development. Resettlement Action Framework (RAF) will be prepared to guide the identification and consultations of Project Affected People (PAP), quantification of physical and economic resettlements as well as estimate compensations. Depending on the number of PAPs, RAF will also guide the preparation of RAP. Furthermore, PMUs will work hand in hand with Woreda and Kebele administrations to ensure that PAPs are adequately consulted and compensations effected prior to commencement of any physical activities. GRM should be strengthened to ensure timely and satisfactory responses to complaints.		
Greenhouse gas emissions	**Low**	**Low**
Risk(s): Livestock fattening may cause emission of small amounts of GHGs. Generally, the project's contribution to GHG emission is minor		
Mitigations: The initiative ensures that there will be no expansion of arable land through deforestation to meet the demands of crop production. Instead, the program emphasizes sustainable agricultural practices that promote responsible land use. This approach aligns with Ethiopia's climate policy, which prioritizes environmental conservation and the reduction of greenhouse gas emissions. In adherence to this climate-conscious strategy, special attention will be dedicated to the promotion of low-emission livestock, including poultry, sheep, and goats. These animals are known for their relatively lower environmental impact compared to traditional livestock options. For instance, poultry farming tends to have a smaller carbon footprint, as it requires less land and water compared to larger livestock such as cattle. The emphasis on sheep and goats is strategic, as these animals are generally more adaptable to diverse and challenging environmental conditions. By focusing on these specific livestock types, the program not only addresses the growing demand for animal products but also contributes to		

Risk categories and subcategories	Inherent	Residual
mitigating climate change impacts. Sustainable livestock practices can play a crucial role in fostering a balance between agricultural development and environmental conservation. This dual focus ensures that the program not only meets the nutritional needs of the population but also aligns with Ethiopia's broader goals of achieving climate resilience and sustainability in its agricultural sector.		
Vulnerability of target populations and ecosystems to climate variability and hazards	**Moderate**	**Moderate**
Risk(s): Programme interventions may increase exposure of communities, ecosystems and infrastructure to climate shock		
Mitigations: LLRP II will support interventions that will enhance resilience of communities, infrastructure and ecosystem to the impact of climate variability and high intensity weather events. Sub projects will be screened against climate change impacts and appropriate mitigation/adaptation measures will be adequately integrated into project design.		
Stakeholders		
Stakeholder engagement/coordination	**Moderate**	**Moderate**
Risk(s): There is a potential for: (a) the re-emergence of political unrest and civil disturbances; (b) institutional/organizational restructuring/reorganization; (c) weak multisectoral coordination mechanisms; and (d) elite capture of project benefits and the exclusion of project beneficiaries, particularly underserved members of targeted communities. All stakeholders may not be adequately identified and engaged during project and implementation. Lack of budget may affect stakeholder participation as needed.		
Mitigations: These risks will be mitigated through a series of carefully planned and properly executed consultations as per the Stakeholder Engagement Plan (SEP), during implementation. Elite capture risk mitigation measures will benefit from the experience of several World Bank-IFAD co-financed projects including, Pastoral Community Development Project II (PCDP II,P130276), LLRP (P164336). IFAD in co-financing with the World Bank also faces a moderate risk, experienced under the first phase of LLRP, that the World Bank cancels a proportion of its financing in response to the need for urgent responses to unanticipated events, (such as was the case of COVID19 under LLRP). This will be mitigated through continuous discussions with World Bank counterparts to ensure that IFAD is promptly advised of any such action.		
Stakeholder grievances	**Moderate**	**Moderate**
Risk(s): Targeting of beneficiaries, construction activities, water and distributions, poor quality service are potential sources of grievances. GRM system may be non-existent or not functioning well and the GRM committees may not have the required capacity to resolve complaints in fair and timely manner.		
Mitigations: Proper implementation of the targeting strategy/criteria, provision of quality services and establishment/strengthening of GRM system, awareness creation to complainants, capacity development/training to GRM committee		