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President's report

Proposed loan and grant to the Federal Democratic Republic of Ethiopia for the

Participatory Small-scale Irrigation Development Programme

Executive Board — Ninetieth Session
Rome, 17-18 April 2007

For: **Approval**

Note to Executive Board Directors

This document is submitted for approval by the Executive Board.

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Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed loan and grant to the Federal Democratic Republic of Ethiopia for the Participatory Small-scale Irrigation Development Programme, as contained in paragraph 35.



Ethiopia
Participatory Small-Scale Irrigation Development Programme
Programme Area



Map of the programme area

Source: IFAD

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

Federal Democratic Republic of Ethiopia

Participatory Small-scale Irrigation Development Programme

Financing summary

Initiating institution:	IFAD
Borrower:	Ethiopia
Executing agencies:	Ministry of Agriculture and Rural Development, and the state governments of Amhara; Oromia; Southern Nations, Nationalities and Peoples; and Tigray
Total programme cost:	US\$57.7 million
Amount of IFAD loan:	SDR 13.3 million (equivalent to approximately US\$20.0 million)
Amount of IFAD grant:	SDR 13.3 million (equivalent to approximately US\$20.0 million)
Terms of IFAD loan:	40 years, including a grace period of 10 years, with a service charge of three fourths of one per cent (0.75 per cent) per annum
Contribution of borrower:	US\$14.2 million
Contribution of beneficiaries:	US\$3.5 million
Appraising institution:	IFAD
Cooperating institution:	Directly supervised by IFAD

Proposed loan and grant to the Federal Democratic Republic of Ethiopia for the Participatory Small-scale Irrigation Development Programme

I. The programme

A. Main development opportunity addressed by the programme

1. Ethiopia is one of the poorest and most food-insecure countries in the world. A major risk factor for the vast majority of Ethiopian farmers is unreliable rainfall and frequent drought. There is considerable potential for irrigated agriculture, and the programme will develop a model that can be used to scale up investments and thereby contribute to the achievement of the first Millennium Development Goal.

B. Proposed financing

Terms and conditions

2. It is proposed that IFAD provide to the Federal Democratic Republic of Ethiopia a loan in the amount of SDR 13.3 million (equivalent to approximately US\$20.0 million) on highly concessional terms, and a grant in the amount of SDR 13.3 million (equivalent to approximately US\$20.0 million) to help finance the Participatory Small-scale Irrigation Development Programme. The loan will have a term of 40 years, including a grace period of 10 years, with a service charge of three fourths of one per cent (0.75 per cent) per annum. These financing arrangements are consistent with the debt sustainability framework currently under consideration by the Executive Board.

Relationship to the IFAD performance-based allocation system (PBAS)

3. The allocation for Ethiopia under the PBAS is US\$75 million over the three-year PBAS cycle. The proposed loan and grant amounts fall well within the country allocation and planned lending programme.

Country debt burden and absorptive capacity of the State

4. Since Ethiopia became eligible for support under the Debt Initiative for Heavily Indebted Poor Countries in 2004, its total public debt has fallen from 90 per cent to about 55 per cent of GDP. No further significant reductions are expected in the short-to-medium term without increased official development assistance – in the form of grants – to strengthen the absorptive capacity of the decentralized public administration and to boost pro-poor spending. Ethiopia's fiscal management is sound, with debt service payments on schedule.

Flow of funds

5. The proceeds of the IFAD loan and grant will be channelled through a special account to be opened with National Bank of Ethiopia according to standard financial regulations. In line with the approved annual workplan and budget (AWP/B), transfers will be made from the special account to a programme account held in local currency. The Government's contribution will also be paid into the programme account. Funds will then be transferred to the regional programme accounts to meet the liquidity requirements of implementation agencies. The special account and programme account will be replenished regularly in accordance with financing agreement provisions.

Supervision arrangements

6. The programme will be supervised directly by IFAD, with support from a more robust field office.

Exceptions to IFAD General Conditions for Agricultural Development Financing and operational policies

7. No exceptions are foreseen.

Governance

8. In accordance with the financing agreement, all contracts will be awarded following competitive bidding procedures, and all transactions will be subject to prior review and approval by IFAD and/or the annual audit of programme accounts. The AWP/B and procurement plan for the first twelve months of the programme have been discussed and agreed with the Government.

C. Target group and participation

Target group

9. The target group consists of about 62,000 poor rural households living in food-deficit, drought-prone areas. Their per capita income is less than US\$0.3 per day and their average landholding is less than 1 hectare. About 20 per cent of these households are headed by women. The programme includes specific activities for women-headed households, unemployed young people and the landless.

Targeting approach

10. In accordance with the IFAD Targeting Policy, the programme will select food deficit districts as identified under the Productive Safety Net Program (led by the International Development Association). To enhance outreach, preference will be given to the most densely populated districts. Targeting will no longer be based on irrigation potential; in selecting beneficiaries and schemes, due attention will be paid to ensuring that food-insecure households, women-headed households and more vulnerable groups will also benefit from the programme.

Participation

11. According to the interim evaluation of the first and second phases of the Special Country Programme, the lack of beneficiary participation resulted in ineffective operation and maintenance of schemes. The proposed programme will adopt a participatory approach that will reinforce a sense of ownership by building on indigenous knowledge gained over generations of successful management of traditional irrigation schemes. Beneficiaries will be trained to take charge of the development process from the outset and women will be included in the decision-making bodies of water users' associations.

D. Development objectives

Key programme objectives

12. The programme goal is to improve the food security, family nutrition and incomes of rural poor households. Its primary objective is to develop a sustainable, farmer-owned and -managed model of small-scale irrigated agriculture with scaling-up potential.

Policy and institutional objectives

13. The programme provides a unique opportunity to reform small-scale irrigation development approaches and practices in Ethiopia. The main institutional objective is to establish a participatory process for small-scale irrigation development that reinforces the sense of ownership critical for the long-term sustainability of such schemes in Ethiopia.

IFAD policy and strategy alignment

14. The main thrust of the IFAD Strategic Framework 2007-2010 is to contribute to the first Millennium Development Goal specifically by increasing food security for poor rural households. The guiding principle of the programme is to reduce food insecurity, hunger and poverty, which also lies at the heart of the strategic framework. Building on lessons learned in Ethiopia and elsewhere, the programme will empower rural communities by helping them establish their own grass-roots organizations, improve linkages with interventions by other donors in the country for better impact, strengthen learning loops for knowledge sharing and use indigenous knowledge as an innovative mechanism to enhance sustainability.

E. Harmonization and alignment

Alignment with national priorities

15. The sustainable development of irrigated agriculture is an integral part of Ethiopia's second-generation Poverty Reduction Strategy Paper (2006-2010), the Plan for Accelerated and Sustained Development to End Poverty. The plan includes ambitious targets for irrigation development, while recognizing that the main challenge will be to provide a sound platform for scaling up. The programme will be implemented within the existing public institutional framework with complementary support from the nascent private sector.

Harmonization with development partners

16. Through the Field Presence Pilot Programme, IFAD has significantly improved its engagement with the Government and with development partners, particularly in agricultural and rural development. In 2006, IFAD's contribution to poverty reduction was, for the first time, clearly recognized in the United Nations Development Assistance Framework. Activities planned under the proposed programme complement ongoing donor initiatives and specific measures have been included to enhance knowledge management and sharing.

F. Components and expenditure categories

Main components

17. The programme has three components. The institutional development component will strengthen capacity of the decentralized public administration to better respond to the needs of smallholder farmers with regard to irrigated agriculture, and empower rural communities by helping them to establish their own grass-roots organizations. The small-scale irrigation development component will improve catchment area planning, develop small-scale irrigation schemes covering a command area of about 12,000 hectares, and improve access roads to the schemes. The agricultural development component will strengthen agricultural support services, improve farming practices, and promote seed production and the establishment – mainly for women – of home vegetable gardens.

Expenditure categories

18. Activities associated with small-scale irrigation development account for 66 per cent of base costs, improved agricultural support for 19 per cent and institutional capacity-building for 15 per cent.

G. Management, implementation responsibilities and partnerships

Key implementing partners

19. The Ministry of Agriculture and Rural Development, together with the state governments of Amhara; Oromia; Southern Nations, Nationalities and Peoples; and Tigray will be responsible for programme implementation, in collaboration with the private sector and farmers' organizations.

Implementation responsibilities

20. The Ministry of Agriculture and Rural Development will have overall responsibility for the coordination and management of programme implementation. However, in line with the decentralization policy, the actual planning, implementation and management of the programme will be carried out by the regional bureaux. The ministry will ensure the presence of adequate staff at the regional, district and community levels to deal with agricultural support services, food security, irrigation, watershed management, land demarcation, etc. At the community level, the peasant association, with support from development agents, will coordinate programme implementation, including community mobilization.

Role of technical assistance

21. The IFAD grant presents a unique opportunity to strengthen monitoring and evaluation, information management, and accounting and financial management systems within the public sector. The grant proceeds will also allow for increased field staff mobility and the recruitment of better qualified programme management staff. A legal framework for the country's water users' associations will also be created, which will enable fee collection for organization and management of the associations, enhance the role of women in decision-making processes and improve water-user rights.

Status of key implementation agreements

22. In line with the Paris Declaration on Aid Effectiveness, programme implementation will be governed by existing policies and procedures within decentralized public administration and no further implementation agreements are required.

Key financing partners and amounts committed

23. The total programme cost is US\$57.7 million. Of this, IFAD will provide US\$40.0 million; the Government, US\$14.2 million; and the beneficiaries, US\$3.5 million, over seven years. The International Development Association has agreed with the Government to focus on large-scale irrigation development, while the African Development Bank will not be able to allocate additional financial support to this sector before 2009. The Government has committed itself to providing further support – from its own resources – within the framework of the Plan for Accelerated and Sustained Development to End Poverty.

H. Benefits and economic and financial justification**Main categories of benefits generated**

24. The immediate benefits will be increased productivity resulting from the introduction of irrigated farming. More intensive cropping will boost beneficiary household incomes by an average of about US\$630 to US\$690. At full development, beneficiary households will be food-secure even during the dry season. The programme's positive impact on nutrition, while reduced land degradation will also yield benefits.

Economic and financial viability

25. The financial and economic analysis shows that most of the irrigation schemes will be economically viable, with an economic rate of return exceeding the estimated opportunity cost of capital.

I. Knowledge management, innovation and scaling up**Knowledge management arrangements**

26. Key features of the programme include better monitoring and evaluation, learning loops to improve knowledge sharing, exchange visits and study tours, and the use of indigenous knowledge. The programme will also conduct an annual knowledge forum to bring key stakeholders in development together to share experiences and establish linkages between programmes for better impact.

Development innovations that the programme will promote

27. Key innovations include the establishment of a participatory, community-based development process based on indigenous knowledge; a legal framework for cost recovery that will ensure the operation and maintenance of the schemes; the issuance of land title certificates to beneficiaries; improved linkages with other development interventions; and the enhanced role for women in the decision-making process of the water users' associations.

Scaling-up approach

28. The programme is designed to promote a more participatory approach to small-scale irrigation development, given the urgent need and tremendous potential to expand the area under irrigation in Ethiopia. The development model being promoted by the

programme will place IFAD at the forefront of scaling-up successful approaches for smallholder irrigated farming.

J. Main risks

Main risks and mitigation measures

29. While planned small-scale irrigation schemes are technically simple and construction procedures are well known, the delivery of agricultural services in support of irrigated farming needs to be improved. To mitigate this risk, the programme calls for elaboration of agricultural development plans for each scheme prior to its upgrading or construction. Second, acceptance of a community demand-driven approach to small-scale irrigation development may be problematic. Shifting responsibility for the development process to the community is a radical departure from past practice. To reduce this risk, assurances will be sought that schemes will be financed only if they have been prepared in a participatory manner. Relevant government staff will also receive intensive training on the participatory approach to development. Third, inadequate access to markets, financial services, and improved production technologies may limit production options and the returns from irrigated agriculture. Weak institutional capacity and neglect of watershed treatment and catchment areas may have a similar effect. To minimize this risk, appropriate linkages will be developed with related investments in the country to ensure complementarity in these key areas.

Environmental classification

30. Pursuant to IFAD's environmental assessment procedures, the programme has been classified as a Category B operation in that it is not likely to have any significant negative environmental impact. However, a full-scale environmental assessment will be mandatory for the construction of each microdam.

K. Sustainability

31. Programme sustainability will be ensured through beneficiary ownership of both process and product from the outset; demarcation of each command area and issuance of first-level land title certificates to beneficiaries; establishment of linkages with other development interventions in the country for better impact; clear alignment of implementation arrangements with decentralized public administration; and empowerment of water users' associations to collect fees for operation and maintenance. These measures will be underpinned by integrated watershed management and catchments area planning.

II. Legal instruments and authority

32. A programme financing agreement between the Federal Democratic Republic of Ethiopia and IFAD will constitute the legal instrument for extending the proposed financing to the borrower. The important assurances included in the negotiated agreement are attached as an annex.
33. The Federal Democratic Republic of Ethiopia is empowered under its laws to borrow from IFAD.
34. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD.

III. Recommendation

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

RESOLVED: that the Fund shall provide a loan to the Federal Democratic Republic of Ethiopia in various currencies in an amount equivalent to thirteen million three hundred thousand special drawing rights (SDR 13,300,000), to mature on or prior to 1 April 2047 and to bear a service charge of three fourths of one per cent (0.75 per cent) per annum and to be upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

RESOLVED FURTHER: that the Fund shall provide a grant to the Federal Democratic Republic of Ethiopia in various currencies in an amount equivalent to thirteen million three hundred thousand special drawing rights (SDR 13,300,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Lennart Båge
President

Important assurances included in the negotiated programme financing agreement

(Negotiations concluded on 23 March 2007)

Pest management

1. The Government of the Federal Democratic Republic of Ethiopia will comply with the International Code of Conduct on the Distribution and Use of Pesticides and ensure that pesticides procured under the programme do not include any pesticides classified as extremely hazardous or highly hazardous by the World Health Organization.

Gender focus

2. The Government will ensure that the Ministry of Agriculture and Rural Development and other programme parties strive to improve the gender balance in the operations of the programme, develop targets and processes to achieve those targets as part of a gender strategy, and present reports by the end of each programme year on achievements towards this end.

Small-scale irrigation schemes

3. The Government will ensure that no construction commences on any small-scale irrigation scheme prior to the preparation and approval of a comprehensive agricultural plan for the effective use of the proposed irrigated area. Such plans will include proposals for capacity-building and details about the possible cropping patterns, including estimates of costs and expected returns.

Watershed protection

4. The Government will ensure that no irrigation schemes are approved for construction unless provision has been made for the treatment and adequate protection of the watershed within which it is to be established. Prior to the detailed design of any irrigation scheme to be financed under the programme, catchment area planning will be undertaken to assess water availability and extraction rates by all the actual and potential users of water from the catchment area.

Public health impact assessment

5. The Government will ensure that, prior to the construction of any scheme, the Regional Bureau of Health assesses the scheme's impact on public health and introduces any measures needed to protect the health of the communities concerned.

User rights certificates

6. The Government will ensure that, prior to the completion of the construction of each irrigation scheme, each participant/beneficiary in that scheme is provided with a certificate, issued by the district administration, giving them user rights to the land concerned.

Maintenance of adequate staff

7. The Government will ensure that the Ministry of Agriculture and Rural Development provides for the maintenance of adequate technical and field staff at federal, regional, district and community levels, including at least three development agents at community level in the programme area.

Fraud and corruption

8. The Government will promptly bring to the attention of IFAD any allegations or concerns of fraud and/or corruption in relation to the implementation of the programme of which it has knowledge or has become aware.

Microdams

9. The Government will ensure that the construction of each microdam in the programme area is subject to an environmental impact assessment, which will be submitted for prior review and approval by the respective Regional Land Use Administration and Environmental Protection Authority.

Irrigation schemes

10. The Government will ensure that no irrigation scheme is constructed until (a) a development agent has been designated as being responsible for coordinating the scheme's development, and (b) a water users' association (WUA) has been established for it in accordance with current practices.

Legal framework for WUAs

11. The Government will ensure that, within one year of the programme's effective date, a study is carried out on the legal framework for the operation and management of WUAs, and that the recommendations of this study are being implemented.

WUAs

12. The Government will ensure that, before the construction of an irrigation scheme commences, a scheme implementation agreement has been established between the respective WUA and the district administration indicating clearly the role and responsibilities of each party; that WUAs participate directly in the planning process and approve all agricultural and irrigation plans before their submission to the regional programme coordination management unit for approval; and that WUAs are represented on the tender committee for awarding construction contracts ensuring that their members contribute voluntary labour during scheme construction and undertake joint inspections before a scheme is handed over.

Suspension

13. (a) IFAD may suspend, in whole or in part, the right of the Government to request withdrawals from the loan and grant accounts upon the occurrence of any of the events set forth in the programme financing agreement or any of the following events:
 - (i) IFAD, after consultation with the Government, has determined that the material benefits of the programme are not adequately reaching the target group or are benefiting persons outside the target group to the detriment of target group members.
 - (ii) The Government has defaulted in the performance of any of the additional covenants set forth above and such default will have continued unremedied for 30 days, and IFAD has determined that such default has had, or is likely to have, a material adverse effect on the programme.
 - (iii) IFAD has given notice to the Government that credible allegations of corrupt or fraudulent practices in connection with the programme have come to the attention of IFAD, and the Government has failed to take timely and appropriate action to address the matter to the satisfaction of IFAD.
 - (iv) Procurement has not been or is not being carried out in accordance with the programme financing agreement.
- (b) IFAD will suspend, in whole or in part, the right of the Government to request withdrawals from the loan account and/or grant account if the audit required by the programme financing agreement has not been satisfactorily concluded within 12 months of the financial reporting date.

Conditions precedent to withdrawals

14. (a) No withdrawals will be made under the programme until: (i) the special account has been duly opened; (ii) all programme accounts have been duly opened; (iii) the draft first annual workplan and budget has been approved by the national steering committee and IFAD; and (iv) the Ministry of Agriculture and Rural Development has appointed as staff members – in addition to the national programme coordinator – an accountant, a gender and training specialist, and a monitoring and evaluation specialist.
- (b) No transfer will be made to any programme account until the respective regional state governments have appointed as staff members – in addition to the regional programme coordinator – an accountant, a gender and training specialist, and a monitoring and evaluation specialist.

Conditions precedent to effectiveness

15. The programme financing agreement will become effective subject to the fulfilment of the following conditions:
 - (a) the national steering committee has been duly constituted at federal level and a regional steering committee has been duly constituted by each of the participating regional states;
 - (b) the national programme coordinator, and regional programme coordinators in each of the participating regional states, each with qualifications and experience acceptable to IFAD, have been appointed and have taken up their positions on a fulltime basis;
 - (c) the programme financing agreement has been duly signed, and the signature and performance thereof by the Government has been duly authorized and ratified by all necessary administrative and governmental action; and
 - (d) the Government has delivered to IFAD a favourable legal opinion, issued by the Head of the Legal Department of the Ministry of Finance and Economic Development of the Government or other legal counsel authorized by the Government.

Key reference documents

Country reference documents

Ethiopia, Ministry of Finance and Economic Development, A Plan for Accelerated and Sustained Development to End Poverty (PASDEP), September 2006.

IFAD reference documents

PASIDP draft Appraisal Report dated 9 February 2007

Logical framework

Narrative summary	Performance indicators	Means of verification	Assumptions about risks
<i>Goal</i>			
Poverty reduced and food security improved for rural households living in drought prone, food deficit areas of Amhara, Oromia, SNNPR and Tigray Regional States.	<ul style="list-style-type: none"> 20 per cent reduction in number of households registered under Productive Safety Net Programme 25 per cent reduction in malnutrition in children under 5 50 per cent increase in ownership of assets among beneficiaries 20 per cent increase in the number of households with access to safe drinking water 	Food Security statistics Nutrition surveys Impact assessments (benchmark, mid-term, completion) Welfare Monitoring Surveys CSA surveys/reports	Political and macro economic stability maintained.
<i>Objective</i>			
To develop a sustainable farmer-owned and managed model of small-scale irrigated agriculture that can be scaled-up.	<ul style="list-style-type: none"> 225 irrigation schemes operational at programme end benefiting about 62,000 households 50 per cent increase in yield of key crops At least 90 per cent of scheme tail-enders report adequate water delivery At least 75 per cent of watersheds in Programme area treated and land degradation arrested 	DA, <i>woreda</i> reports, compiled by regional and federal PMUs SMS team(s) reports Site visits by M&E staff Comparison with baseline data Satellite imagery Supervision reports, MTR, PCR	Political and macro economic stability maintained. No major external shocks.
<i>Outputs</i>			
1. Improved production technologies adopted in irrigated farming.	1.1. 75 per cent of farmers adopt demonstrated technologies. 1.2. At least 50 per cent of farmers diversify production. 1.3. At least 225 farmer research groups operational at programme end 1.4. At least 50 per cent of livestock owners use legumes for feed 1.5. At least 25 per cent of households adopt improved stoves 1.6. Improved seed production increased by 25 per cent 1.7. 20 per cent of households establish home gardens	DA and <i>woreda</i> reports SMS team(s) reports Site visits by M&E staff (focus groups) Agricultural development plans Supervision reports, MTR, PCR	Productive Safety Nets. Programme continues to fund watershed management and treatment. Legal framework for WUAs operational. Improved access to markets, financial services, etc. Capacity building initiatives of GOE continue to be supported by other donors. Health assessments carried out prior to scheme design to reduce risk of malaria and water-borne diseases.
2. Small-scale irrigation schemes covering 12,000 ha developed with full beneficiary participation.	2.1. At least 125 modern schemes constructed by PY 6. 2.2. Some 200 farmers actively farming on each scheme by programme end 2.3. 1 st level land title certificates issued to 100 per cent of beneficiaries. 2.4. At least one market linkage infrastructure constructed on each scheme by PY 6.	DA and <i>woreda</i> reports SMS team(s) reports Land registration bureaux Site visits by M&E staff (focus groups) Supervision reports, MTR, PCR	
3. Supporting institutions capacitated to serve households in irrigated farming.	3.1. At least 75 per cent of staff and beneficiaries trained 3.2. 100 per cent of WUAs operational at programme end. 3.3. 75 per cent of farmers' research groups operational in PY7 programme end	DA and <i>woreda</i> reports Site visits by M&E staff (focus groups) Supervision Reports, MTR, PCR	

