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Enabling poor rural people
to overcome poverty

President's report

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

Community-based Integrated Natural Resources Management Project

Executive Board — Ninety-sixth Session
Rome, 29-30 April 2009

For: **Approval**

Note to Executive Board Directors

This document is submitted for approval by the Executive Board.

Directors are invited to contact the following focal point with any technical questions about this document:

John Gicharu

Country Programme Manager
telephone: +39 06 5459 2373
e-mail: j.gicharu@ifad.org

Queries regarding the dispatch of documentation for this session should be addressed to:

Deirdre McGrenra

Governing Bodies Officer
telephone: +39 06 5459 2374
e-mail: d.mcgrenra@ifad.org

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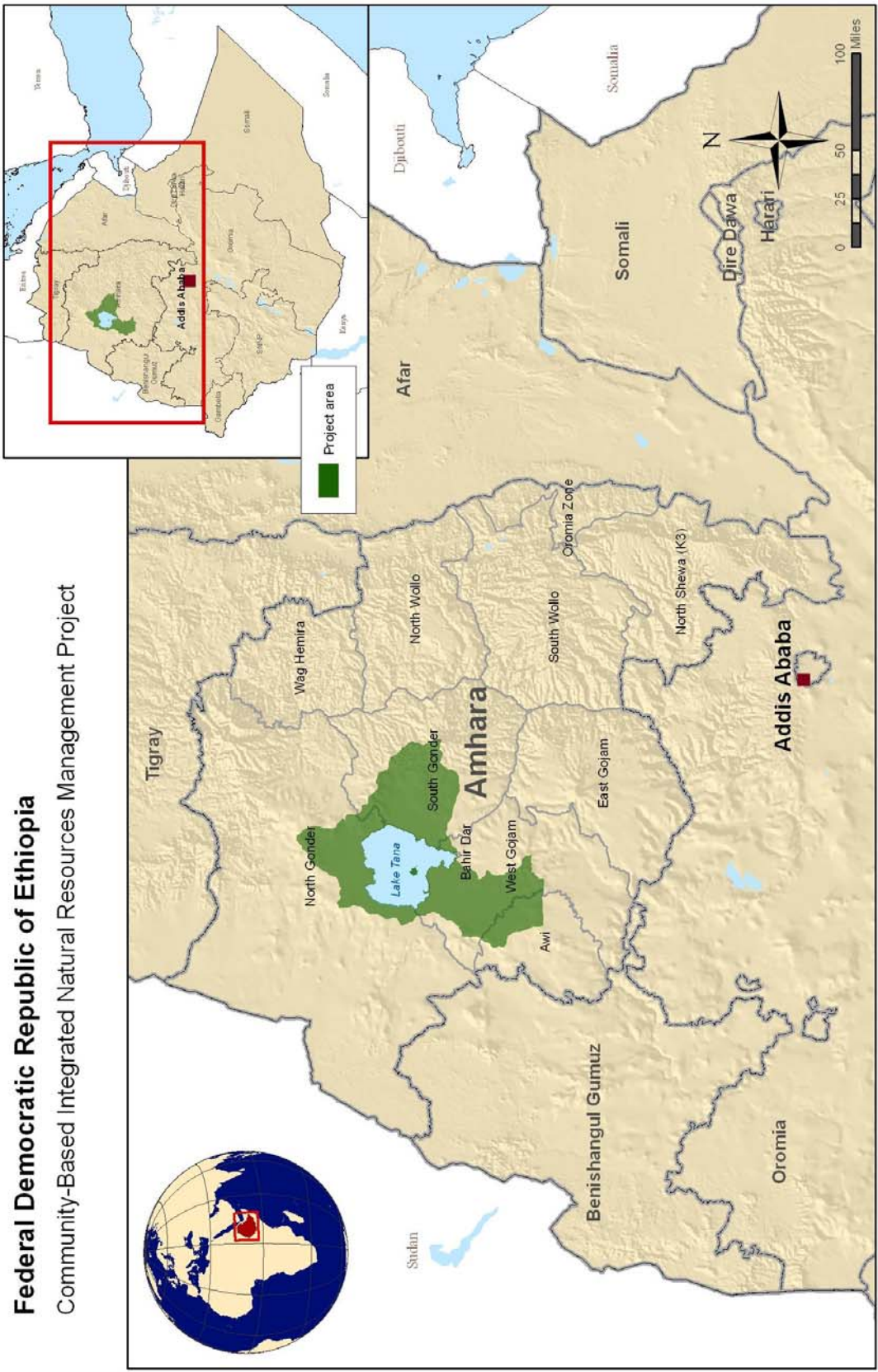
Abbreviations and acronyms

BoARD	Bureau of Agriculture and Rural Development
GEF	Global Environment Facility
M&E	monitoring and evaluation
PY	project year
SLM	sustainable land management

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 Community-based Integrated Natural Resources Management Project, as contained in paragraph 37.

Map of the project area



Federal Democratic Republic of Ethiopia
Community-Based Integrated Natural Resources Management Project

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

Map compiled by IFAD



Federal Democratic Republic of Ethiopia

Community-based Integrated Natural Resources Management Project

Financing summary

Initiating institution:	IFAD
Borrower:	Federal Democratic Republic of Ethiopia
Executing agency:	Ministry of Agriculture and Rural Development and the Amhara National Regional State
Total project cost:	US\$25.4 million
Amount of IFAD loan:	SDR 4.4 million (equivalent to approximately US\$6.6 million)
Amount of IFAD grant:	SDR 4.4 million (equivalent to approximately US\$6.6 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
Cofinancier:	Global Environment Facility
Amount of cofinancing:	US\$4.4 million
Terms of cofinancing:	Grant
Contribution of borrower:	US\$2.7 million
Contribution of beneficiaries:	US\$5.1 million
Appraising institution:	IFAD
Cooperating institution:	Directly supervised by IFAD

Proposed loan and grant to the Federal Democratic Republic of Ethiopia for the Community-based Integrated Natural Resources Management Project

I. The project

A. Main development opportunity addressed by the project

1. Ethiopia loses some 2 billion tons of fertile soils annually to land degradation,¹ and the siltation of water bodies is already a major threat to irrigation development. The project will support implementation of some 650 watershed management plans covering 227,500 hectares, restore the productivity of 32,500 hectares of degraded land, increase agricultural productivity and improve food security and incomes for about 450,000 rural households living in the Lake Tana watershed. It will also increase carbon sequestration by some 700,000 tons, which should reduce greenhouse gas emissions and contribute to mitigating climate change.

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 4.4 million (equivalent to approximately US\$6.6 million), on highly concessional terms, and a grant in the amount of SDR 4.4 million (equivalent to approximately US\$6.6 million) to help finance the Community-based Integrated Natural Resources Management Project. 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.

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

3. The allocation defined for Ethiopia under the PBAS is approximately US\$91.6 million over the 2007-2009 allocation cycle. The proposed financing arrangements are consistent with the PBAS cycle.

Relationship to national medium-term expenditure framework criteria

4. The annual government contribution of US\$0.26 million is well within the medium-term expenditure framework under the Plan for Accelerated and Sustainable Development to End Poverty. The amount will be confirmed during negotiations.

Relationship to national sector-wide approaches or other joint funding instruments

5. The project is a constituent part of the Strategic Investment Programme for Sustainable Land Management in Sub-Saharan Africa coordinated by the Global Environment Facility (GEF). It is in line with GEF's focal area on land degradation, and planned project activities will be coordinated under the National Framework for Investments in Sustainable Land Management (SLM). The national SLM platform established by the Government will provide a sound mechanism for strengthening functional and institutional linkages with other donor-funded initiatives during implementation.

Country debt burden and absorptive capacity of the State

6. In accordance with the Debt Sustainability Framework, Ethiopia is eligible for financing on the basis of a 50 per cent loan on highly concessional terms and a 50 per cent grant. It has benefited from debt relief under the Heavily Indebted Poor Countries Initiative, and, historically, disbursement rates have been satisfactory. Ethiopia has no outstanding debt service arrears.

¹ National Action Plan to Combat Desertification.

Flow of funds

7. Proceeds of the IFAD loan and the GEF and IFAD grants will be channelled by the Ministry of Finance and Economic Development to the Ministry of Agriculture and Rural Development through two special accounts. Based on the approved annual workplan and budget, funds will be released to implementing agencies in accordance with government financial rules and regulations. Provisions have been made to strengthen the institutional capacity of these agencies using proceeds of the loan and grants.

Supervision arrangements

8. The project will be supervised directly by IFAD in collaboration with relevant development partners.

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

9. In line with the financial rules and regulations of the Government, the procurement plan for the first project year (PY) will cover a period of 12 months.

Governance

10. The following planned measures are intended to enhance the governance aspects of the IFAD financing: (i) contracts for goods, works and services will be awarded in accordance with the IFAD Procurement Guidelines; (ii) assurances will be sought during negotiations that appropriate measures will be examined and introduced in PY1 to improve transparency by involving beneficiaries, reputable NGOs and civil society organizations in the contract award process; and (iii) project accounts will be prepared and maintained in accordance with internationally accepted accounting principles, and audited annually in compliance with the IFAD Guidelines on Project Audits.

C. Target group and participation**Target group**

11. The target group consists of 450,000 rural households, mainly farmers with landholdings of one hectare or less on average, or near landless and landless households. These households live on a daily per capita income of less than US\$0.30. They are marginally food-secure, vulnerable and likely to slip into food insecurity unless the problem of land degradation is redressed.

Targeting approach

12. The targeting approach is in line with the IFAD Policy on Targeting. Land administration and certification activities will target the entire farming community in 21 districts of the Lake Tana watershed. Activities related to watershed management will be carried out in 13 districts to dovetail with other donor initiatives. Gender balance will be assured in watershed planning and management committees, and in village land administration and use committees, where at least three out of seven members of each committee will be women. The land use and natural resource database, to be prepared in PY1, will be helpful in identifying near-landless and landless households, who will be given preference in participatory forestry management, reforestation of degraded communal lands and skills training. Additionally, the introduction of energy-saving technologies will reduce women's burden of firewood collection.

Participation

13. The participatory approach started at project design will be continued during implementation. Communities will take the lead role in watershed planning and management; land administration, certification and registration; and rehabilitation of degraded lands. Incentives for community participation include sensitization and training; access to secure land rights; the right to manage and exploit common assets; establishment of community-based organizations; increased use of

indigenous knowledge, practices and institutions for natural resource management; and establishment of communally accepted criteria for sharing costs and benefits.

D. Development objectives

Key project objectives

14. In line with the country strategic opportunities programme, project objectives are to enhance access by poor rural people to (i) natural resources (land and water), and (ii) improved agricultural production technologies, mainly through the adoption of sustainable land management practices.

Policy and institutional objectives

15. In addition to local capacity-building, the project will foster an enabling environment for mainstreaming SLM best practices into regional and national agricultural development strategies and programmes, mainly by reviewing existing policies and legal frameworks for natural resource management and environmental conservation, and enacting appropriate reforms to be implemented.

IFAD policy and strategy alignment

16. Project design has benefited from experiences and lessons learned in Ethiopia² and elsewhere in the region. In conformity with the strategic framework, the project will promote participatory approaches; enhance access by rural poor to land, water and improved production technologies; and establish and strengthen community-based organizations. It will also promote employment opportunities outside agriculture with a view to relieving pressure on marginal lands.

E. Harmonization and alignment

Alignment with national priorities

17. The project supports Ethiopia's second poverty reduction strategy paper (PRSP), which recognizes the urgent need for better management of natural resources. The PRSP also emphasizes the need for making land available on a more secure basis in order to encourage investments that will restore and increase land productivity and consequently improve food security.

Harmonization with development partners

18. During project design, consultations were held with development partners to ensure synergy with other SLM initiatives in the country. Development partners including IFAD are members of the national SLM platform, which provides opportunities for further collaboration and knowledge-sharing.

F. Components and expenditure categories

Main components

19. The project has three components: (i) the community-based integrated watershed management component will support land administration and certification in the entire Lake Tana watershed; assist communities in preparing and implementing some 650 watershed management plans; establish a database of existing land use patterns and natural resources; improve fodder management; rehabilitate severely degraded lands; promote participatory forest management; support off-farm soil and water conservation measures; and improve biodiversity conservation; (ii) the institutional, legal and policy analysis and reform component will foster an enabling environment for mainstreaming SLM best practices into regional policies, strategies and development programmes; and (iii) project coordination and management will support planning, coordinate implementation, and ensure effective financial accounting, management and reporting, including implementation of results-based monitoring and evaluation (M&E).

² Country programme evaluation, Office of Evaluation, 2008.

Expenditure categories

20. About 76 per cent of overall project funds will be used for community-based integrated watershed management (US\$19.3 million). Institutional, legal and policy analysis and reform (US\$3.1 million) and project coordination and management (US\$3.0 million) both account for about 12 per cent of total funds.

G. Management, implementation responsibilities and partnerships

Key implementing partners and responsibilities

21. Under the overall guidance of Ministry of Agriculture and Rural Development, the project will be implemented by the decentralized regional administration in collaboration with the Institute of Biodiversity Conservation, community-based organizations and NGOs. The national SLM platform will provide oversight to ensure consistency with national policies and strategies. The regional SLM platform in the Bureau of Agriculture and Rural Development (BoARD) will oversee project implementation at regional and local levels. BoARD will collaborate with the Environmental Protection, Land Administration and Use Authority in carrying out staff and community sensitization and training; participatory watershed planning, management and land certification; preparation of the database of existing land use patterns and natural resources; and land administration and certification. The Institute of Biodiversity Conservation will promote biodiversity and ecosystem conservation. The Bureau of Finance and Economic Development will be responsible for financial accounting, management and procurement, and will work with BoARD in the design and implementation of the M&E system. Provisions have been made to strengthen local capacity based on an institutional gap analysis and training needs assessment to be completed in PY1.
22. NGOs and community-based organizations such as youth and women's associations, religious organizations, and traditional institutions engaged in natural resource management will be encouraged to take an active part in planning, implementation and monitoring of project activities. Community-based organizations will play a critical role in land administration and certification.

Role of technical assistance

23. Short-term technical assistance has been provided for with respect to the design of the M&E system, baseline surveys, mid-term review, project completion report, institutional gap analysis and training needs assessment, updating of regional strategies and policies on SLM, land surveys, preparation of a database of existing land use patterns and natural resources, and the economic valuation of investments in biodiversity.

Status of key implementation agreements

24. A partnership agreement will be signed with the Institute of Biodiversity Conservation during PY1.

Key financing partners and amounts committed

25. The total project cost is US\$25.4 million over seven years. The sources of financing are IFAD (US\$13.2 million, or 52 per cent), the Global Environmental Facility (US\$4.4 million, or 17 per cent), the Government (US\$2.7 million, or 11 per cent), and beneficiaries (US\$5.1 million, or 20 per cent mainly in kind).

H. Benefits and economic and financial justification

Main categories of benefits generated

26. Direct benefits from restoration of degraded lands and adoption of SLM practices include increased agricultural and wood production. The protection of water bodies from siltation will improve future opportunities for irrigation, fisheries exploitation and hydropower generation. More importantly, carbon sequestration will reduce greenhouse gas emissions and contribute to mitigating climate change.

Economic and financial viability

27. Most of the benefits that will be realized under the project cannot easily be quantified. However, conservation, protection and rehabilitation of the natural resource base will contribute to a sustained increase in production of agriculture, forests and fisheries, and increase carbon sequestration, thereby mitigating climate change. Enhanced tenure security will encourage farmers to invest in land improvements, and the reduced siltation of water bodies will create opportunities for hydropower development. The conservation of biodiversity and improved ecosystem integrity will result in invaluable long-term benefits of global significance.

I. Knowledge management, innovation and scaling up

Knowledge management arrangements

28. In line with the country strategic opportunities programme, the establishment of a results-based M&E system will facilitate the generation of best SLM practices. These will be disseminated through publications, documentaries, annual review symposiums and the IFAD country forum.

Development innovations that the project will promote

29. The project will promote participatory approaches that will involve communities in decision-making processes in order to empower them. It will also build on indigenous knowledge and institutions in promoting sustainable natural resources management. In addition to demonstrating the nexus between environmental degradation and rural poverty, planned investments will reduce greenhouse gas emissions and contribute to mitigating climate change. Furthermore, the results-based M&E system will be mainstreamed into the decentralized regional administration.

Scaling-up approach

30. Implementation arrangements are well embedded in the decentralized administration, which should augur well for scaling up. Additionally, experiences and lessons learned will be internalized and mainstreamed into national strategies, policies and development programmes.

J. Main risks

Main risks and mitigation measures

31. The main risk relates to the current weak implementation capacity of the decentralized regional administration. In mitigation, some 40 per cent of project funds are earmarked for local capacity-building. A second important risk concerns post-completion maintenance of watershed management interventions. In mitigation, preparation of watershed management plans and their implementation will be carried out jointly with local communities, which will be required to contribute their own labour and locally available construction materials. Additionally, watershed maintenance issues will be given special attention by IFAD during supervision missions.

Environmental classification

32. Pursuant to IFAD's environmental and social assessment procedures, the project has been classified as a Category B operation, in that it is not likely to have any significant negative environmental impact.

K. Sustainability

33. The sustainability of planned investments will be assured through beneficiary participation and ownership. Special emphasis has been given to community sensitization, training and the establishment of community-based organizations. Implementation arrangements are well embedded in the regional institutional framework, which will ensure continuity beyond the project period.

II. Legal instruments and authority

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

III. Recommendation

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

RESOLVED: that the Fund shall make a loan to the Federal Democratic Republic of Ethiopia in various currencies in an amount equivalent to four million four hundred thousand special drawing rights (SDR 4,400,000) to mature on or prior to 1 November 2048 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 four million four hundred thousand special drawing rights (SDR 4,400,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze
President

Important assurances included in the negotiated project financing agreement

(Negotiations concluded on 2 April 2009)

Pest management

1. The Government of the Federal Democratic Republic of Ethiopia (hereinafter the "Government") 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 WHO.

Gender

2. At all relevant times during the project implementation period the Government will ensure that the Lead Project Agency and other Project Parties will strive to improve the gender balance in the operations of the project, develop targets and processes to achieve those targets as part of a gender strategy, and present reports by the end of each project year on the achievements towards this end.

Fraud and corruption

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

Suspension

4. (a) IFAD may suspend, in whole or in part, the right of the Government to request withdrawals from the loan account and the IFAD and GEF grant accounts in accordance with the General Conditions upon the occurrence of any of the events set forth therein, or if:
 - (i) IFAD, after consultation with the Government, has determined that the material benefits of the project 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 covenant set forth in the Project Financing Agreement and such default shall have continued unremedied for a period of thirty (30) days, and IFAD has determined that such default has had, or is likely to have, a material adverse effect on the project;
 - (iii) IFAD has given notice to the Government that credible allegations of corrupt or fraudulent practices in connection with the project have come to the attention of IFAD, and the Government has failed to take timely and appropriate action to address the matters;
 - (iv) Procurement has not been or is not being carried out in accordance with the Project Financing Agreement.
- (b) IFAD will suspend, in whole or in part, the right of the Government to request withdrawals from the loan account and the IFAD and GEF grant accounts if the audit required has not been satisfactorily concluded within twelve (12) months after the end of the relevant Fiscal Year.

Conditions precedent to effectiveness

5. The Project Financing Agreement will become effective subject to the fulfilment of the following conditions precedent:

- (a) the National and Regional Steering Committees shall have been duly constituted with membership and terms of reference satisfactory to IFAD;
- (b) the Regional Sustainable Land (SLM) Management Platform shall have been duly constituted with membership and terms of reference satisfactory to IFAD;
- (c) the Project Financing Agreement shall have been duly signed, and the signature and performance thereof by the Government shall have been duly authorized and ratified by all necessary administrative and governmental action; and
- (d) 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 to issue such opinion, in respect of the matters set forth in the Project Financing Agreement and in form and substance acceptable to IFAD, shall have been delivered by the Government to IFAD.

Key reference documents

Country reference documents

1. Ethiopia: A Plan for Accelerated and Sustained Development to end Poverty (2005/06-2009/10), Ministry of Finance and Economic Development, Addis Ababa, September 2006
2. Amhara National Regional State: Environmental Protection Land Administration and Use Authority – Community-based Integrated Natural Resources Management in the Lake Tana Watershed, Project Baseline Studies, Bahir Dar, July 2007.
3. Ministry of Agriculture and Rural Development (MoARD), FDRE; Community-based Participatory Watershed Development – A Guideline, Addis Ababa, January 2009.

IFAD reference documents

1. Project Design Report; Community-based Integrated Natural Resources Management Project, 4 February 2009.
2. Federal Democratic Republic of Ethiopia; Country Strategic Opportunities Paper, December 2008.
3. Federal Democratic Republic of Ethiopia; Country Programme Evaluation 2008.
4. GEF Full-Sized project document; Community-based Integrated Natural Resources Management in the Lake Tana Watershed; October 2008.

Logical framework

Hierarchy of Objectives	Key Performance Indicators	Means of Verification	Assumptions/Risks
Goal Poverty sustainably reduced for about 450,000 rural households in 21 districts of Lake Tana Watershed	<ul style="list-style-type: none"> • 25% reduction in the number of households living below the national poverty line • 15% reduction in no. of children <5 years of age who are stunted 	<ul style="list-style-type: none"> • Household income and expenditure surveys • Anthropometric surveys 	<ul style="list-style-type: none"> • Minimum internal or external shocks
Purpose Household incomes and food security increased as a result of sustainable land management and improved ecosystem integrity	<ul style="list-style-type: none"> • 25% increase in per capita income • About 700 000 tonnes carbon sequestered in cropped soil, forests and pastures 	<ul style="list-style-type: none"> • Baseline survey • Household income and expenditure surveys • Food security surveys • Assessments of above and below ground (=system) carbon 	No significant increase in effects of climate change, i.e., flooding, drought.
Outputs Community-based integrated watershed management practices adopted.	<ul style="list-style-type: none"> • Some 650 watershed management plans covering 227,500 ha implemented • Some 450,000 rural households have land tenure • Forest cover of the watershed increased by at least 10% • About 9, 400 ha under fodder production • 32,500 ha of agricultural land rehabilitated • Participatory forestry established on 18,900 ha 	<ul style="list-style-type: none"> • MOA annual statistics • Land register • Natural resource database • Satellite imagery • Impact studies and beneficiary monitoring data 	<ul style="list-style-type: none"> • Stabilization or reduction in livestock population
Institutional and legal reforms enacted and implemented.	<ul style="list-style-type: none"> • Regional strategies, policies and legislations revised and up-dated to mainstream SLM • Representatives from all targeted communities fully participate in for a organised to review policy and legal framework 	<ul style="list-style-type: none"> • Policy and strategy documents • Enacted legislations 	<ul style="list-style-type: none"> • No major institutional re-structuring
Efficient and effective project coordination and management put in place.	<ul style="list-style-type: none"> • Disbursement rate & timely reporting • Annual rate of staff turnover below 10% • Lessons on SLM documented and disseminated 	<ul style="list-style-type: none"> • MIS • Progress Reports • Supervision reports, MTR and PCR 	

