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Investing in rural people

President's memorandum

Proposed additional financing to the State of Eritrea for the National Agriculture Project

Note to Executive Board representatives

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For: Approval

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Abbreviations and acronyms

DSF	Debt Sustainability Framework
FM	financial management
GoE	Government of Eritrea
MTR	midterm review
NAP	National Agriculture Project
WUA	water users' association

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed additional financing to the State of Eritrea for the National Agriculture Project, as contained in paragraph 21.

Proposed additional financing to the State of Eritrea for the National Agriculture Project

I. Background

1. The National Agriculture Project (NAP) was approved by the Executive Board on 17 November 2012 with a Debt Sustainability Framework (DSF) grant of SDR 11.4 million (equivalent to US\$17.28 million at the time of approval) on DSF terms. The financing agreement was signed and became effective on 22 December 2013 and the financing closing date is 30 June 2019.
2. Following the request from the Government of Eritrea, this memorandum seeks the approval of the Executive Board for additional financing to NAP amounting to US\$9.33 million in the form of a DSF grant. The funds will be allocated under the 2016-2018 cycle of the performance-based allocation system (PBAS).
3. The purpose of the additional financing is to support the consolidation and sustainability of results and impacts achieved to date, which have been confirmed by IFAD supervision reports and the project's midterm review (MTR). The activities to be supported by the additional financing are consistent with ongoing project objectives and components.

II. Justification for the additional financing

4. This additional financing request complies fully with the eligibility criteria for additional financing in accordance with President's Bulletin PB/2014/01/Rev.1: (i) the request for additional financing has been made by the recipient to allow for bridging the financing gap under the ongoing project to scale up and consolidate the results achieved with the original financing beyond the expected results and impacts; (ii) NAP is considered a performing project with an average satisfactory status report rating of 4, in terms of disbursement rate (67 per cent) and satisfactory fiduciary and implementation performance, demonstrating the project's absorption and implementation capacity for additional funds; (iii) NAP has never been classified as a problem project and has been assessed in the latest portfolio reviews as "not at risk"; (iv) the additional financing does not call for any modification of the original financing agreement or project design report; and (v) activities to be supported by the additional funds as described in paragraphs 8 and 9 are consistent with the ongoing project objectives, components and subcomponents, which remain unchanged.

A. Project implementation performance

5. The project's implementation performance is satisfactory, as evidenced by IFAD supervision reports and the June 2016 MTR, which note the positive results achieved so far and the likelihood of development objectives being reached. The MTR illustrated the emerging impacts of the various activities supported.
6. Specific achievements included under the project components are given below.
 - (i) A high level of outreach of project benefits and adoption of project approaches. Already at the time of the MTR, project outreach and benefits

had superseded the initial design target, with over 580,220 individuals benefiting from NAP support and adopting best agricultural and animal husbandry practices, as compared with 406,460 individuals projected to be reached for the entire project period.

- (ii) A satisfactory level of implementation of investments related to irrigation infrastructure, soil and water conservation – following completion of watershed characterization across all six zobas (regions) of Eritrea, the project has supported development of efficient irrigation and catchment protection infrastructure and achieved most of the outputs envisaged by the design targets. The project has so far supported the construction of 15 check dams and developed small-scale irrigation schemes that are already protecting about 658 hectares (ha) of catchments for irrigation infrastructure and agricultural development. A total of about 24,000 ha have been developed (surpassing the 14,900 ha targeted in design) and include both improvement of existing small-scale and traditional schemes and new schemes, which are now under pressurized irrigation, maximizing returns to investment while using limited water for high-value crops. Infrastructure development has been accompanied by the organization of producers into water users' associations (WUAs), intensive training of farmers in good agricultural practices, post-harvest handling and marketing. Adoption of a watershed management approach for soil and water conservation, in parallel with the development of small-scale irrigation, has significantly contributed to minimizing siltation of dams and reservoirs, reducing environmental degradation, controlling soil erosion and restoring vegetation cover and land fertility. This has also increased production of animal feed and improved rangeland management through use of a fallow system and reduction of overgrazing. The full participation of communities is ensuring sustainability and benefits for farmers (both upstream and downstream of irrigated schemes), livestock owners, and entire communities whose livelihoods depend on forestry products and the water resources of the watersheds/catchments.
 - (iii) A satisfactory level of implementation of investments related to agriculture and livestock intensification. Crop production has been intensified in rainfed and irrigated areas, livestock management improved and animal health services strengthened: (a) 180 households (HHs) provided with five goats each; (b) 4,000 HHs provided with 25 chicks each; (c) 68 HHs provided with a dairy cow each; (d) 270 ha under irrigation for forage production; and (e) treatment of 14,375 cattle, 20,125 small ruminants and 4,312 equines for 850 livestock owners, along with 2,480 owners benefiting from various veterinary medicines. In addition, the project has constructed and equipped two milk-cooling/collection centres in Zoba Gash Barka (Akordat and Teseney). In addition, 51 members of two dairy associations have been trained in dairy production and management.
7. The project, through the government decentralized extension system, continues to provide intensive training, extension services and technology transfer to producers in crop production, post-harvest handling and marketing, along with timely provision of quality inputs to improve crop and animal production and productivity. A minimum of three high-value crops per year is being realized in irrigated areas, with a positive impact on income and nutrition for beneficiaries.

B. Description of activities and expected benefits

8. While the overall objective, geographical coverage, components, organization and management of the project will remain unchanged, the implementation strategy for the additional financing will focus on extending and replicating the key investment activities that have generated direct impacts for beneficiaries. These will include investments in agricultural infrastructure development, better management of soil and water, sustainable provision to small-scale farmers and efficient use of

improved inputs, including seed, fertilizer and agrochemicals, to achieve the planned productivity enhancements. This will lead to intensification of crop and livestock production so as to attain the NAP development objectives and contribute to food and nutrition security and the incomes of targeted beneficiaries.

9. Specifically, the additional financing will be aligned with the Government's request and will target the following strategic thrusts.
 - (a) The agricultural water resources development component will invest in development of more efficient irrigation infrastructure and catchment protection. This will include: (i) extension of investment in irrigation infrastructure through development of new small-scale spate and drip irrigation schemes and improvement of existing ones, as well as conversion of existing surface to pressurized irrigation. Given the high investment costs of pressurized irrigation, priority will be given to cultivation of high-value crops targeting a higher number of beneficiaries and aiming at at least three crops per year. Four zobas (Anseba, Debub, Gash Barka and Maekel) will be targeted for completion of ongoing irrigation infrastructure and development of new schemes targeting about 5,055 ha; (ii) irrigation development will be accompanied by continued support to existing WUAs and organization of producers into new WUAs for new schemes, together with intensive training of producers and communities in operating and maintaining irrigation facilities. This will ensure that producers attain the capacity to operate and maintain the system and to adopt good agricultural practices; (iii) catchment protection through the construction of new check dams, water diversions and micro dams will be supported. This will ensure catchment protection from environmental degradation within watersheds through improved vegetative cover and reduced soil erosion, to minimize siltation of dams. It also targets support to livestock intensification through increased production of animal feed, using water pumped from dams and the recharged wells for irrigation. The Northern Red Sea Zoba will particularly benefit from additional financing, targeting some 24 new check dams; and (iv) support will be provided for progressive and systematic adoption countrywide of the community-based natural resource management planning approach and practices successfully implemented under the Catchment and Landscape Management Programme of the Global Environment Facility (GEF) to rejuvenate vegetation, reverse the effects of land degradation, improve food security and promote sustainable land management. An ecosystem management approach will be used for catchment and watershed protection around water reservoirs. Linkages between NAP and the Fisheries Resources Management Programme in this regard will be promoted at both national and zoba levels. Terracing and afforestation to halt environmental degradation and soil erosion control will be supported using government and beneficiary contributions. About 120 ha of new terraces will be targeted.
 - (b) The integrated agricultural production component will seek to maximize the benefits of initial investments in improved irrigation infrastructure development. The additional financing will support agricultural and livestock intensification through timely provision of improved access to certified/improved seed, fertilizer and chemicals, and capacity-building for producers. Investment under this component will specifically: (i) support crop production intensification by: building producers' capacities through organization, training and improved extension services; technology generation and dissemination; adaptive trials and promotion; and conservation agriculture; (ii) promote implementation of a sustainable seed system; continue development of new varieties; and produce breeder, foundation and certified seed for key strategic food crops. This activity will focus on seed quality assurance by reviewing the effectiveness of the existing

government-led process and undertaking measures to further support quality-control systems; (iii) facilitate access to improved agricultural and livestock input provision based on farmers' consolidated demands across the country. The Agricultural Extension Department of the Ministry of Agriculture will continue to undertake consolidated procurement of agricultural inputs on behalf of the zobas, ensuring timely delivery and distribution to farmers on a cost recovery basis through the Credit and Marketing Unit. The project has been facilitating access to inputs through payment either in cash instalments or in kind after harvest. The well-established cost recovery mechanism is a key ingredient in ensuring sustainable access to inputs. IFAD will initiate and engage in discussions with the Government on possible options to give a more prominent role to private operators in the supply of farm input and output products; and (iv) support livestock production. Part of the additional financing will be invested in improving livestock management and strengthening animal health services, including: promotion of small-scale livestock; animal feed enhancement through range improvement and forage production; strengthening of animal health services; and support to the Eritrea's National Animal and Health Laboratory through investments in completion of the veterinary vaccine production and quality-control laboratory, contributing to national livestock endemic-disease control efforts and reducing the Government's foreign exchange costs for imported vaccines.

III. Programme costs and financing

10. Total project revised financing investment and incremental recurrent costs, including physical and price contingencies, are estimated at US\$21.74 million, which takes into account US\$7.2 million of the ongoing loan available at the time of the MTR. Project costs by component category are summarized in table 1.
11. IFAD's total additional financing costs amount to US\$12.28 million. Its current available contribution to the project from IFAD10 is US\$9.33 million. The financing gap of US\$2.95 million may be sourced by subsequent PBAS cycles (under financing terms to be determined and subject to internal procedures and subsequent Executive Board approval) or by cofinancing identified during implementation. Government financing is estimated at US\$2.26 million and will cover part of salaries, operations and maintenance costs, as well as identifiable duties and taxes. Communities' contributions will be mainly through labour and in kind cost-sharing in an approximate amount of US\$2.1 million. Project costs by expenditure category are summarized in table 2.

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

<i>Component</i>	<i>IFAD grant</i>		<i>Financing gap</i>		<i>Government contribution</i>		<i>Total</i>
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	
1. Agricultural water resources development	2 501	65	790	20	601	15	3 892
2. Integrated agricultural production	5 918	65	1 870	21	1 268	14	9 056
3. Programme support services	911	58	288	18	387	24	1 586
Total	9 330	64	2 948	20	2 256	16	14 534

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

<i>Expenditure category</i>	<i>IFAD grant</i>		<i>Financing gap</i>		<i>Government contribution</i>		<i>Total Amount</i>
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	
I. Civil works	1 665	67	526	21	277	11	2 468
II. Vehicles, motorcycles, equipment and materials	836	56	264	18	403	27	1 503
III. Agriculture and livestock inputs	5 492	66	1 736	21	1 051	13	8 279
IV. Technical assistance, training, workshops and studies	426	61	134	19	139	20	699
V. Recurrent costs – operations and maintenance	911	57	288	18	387	24	1 586
Total	9 330	64	2 948	20	2 256	16	14 534

IV. Financial management, procurement and governance

12. Project implementation arrangements will remain substantially the same. The project will use the existing financial management, procurement and governance procedures, which are in line with those of IFAD and the Government.
13. Financial management. The current national project coordination office for NAP, both at central and zoba level, will be responsible for financial management (FM) of the funds. The most recent financial management assessment, performed in June 2017, rated FM risk as medium. Project FM performance was found acceptable and in line with legal frameworks and IFAD's guidelines; finance staffing is adequate, internal controls are in place, with appropriate segregation of duties, expenditure authorization processes and bank reconciliation procedures. Residual FM risks such as weak staff capacity at the zoba level and the need to have the automatic FM system improved will be mitigated by: (i) increasing finance staff capacity at the zoba level; (ii) strengthening monitoring of advances to implementing entities; and (iii) optimizing the use of electronic systems to improve financial reporting and monitoring.
14. Flow of funds. The NAP flow-of-funds mechanism is effective and follows IFAD disbursement procedures and related requirements. Current flow arrangements will apply to the additional financing. Withdrawal applications are submitted on a timely basis and bank reconciliations are prepared regularly. The additional financing will be channelled through the project's existing designated account(s). The current initial allocation is considered adequate to accommodate the project liquidity requirements brought about by the additional financing.
15. Procurement. The country legal and regulatory framework for public procurement has been assessed as sufficient. There are checks and balances within the system which, if well used, ensure that public procurement is undertaken transparently and competitively. Procurement of goods, works and services will be carried out in accordance with the IFAD Project Procurement Guidelines, and national guidelines to the extent that they are consistent with IFAD's guidelines.
16. Audits. The external audit will be carried out in accordance with international standards of audit and will adhere to IFAD procedures on audit by providing the additional disclosures. Currently, the external auditor for NAP is rated highly by IFAD, and given that there are no equally qualified audit firms in Eritrea, the current external auditor will be retained.

V. Proposed amendments to the project financing agreement

17. Subject to the approval of the Executive Board, the project financing agreement will be amended to include the provisions for additional financing. The additional financing will be available on signature by IFAD and the Government of the State of Eritrea of the related amendment. The main changes to the original financing agreement relate to: (i) provision of the additional DSF grant; (ii) the revised schedule 2, which integrates the additional financing; and (iii) a two-year extension of the project completion and grant closing dates.

VI. Legal instruments and authority

18. An amended financing agreement between the State of Eritrea and IFAD will constitute the legal instrument for extending the proposed additional financing to the recipient.
19. The State of Eritrea is empowered under its laws to receive financing from IFAD.
20. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Lending Policies and Criteria for IFAD financing.

VII. Recommendation

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

RESOLVED: that the Fund shall provide a grant under the Debt Sustainability Framework to the State of Eritrea in an amount equivalent to six million seven hundred and ten thousand special drawing rights (SDR 6,710,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Gilbert F. Hougbo
President

Updated project logical framework

Result Hierarchy	Indicators	Indicators at mid-term review	Monitoring Mechanisms and Information Sources	Assumptions/Risks
Goal				
To positively contribute to rural household and national food security and rural poverty alleviation.	<ul style="list-style-type: none"> • HH with improvement in assets ownership index (RIMS mandatory impact); • Reduction in prevalence of under 5 child chronic malnutrition (RIMS mandatory impact); • Number of persons/households provided with targeted support to improve their nutrition (New RIMS) 	<ul style="list-style-type: none"> • 116 044 HH • TBD at project completion • 4308 HH 	<ul style="list-style-type: none"> • Baseline & impact surveys (gender disaggregated on asset ownership, child malnutrition, HH incomes); • M&E and impacts assessments; • Gov. socio-economic and health statistics; • Project completion report; • RIMS annual reporting and impact surveys 	<ul style="list-style-type: none"> • No major drought (A); • Enabling macro-micro policy in place (A)
Purpose/Objective				
To sustainably raise smallholder agricultural production and productivity	<ul style="list-style-type: none"> • Increase in crop and forage area by 59022 ha • Increased yields of strategic crops(MT/h by 15%) • 17800 producers accessing production inputs and/or technological packages 	<ul style="list-style-type: none"> • 34 022 Ha • Potato: 15.5; Tomato:10.1;Onion:10; Cabbage:15; Lettuce: 2 and Maize: 4 • 9421 producers 	<ul style="list-style-type: none"> • Project M&E; • Project impact assessments, MTR and PCR; • MOA annual estimates of crop and livestock production; • Zoba Food Security Report 	<ul style="list-style-type: none"> • Increased access of smallholders inputs (A)
Outputs	Output 1: Agricultural Water Resources Development			
Watershed Characterization.	<ul style="list-style-type: none"> • Agricultural resource base defined for the six Zoba and agricultural potentials for Eritrea defined by watershed by PY₅ 	<ul style="list-style-type: none"> • Watershed characterized in 4 Zobas 	<ul style="list-style-type: none"> • Zoba watershed characterization reports; • Annual Evaluation Report 	<ul style="list-style-type: none"> • Secure timely required expertise
Agricultural Infrastructural Development	<ul style="list-style-type: none"> • 3200 ha of existing surface irrigation under pressurized irrigation; • 2500 Ha under spate irrigation; • At least 1700 ha of catchment area protected 	<ul style="list-style-type: none"> • 2000 Ha under pressurized irrigation • 1400 Ha under spate irrigation • 658 ha of catchment protected 	<ul style="list-style-type: none"> • MLWE environmental impact assessment; • Project special report on agricultural water resources development; • Beneficiary evaluation report; • Project M&E; • Project impact assessments, MTR and PCR 	<ul style="list-style-type: none"> • Communities mobilized, trained, organized to maintain infrastructure (A); • Policy and legal framework developed for responsibility sharing between GoE and user group (A)

Result Hierarchy	Indicators	Indicators at mid-term review	Monitoring Mechanisms and Information Sources	Assumptions/Risks
Output 2: Integrated Agriculture Production				
Development of National Seed System	<ul style="list-style-type: none"> Out-growers producing certified seeds trained and in production (#); At least 2,000 MT of certified seed, 250 MT of foundation seed, and 35 MT of breeder seed produced and used over 7 yrs. 	<ul style="list-style-type: none"> 620 out-growers producing certified seeds; 238 MT (certified); 7.4 MT (foundation seeds) and 1.1 MT (breeder seeds) 	<ul style="list-style-type: none"> NARI report on variety release and breeder/foundation seed production; Zoba seed unit report on production of certified seed; ENSE annual report on seed production in Eritrea; National Seed System review workshop report; Annual Project Evaluation report by PSD 	<ul style="list-style-type: none"> Technical assistance support secured not later than mid PY₁ (A); NSU, RSD, NARI and Zoba Seed Unit properly staffed with trained and experienced staff (A); Improved crop varieties suitable for Eritrea are available (A)
Intensification of Crop Production	<ul style="list-style-type: none"> At least 6,500 ha of irrigated cultivation under improved management; At least 16,760 ha of rain-fed agriculture receive full input package CA promoted in Zobas Debub, Gash Barka, Northern Red Sea and Anseba; At least 323,000 HH get extension services 	<ul style="list-style-type: none"> 1445 ha irrigated cultivation under improved management 600 ha of rain-fed agriculture received full package TBD at completion 	<ul style="list-style-type: none"> Zoba annual food production report; MOA-PSD annual food security report; PSD annual Project evaluation report; Project M&E; Project impact assessments, MTR and PCR 	<ul style="list-style-type: none"> NSU and NARI assure adequate supply of breeder, foundation and certified seeds (A); Technology generation and dissemination services strengthened (A); No prolonged drought (A)
Livestock Production	<ul style="list-style-type: none"> Animal feed enhanced through forage development and communal rangeland improvement on at least 9650 ha At least 22,125 goat, 12,000 poultry, 15375 dairy and 1500 apiculture production packages distributed and later on passed on to appropriately trained beneficiaries 	<ul style="list-style-type: none"> 1354 ha under forage production; 7732 ha of rangelands improved. 4308 HH received animals/production packages 	<ul style="list-style-type: none"> APDD annual Epidemiology report. Animal clinics and abattoirs' reports Disease Surveillance report Zoba Livestock Marketing report Project annual evaluation report by PSD Annual implementation Review Workshop reports 	<ul style="list-style-type: none"> No. of veterinary staff increased (A); Policy for livestock revolving account operation developed (A)